

# SECURITIES AND EXCHANGE COMMISSION

## FORM S-1/A

General form of registration statement for all companies including face-amount certificate  
companies [amend]

Filing Date: **2005-12-16**  
SEC Accession No. [0000950123-05-014834](#)

([HTML Version](#) on [secdatabase.com](#))

### FILER

#### CRM Holdings, Ltd.

CIK: [1338949](#) | IRS No.: 000000000

Type: **S-1/A** | Act: **33** | File No.: [333-128424](#) | Film No.: **051268174**

SIC: **8741** Management services

#### Mailing Address

PO BOX HM 2062  
HAMILTON D0 HM HX

#### Business Address

PO BOX HM 2062  
HAMILTON D0 HM HX  
441-295-2185



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Amendment No. 5**  
**to**  
**Form S-1**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**  
**CRM Holdings, Ltd.**

*(Exact name of registrant as specified in its charter)*

**Bermuda**

*(State or other jurisdiction of  
incorporation or organization)*

**6331**

*(Primary Standard Industrial  
Classification Code Number)*

**N/A**

*(IRS Employer Identification  
Number)*

**PO Box HM 2062  
Hamilton HM HX  
Bermuda  
(441) 295-2185**

*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

***Agent for Service:***

**Louis J. Viglotti, Esq.  
General Counsel**

**Compensation Risk Managers, LLC  
112 Delafield Street  
Poughkeepsie, New York 12601  
(845) 452-4100**

*(Name and address, including zip code, and telephone number, including area code, of agent for service)*

***Copies to:***

**Roslyn Tom, Esq.  
Baker & McKenzie LLP  
805 Third Avenue  
New York, New York 10022  
(212) 751-5700**

**Peter S. Kolevzon, Esq.  
Kramer Levin Naftalis & Frankel LLP  
1177 Avenue of the Americas  
New York, New York 10036  
(212) 715-9100**

Approximate date of commencement of proposed sale of securities to the public: As soon as practicable after the registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**



**The information in this prospectus is not complete and may be changed. The securities may not be sold until the Registration Statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED DECEMBER 16, 2005**

**PRELIMINARY PROSPECTUS**



**8,850,000 Common Shares**

We are a leading provider of fee-based management and other services for workers' compensation self-insured groups in New York and California. We also reinsure a portion of the excess workers' compensation coverage these groups obtain.

We are offering 6,000,000 of our common shares in this firm commitment underwritten public offering. In addition, the selling shareholders are offering 2,850,000 of our common shares. We will not receive any of the proceeds from the sale of our common shares by the selling shareholders. We anticipate that the initial public offering price will be between \$13.00 and \$16.00 per share.

There is currently no public market for our common shares. We have applied to have our common shares listed for quotation on the Nasdaq National Market under the symbol "CRMH."

**See "Risk Factors" beginning on page 12 of this prospectus for a discussion of factors you should consider before investing in the common shares.**

	<u>Per Share</u>	<u>Total</u>
Price to public	\$	\$
Underwriting discounts and commissions		
Net proceeds (before expenses) to us(1)		
Net proceeds to selling shareholders		

- (1) This amount is the total before deducting legal, accounting, printing and other offering expenses payable by us, which are estimated at \$3,900,000.

The underwriters have been granted a 30-day option to purchase up to 947,952 additional common shares from the selling shareholders at the public offering price, less the underwriting discounts, solely to cover over-allotments, if any.

**None of the Securities and Exchange Commission, any state securities regulators, the Registrar of Companies in Bermuda or the Bermuda Monetary Authority has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver our common shares to purchasers against payment in New York, New York on or about December 2005, subject to customary closing conditions.

**Sandler O' Neill & Partners, L.P.**      **KeyBanc Capital Markets**

The date of this prospectus is December , 2005

## TABLE OF CONTENTS

	<u>Page</u>
<a href="#">Prospectus Summary</a>	1
<a href="#">Risk Factors</a>	12
<a href="#">Cautionary Note Regarding Forward-Looking Statements</a>	35
<a href="#">Use of Proceeds</a>	36
<a href="#">Dividend Policy</a>	36
<a href="#">Capitalization</a>	37
<a href="#">Dilution</a>	38
<a href="#">Selected Combined and Pro Forma Financial Information</a>	39
<a href="#">Management' s Discussion and Analysis of Financial Condition and Results of Operations</a>	49
<a href="#">Business</a>	68
<a href="#">Regulation</a>	85
<a href="#">Management</a>	94
<a href="#">Principal Shareholders</a>	104
<a href="#">Selling Shareholders</a>	105
<a href="#">Certain Relationships and Related Transactions</a>	106
<a href="#">Material Tax Considerations</a>	109
<a href="#">Description of Share Capital</a>	118
<a href="#">Underwriting</a>	128
<a href="#">Shares Eligible for Future Sale</a>	131
<a href="#">Legal Matters</a>	132
<a href="#">Experts</a>	132
<a href="#">Enforceability of Civil Liabilities under U.S. Federal Securities Laws</a>	132
<a href="#">Where You Can Find More Information</a>	133
<a href="#">Index to Financial Statements</a>	F-1
<a href="#">EX-5.1: OPINION OF APPLEBY SPURLING HUNTER</a>	
<a href="#">EX-10.16: AMENDMENT TO LOAN AGREEMENT</a>	
<a href="#">EX-23.1: CONSENT OF JOHNSON LAMBERT &amp; CO.</a>	

**You may only rely on the information contained in this prospectus. We have not authorized anyone to provide you with different information. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the common shares offered by this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any common shares in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made in connection with this prospectus shall, under any circumstances, create any implication that there has not been a change in our affairs since the date of this prospectus or that the information contained in this prospectus is correct as of any time after its date.**

**Shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003, and the Exchange Control Act 1972, and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the Bermuda Monetary Authority, pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the Bermuda Monetary Authority has granted a general permission. The Bermuda Monetary Authority in its policy dated June 1, 2005 provides that where any equity securities, including our common shares, of a Bermuda company are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of a company from and/or to a non-resident, for as long as any equity securities of such company remain so listed. The Nasdaq National Market is deemed to be an appointed stock exchange under Bermuda law. Notwithstanding the above general permission, the Bermuda Monetary Authority has granted CRM Holdings permission to, subject to the common shares in CRM Holdings being listed on an appointed stock exchange, issue, grant, create, sell and transfer any of CRM Holdings' shares, stock, bonds, notes**

(other than promissory notes), debentures, debenture stock, units under a unit trust scheme, shares in an oil royalty, options, warrants, coupons, rights and depository receipts, or collectively, the Securities, to and among persons who are either resident or non-resident of Bermuda for exchange control purposes, whether or not the Securities are listed on an appointed stock exchange. The Bermuda Monetary Authority and the Registrar of Companies accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus.

## INFORMATION CONCERNING DEFINITIONS AND FINANCIAL INFORMATION

*CRM Holdings, Ltd. is a Bermuda exempted holding company incorporated in September 2005, and will acquire Compensation Risk Managers, LLC, or CRM, Compensation Risk Managers of California, LLC, or CRM CA, Twin Bridges (Bermuda) Ltd., or Twin Bridges, and EIMAR, L.L.C., or Eimar, through a share exchange, as described in this prospectus, which will occur immediately prior to the closing of this offering. Accordingly, in this prospectus, references to the “Company,” “we,” “us” or “our” refer to CRM Holdings, Ltd. and its subsidiaries on a combined basis. These subsidiaries include CRM, CRM CA, Twin Bridges and Eimar, unless the context suggests otherwise. These references also include a U.S. intermediate holding company, CRM USA Holdings, Inc., or CRM USA Holdings, which will own all of the outstanding interests in our U.S. subsidiaries. References to CRM Holdings refer solely to CRM Holdings, Ltd., and references to CRM include CRM CA, which is a subsidiary of CRM, unless the context indicates otherwise. Unless the context indicates otherwise, references to our common shares include our non-voting class B shares.*

In this prospectus, amounts are expressed in U.S. dollars and the financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or US GAAP, except as otherwise indicated.

## PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus. While we have highlighted what we believe is important information about us and this offering in this summary, it does not contain all of the information that you should consider before investing in us. You should read the entire prospectus carefully, including the sections entitled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements” and the financial statements and the related notes contained in this prospectus before making an investment decision. Except as otherwise noted, all information in this prospectus assumes that all of the 8,850,000 common shares offered hereby will be sold, but that the underwriters do not exercise their over-allotment option. In addition, except as otherwise noted, the information in this prospectus does not give effect to 86,214 restricted common shares to be issued to certain of our employees and additional restricted common shares having an aggregate value of \$50,000 to be issued to our non-employee directors upon the closing of this offering, all of which shares will vest in three equal annual installments, commencing on the first anniversary of their issuance. None of these shares is deemed outstanding under the laws of Bermuda until such shares vest. As described more fully below, we will exchange 10,247,115 of our common shares for all of the outstanding interests in CRM (including its subsidiary, CRM CA) and Eimar and all of the outstanding shares of Twin Bridges. We refer to these transactions as the “restructuring.” The “restructuring” will occur immediately prior to the closing of this offering. See “Certain Relationships and Related Transactions – Restructuring.”*

### Our Company

#### Overview

We are a leading provider of fee-based management and other services for workers’ compensation self-insured groups in New York and California. We have been in the business of forming and managing self-insured groups in New York since CRM’s inception in 1999 and expanded this business to California in 2003.

We provide the groups with a comprehensive range of services, including:

- assistance in the formation of groups;
- underwriting;
- risk assessment;
- safety and loss control services;
- medical bill review and case management;
- general management and recordkeeping;
- regulatory compliance; and
- claims management services in New York.

We also act as a broker by placing excess coverage insurance and any required surety bonds for the groups, and we provide reinsurance for a portion of this excess coverage through our subsidiary, Twin Bridges.

A self-insured group is an association of employers which provides workers’ compensation insurance to its members. Each group we manage is composed of employers in the same industry, all of which are located in a single state. The premiums paid by the members of the groups we manage provide funding for claims and loss adjustment expenses and the general expenses of the groups. We have formed and currently manage 14 self-insured groups in 12 industries. Eight of these groups are in New York and six are in California. We concentrate on industries that we believe have favorable risk profiles, and regularly screen and monitor the members of each group we manage. A significant amount of our existing business is dependent on a relatively small number of our managed groups.

As shown on the following chart, our fee-based management services business has increased substantially in New York since its inception in 1999 and in California since its inception in October, 2003.



	Nine months ended September 30, 2005	Nine months ended September 30, 2004	2004	2003	2002	2001	2000
(Dollar amounts in thousands)							
<b>California</b>							
Management Fees and Commission Income	\$ 6,208	\$ 1,116	\$ 1,993	\$ 74	–	–	–
Number of Groups (at end of period)	6	4	4	1	–	–	–
Number of Group Members (at end of period)	243	59	84	8	–	–	–
<b>New York</b>							
Management Fees and Commission Income	\$ 19,992	\$ 19,404	\$ 25,662	\$ 20,747	\$ 17,614	\$ 7,967	\$ 2,563
Number of Groups (at end of period)	8	8	8	8	8	5	3
Number of Group Members (at end of period)	1,907	1,742	1,781	1,617	1,551	702	359
<b>California and New York</b>							
Income before Taxes	\$ 3,941	\$ 3,442	\$ 4,920	\$ 3,782	\$ 3,496	\$ 1,204	\$ 179
Pro Forma Provision for Income Taxes	\$ 1,498	\$ 1,308	\$ 1,869	\$ 1,437	\$ 1,328	\$ 458	\$ 68
Pro Forma Net Income	\$ 2,443	\$ 2,134	\$ 3,050	\$ 2,345	\$ 2,168	\$ 746	\$ 111

Our fee-based management services accounted for approximately 83% of our total revenues and approximately 74% of our net income for the nine months ended September 30, 2005 and approximately 84% of our total revenues and approximately 85% of our net income for the year ended December 31, 2004.

We anticipate that our California business will continue its rapid rate of growth in the near term. The aggregate annualized premiums paid by their members to the groups we manage in California were \$64.0 million, \$24.1 million and \$2.2 million as of September 30, 2005, December 31, 2004 and December 31, 2003, respectively. We believe that we have formed groups in New York for all industries we have targeted. In addition, New York has presently in effect a moratorium on the formation of new groups. We believe that our New York business will grow as a result of an increase in the number of members in these groups and recently approved manual rate increases. The aggregate annualized premiums attributable to the groups we manage in New York were \$111.5 million, \$110.0 million and \$106.9 million as of September 30, 2005, December 31, 2004 and December 31, 2003, respectively.

Our management monitors the period to period changes in the amounts of aggregate annualized premiums because we believe that it is a meaningful indicator of the change in our expected fee-based management services revenues in the future. Our management fees are based on a percentage of the premiums our groups charge their members and are recognized as income over the year for which such premiums are fixed. Increases and decreases in the aggregate of these annualized premiums are an indication of the increase or decrease in the amount of management fees we expect to earn in the future as our unearned management fees are recognized as income.

The self-insured groups are required to purchase excess workers' compensation coverage to cover claims that exceed a minimum level established by state law or regulation or by administrative determination. We act as a broker and place this excess insurance coverage and any required surety bonds for the groups. Since December 2003, we have provided reinsurance for a portion of this excess coverage through our subsidiary, Twin Bridges. We currently reinsure a portion of this excess coverage for 13 of our 14 groups.

The following chart shows our combined ratio with respect to our net reinsurance premiums, the amount of our net reinsurance premiums, the gross premiums for excess coverage paid by the self-insured groups we manage and our net income with respect to our reinsurance business.

	Nine Months Ended September 30, 2005		Nine Months Ended September 30, 2004		2004		2003
					(Dollar amounts in thousands)		
Combined Ratio on Net Reinsurance Premiums	75.7 %		88.4 %		83.1 %		120.6 %
Net Reinsurance Premiums	\$ 5,295		\$ 3,566		\$ 5,110		\$ 253
Gross Premiums for Excess Coverage	\$ 27,673		\$ 18,643		\$ 25,753		\$ 17,371
Net Reinsurance Premiums as a Percentage of Gross Premiums for Excess Coverage	19.2 %		19.1 %		19.8 %		1.5 %
Income before Taxes	\$ 1,378		\$ 424		\$ 886		\$ (51 )
Pro Forma Provision for Income Taxes	—		—		—		—
Pro Forma Net Income	\$ 1,378		\$ 424		\$ 886		\$ (51 )

Our reinsurance segment accounted for approximately 17% of our total revenues and approximately 26% of our net income for the nine months ended September 30, 2005 and approximately 16% of our total revenues and approximately 15% of our net income for the year ended December 31, 2004.

We intend to use approximately \$47,000,000 of our net proceeds from this offering to provide additional surplus to Twin Bridges. This additional surplus will allow Twin Bridges to provide reinsurance for an increased amount of excess coverage purchased by the groups we manage. We have recently executed a term sheet with NY Marine & General Insurance Company, or NY Marine & General, which we believe will allow us to reinsure a substantially increased portion of the excess coverage obtained by our groups. This term sheet also provides that the commission that NY Marine & General will pay to us for any excess coverage we place with NY Marine & General for our groups will decrease from 20% to 15%. These arrangements with NY Marine & General are subject to the execution of a definitive agreement. If these arrangements had been in effect as of January 1, 2005 for each of our groups for which NY Marine & General currently provides excess coverage, our net reinsurance premiums as a percentage of gross premiums for excess coverage would have been approximately 62% for the nine months ended September 30, 2005 as compared to an actual percentage of 19.2%.

### The Group Self-Insurance Market

Businesses have chosen to self-insure as a result of difficulties in obtaining workers' compensation coverages at reasonable rates and terms.

Small and mid-sized companies generally lack the financial and administrative resources to create their own captive insurance company, and in recent years have resorted to pooling their resources through the formation of self-insured groups as a means to obtain workers' compensation insurance at acceptable rates and terms. CRM was formed in response to this relatively new market to manage self-insured groups.

We believe that self-insured groups, when managed effectively, provide lower and more stable premium rates to their members than other methods of insuring workers' compensation liabilities for small and mid-sized businesses. For that reason, we believe that self-insured groups will continue to be an attractive workers' compensation insurance option for small and mid-sized companies.

### Competitive Strengths

We believe that we have the following competitive strengths:

*Established Operational and Financial Track Record.* We have a well-established track record in forming, managing and growing self-insured workers' compensation groups.

*Full Range of Services for Self-Insured Groups.* We believe that by providing a full range of services we can fulfill more of the business needs of the members of our self-insured groups, thereby developing strong relationships with the groups. By providing a full range of services, we believe that we reduce the possibility that members of our groups will negotiate and contract with a number of different service providers. We believe that this gives us a competitive advantage over our competitors which do not offer such a broad range of services.

*Managerial Experience and Expertise.* Our senior management team includes Daniel G. Hickey, Jr. and Martin D. Rakoff, each of whom has more than 15 years of insurance industry experience and has extensive contacts in the insurance and reinsurance industries. We believe that the experience of our senior management team provides us with a competitive advantage over new entrants into the group management market due to the significant regulatory and marketing impediments involved in the formation and management of self-insured groups. Our managerial expertise is in the following areas:

Formation of groups;

Cultivation and maintenance of relationships with our general agents and brokers;

Underwriting, loss control and, in New York, claims management for the groups; and

Relationships with providers of excess coverage.

### **Operating Challenges**

Even though we believe we have the competitive strengths mentioned above, there are material risks to investing in this offering. These material risks, which could materially and adversely affect our business, financial condition and results of operation, include:

Our groups may be unable to continue to obtain excess coverage on favorable terms or we may not be offered the opportunity to reinsure a portion of the excess coverage on favorable terms.

Our loss reserves may be inadequate to cover actual losses.

Groups we manage could conclude that our acting as manager of the groups and reinsurance broker for our groups, while also reinsuring a portion of the excess coverage, presents an unacceptable conflict of interest.

We face intense competition and may lose one or more of our managed groups or key members of a group, or our groups may determine to obtain excess coverage insurance from insurers other than NY Marine & General, and we may not be offered the opportunity to provide reinsurance of any portion of this excess coverage.

We are exposed to economic and regulatory risks of conducting business in New York and California.

Our reinsurance business and the groups we manage in California have limited operating histories, and it is difficult to predict their future performance.

### **Strategy**

The key elements of our strategy are:

*Continued Growth of Fee-Based Business.*

*California* – We anticipate rapid growth in California both through an increase in membership in our existing groups and through an increase in the number of groups we manage as we continue to capitalize on our investment in the infrastructure we put in place.

*New York* – We believe growth will result from an increase in the membership in our New York groups and from recently approved rate increases, which we expect to average approximately 8% over all of our New York groups commencing in 2006.

*Expansion to other states* – We have identified other states which we believe could represent new market opportunities for our self-insured group model once our California business matures.

*Expansion of our medical bill review and case management services* – We have recently secured two new clients and have identified and are currently negotiating arrangements with additional prospects with which we have no pre-existing relationship.

*New business lines* – We intend to explore increasing our fee-based management services business by developing and offering non-workers' compensation property and casualty insurance products to members of the groups we manage. Initially, we intend to place this insurance with unaffiliated U.S. admitted insurers and receive brokerage commissions from the placement. We believe that our ability to offer these additional insurance products to members of our groups will enable us to compete more effectively with commercial insurers that provide property and casualty insurance products together with workers' compensation insurance as a comprehensive package.

We also intend to explore offering our management services on an integrated basis to individual self-insured entities. We believe that offering our management services to self-insured entities requires the same analysis as offering our services to self-insured groups and does not involve any different risks or uncertainties than are applicable to our existing management services business.

*Growth of Reinsurance Business.* The additional surplus we intend to contribute to Twin Bridges from the proceeds of this offering will allow Twin Bridges to provide reinsurance for an increased amount of the excess coverage obtained by the groups we manage. Furthermore, as our aggregate management services fees increase, our opportunities to grow our reinsurance business should also increase.

If we are successful in offering our management services to individual self-insured entities, we will consider reinsuring a portion of the excess coverage these entities obtain based on our underwriting evaluation of the entity.

## **Organization and Principal Executive Offices**

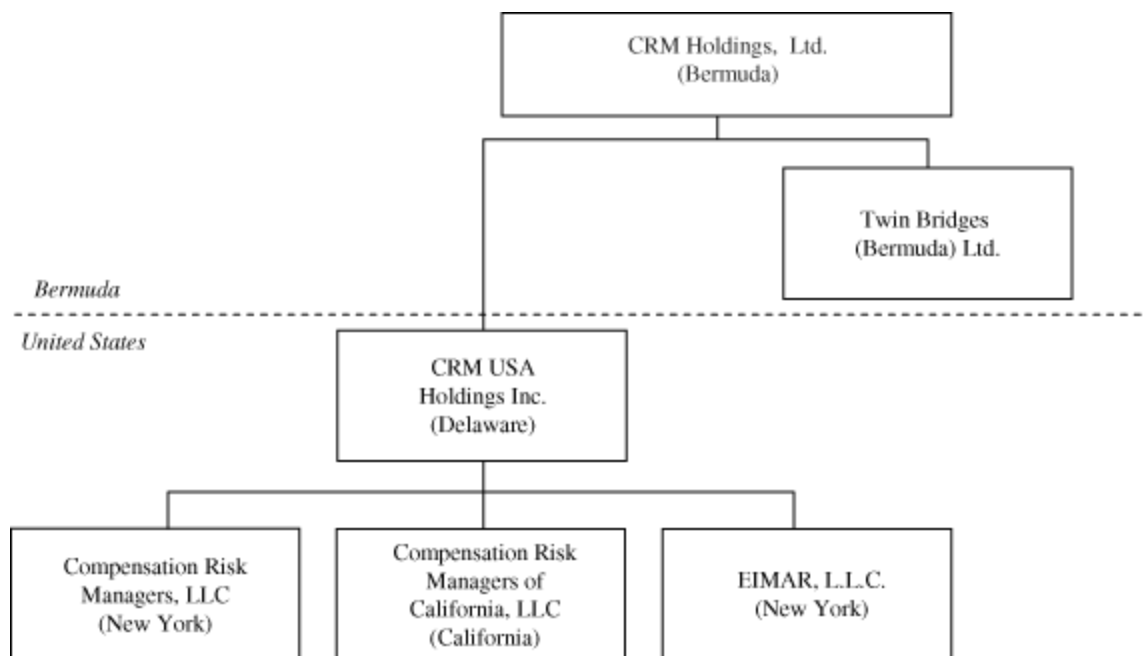
CRM Holdings is a Bermuda exempted holding company incorporated in September 2005, and will acquire CRM, CRM CA, Eimar and Twin Bridges through a share exchange, as described below, which will occur immediately prior to the closing of this offering. Our principal executive offices are located at Skandia International House, 16 Church Street, Hamilton, Bermuda HM 11, and our telephone number is (441) 295-2185. The headquarters of our U.S. subsidiaries is located at the offices of CRM at 112 Delafield Street, Poughkeepsie, NY 12601, and the telephone number is (845) 452-4100.

Prior to the consummation of the restructuring, certain members of our management team, including Daniel G. Hickey, Jr., Martin D. Rakoff and Louis J. Viglotti, as well as the other persons listed in "Selling Shareholders" are the beneficial owners of CRM, CRM CA, Eimar and Twin Bridges. We sometimes refer to these owners in this prospectus as the "existing shareholders."

Immediately prior to the closing of this offering, we and the existing shareholders will engage in a series of transactions through which the existing shareholders will contribute to us all of their interests in CRM, Eimar and Twin Bridges in exchange for a total of 10,247,115 of our common shares. We refer to these transactions in this prospectus as the "restructuring." See Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Our Restructuring."

In November 2005, CRM and Eimar distributed to the existing shareholders an aggregate of \$1,090,077 in respect of the previously undistributed earnings and profits of CRM, Eimar and Twin Bridges from their inception through October 31, 2005. These amounts were paid from the working capital of CRM and Eimar. We refer to these distributions in this prospectus as the "Distributions." See Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview – Our Restructuring."

The following chart summarizes our corporate organization showing only CRM Holdings and our subsidiaries upon the closing of this offering. We may change our corporate organization from time to time in the future.



**This Offering**

Common shares offered by us	6,000,000 shares
Common shares offered by the selling shareholders	2,850,000 shares
Common shares to be outstanding immediately after this offering	16,247,115 shares
Use of net proceeds	We estimate that we will receive net proceeds from this offering of approximately \$77,445,000 based on an assumed initial offering price of \$14.50, which is the midpoint of the price range set forth on the cover page of this prospectus. We intend to use approximately \$47,000,000 of our net proceeds from this offering to increase the capital and surplus of Twin Bridges to at least \$50,000,000, \$4,500,000 to pay the entire amount outstanding under our revolving credit facility with KeyBank National Association, or KeyBank, and the balance for general corporate purposes. From time to time we may contribute further amounts to Twin Bridges as additional surplus. See “Use of Proceeds.”
Dividend Policy	We do not presently intend to declare dividends on our common shares. See “Dividend Policy.”
Trading	Our common shares are not currently listed on any national securities exchange or listed for quotation on the Nasdaq National Market. However, we have applied to have our common shares listed for quotation on the Nasdaq National Market under the symbol “CRMH.”
Voting limitation	Our bye-laws contain a provision limiting the voting rights of a U.S. person, as defined in the U.S. Internal Revenue Code of 1986, as amended, or the Code, who owns (directly, indirectly or constructively under the Code) shares with more than 9.9% of the total voting power of all shares entitled to vote generally in an election of directors to 9.9% of such voting power.
Risk Factors	Investing in our common shares involves risks. See “Risk Factors.”

### **Summary Combined Financial Information**

The following table sets forth our summary combined financial information for the periods ended and as of the dates indicated. The historical results are not necessarily indicative of results to be expected in any future period.

The summary unaudited combined income statement information for the nine months ended September 30, 2005 and 2004 and the summary unaudited combined balance sheet information as of September 30, 2005 are derived from our unaudited combined financial statements included elsewhere in this prospectus.

The summary combined income statement information for the years ended December 31, 2004, 2003 and the summary combined balance sheet information as of December 31, 2004 and 2003 are derived from our audited combined financial statements included elsewhere in this prospectus. The summary unaudited combined income statement information for the years ended December 31, 2001 and 2000 and the summary unaudited combined balance sheet information as of December 31, 2001 and 2000 are derived from our unaudited combined financial statements not included in this prospectus. The summary combined balance sheet information as of December 31, 2002 is derived from our audited combined financial statements not included in this prospectus.

The summary combined balance sheet information as of September 30, 2005 was prepared:

on an actual basis after giving effect to the restructuring; and

on an as adjusted basis to give effect to our sale of 6,000,000 common shares in this offering, after deducting underwriting discounts and commissions and the estimated expenses of this offering, the restructuring, the Distributions and the application of our net proceeds from this offering.

You should read the following summary combined financial information in conjunction with the information contained in this prospectus, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the combined financial statements and related notes included elsewhere in this prospectus. Many factors may cause our future results to differ materially from the financial information and results presented below including, but not limited to, the following:

We began our group management business in California during October 2003;

We commenced our reinsurance business during December 2003; and

Those factors discussed in “Risk Factors.”

Summary Combined Income Information	Nine Months Ended September 30,		Years Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
(Dollar amounts in thousands except per share amounts)							
<b>Revenues</b>							
Fee-based management services	\$ 26,200	\$ 20,519	\$ 27,656	\$ 20,821	\$ 17,614	\$ 7,967	\$ 2,563
Net reinsurance premiums	5,295	3,566	5,110	253	–	–	–
Investment income, net of advisory fees	115	30	54	16	37	13	–
Total revenues	31,610	24,115	32,820	21,090	17,651	7,980	2,563
<b>Expenses</b>							
Losses and loss adjustment expenses	2,269	1,975	2,528	168	–	–	–
Fees paid to general agents and brokers	8,444	7,380	9,507	7,830	7,651	3,615	1,046
Selling, general and administrative expenses	13,970	9,803	13,441	9,240	6,471	3,140	1,317
Policy acquisition costs and other expenses	1,608	1,092	1,538	121	33	21	21
Total expenses	26,291	20,250	27,014	17,359	14,155	6,776	2,384
Income before taxes	5,319	3,865	5,806	3,731	3,496	1,204	179
Provision for income taxes	–	–	–	–	–	–	–
Net income	5,319	3,865	5,806	3,731	3,496	1,204	179
Pro forma provision for income taxes	1,498	1,308	1,869	1,437	1,328	458	68
Pro forma net income	\$ 3,821	\$ 2,557	\$ 3,937	\$ 2,294	\$ 2,168	\$ 746	\$ 111
Pro forma net income per common share(1)	\$ 0.37	\$ 0.25	\$ 0.38	\$ 0.22	\$ 0.21	\$ 0.07	\$ 0.01
Pro forma adjusted net income per common share(2)	\$ 0.37	–	\$ 0.38	–	–	–	–
Pro forma cash dividends declared per common share(1)	\$ 0.65	\$ 0.28	\$ 0.36	\$ 0.66	\$ 0.34	\$ 0.03	\$ 0.00
Pro forma common shares outstanding(1)	10,247	10,247	10,247	10,247	10,247	10,247	10,247

	Nine Months Ended September 30,		Year Ended December 31,	
	2005	2004	2004	2003
Loss and loss adjustment expense ratio	42.9%	55.4%	49.5%	66.4%
Expense ratio	32.8%	33.0%	33.6%	54.2%
Combined ratio on net reinsurance premiums	75.7%	88.4%	83.1%	120.6%

- (1) Based on 10,247,115 common shares outstanding after giving effect to the restructuring but not including 6,000,000 common shares to be offered by us in this offering.
- (2) Based on 10,421,747 common shares outstanding, after giving effect to the restructuring and including 174,632 common shares representing the excess of distributions during the nine month period ended September 30, 2005 over the net income during the same period.



Summary Combined Balance Sheet Information	As of September 30,		As of December 31,				
	2005 (As Adjusted)	2005 (Actual)	2004	2003	2002	2001	2000
(Dollar amounts in thousands)							
<b>Assets</b>							
Cash and cash equivalents	\$ 74,814(1)	\$ 634	\$ 1,584	\$ 767	\$ 4,644	\$ 2,342	\$ 143
Cash and cash equivalents, restricted	1,596	1,596	4,391	1,000	—	—	—
Investments, restricted	5,533	5,533	—	—	—	—	—
Premiums receivable, net	2,948	2,948	3,758	2,140	—	—	—
Earned unbilled commissions and premiums	1,010	1,010	—	—	—	—	—
Accounts receivable	1,618	1,618	41	90	705	388	562
Deferred policy acquisition costs	919	919	1,413	824	—	—	—
Property and equipment, net	972	972	913	792	796	209	106
Loans receivable	413	413	432	173	73	—	—
Deferred initial public offering costs	—	1,334	—	—	—	—	—
Prepaid expenses and other assets	650	650	192	96	586	63	7
Total assets	\$ 90,473(1)	\$ 17,627	\$ 12,724	\$ 5,882	\$ 6,804	\$ 3,002	\$ 818
<b>Liabilities and shareholders' and members' equity</b>							
Reserve for losses and loss adjustment expenses	\$ 4,965	\$ 4,965	\$ 2,696	\$ 168	\$ —	\$ —	\$ —
Unearned reinsurance premiums	3,106	3,106	4,780	2,785	—	—	—
Unearned management fees	1,137	1,137	671	614	1,789	341	—
Unearned commission income	2,069	2,069	2,334	2,247	2,163	1,145	—
Borrowings under credit facilities	97	3,597	158	285	1,104	169	200
Fees payable to general agents and brokers	772	772	565	578	537	375	172
Accrued expenses	2,526	2,535	632	369	317	75	428
Total liabilities	14,672	18,181	11,836	7,046	5,910	2,105	800
<b>Twin Bridges</b>							
Common stock	—	120	120	120	—	—	—
Additional paid-in capital	—	880	880	880	—	—	—
Retained earnings	—	2,212	835	(51 )	—	—	—
LLC members' equity (deficit)	—	(3,767 )	(947 )	(2,113)	894	897	18
<b>As adjusted (CRM Holdings Ltd.):</b>							
Shares, \$0.01 par value per share, 50,000,000,000 shares authorized, 9,457,115 common shares issued and outstanding after giving effect to the restructuring and 15,457,115 common shares issued and outstanding after giving effect to the closing of this offering	155	—	—	—	—	—	—
Class B shares, \$0.01 par value per share, 790,000 shares issued and outstanding after giving effect to the restructuring and the closing of this offering	8	—	—	—	—	—	—
Additional paid-in capital	75,638(1)	—	—	—	—	—	—
Retained earnings (deficit)	—	—	—	—	—	—	—
Total shareholders' and members' equity (deficit)	75,801(1)	(554 )	888	(1,164)	894	897	18
Total liabilities and shareholders' and members' equity (deficit)	\$ 90,473(1)	\$ 17,627	\$ 12,724	\$ 5,882	\$ 6,804	\$ 3,002	\$ 818

Footnote on following page

---

Columns may not total due to rounding.

- A \$1.00 increase (or decrease) in the assumed initial offering price of \$14.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (or decrease) each of cash and cash equivalents, total assets, additional paid-in capital and shareholders' and members' equity (deficit) by \$5,610,000, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and assuming underwriting discounts and commissions of 6.5%, which we refer to as the "assumed underwriting discounts and commissions."
- (1)

## RISK FACTORS

*An investment in our common shares involves a high degree of risk. Before making an investment decision, you should carefully consider all of the risks described in this prospectus. If any of the risks discussed in this prospectus actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the price of our common shares could decline significantly and you may lose all or a part of your investment.*

### Risks Related to Our Business

***We depend on our reinsurance business for a substantial portion of our revenues and profits and we could be adversely affected if we are not able to maintain or increase this business.***

The groups we manage purchase excess workers' compensation coverage from U.S. admitted insurers to cover claims that exceed a minimum level established by state law or regulation or by administrative determination. We reinsure a portion of the excess workers' compensation coverage purchased by 13 of our 14 groups.

We derive a significant amount of our income from our reinsurance business and intend to contribute approximately \$47,000,000 of our net proceeds of this offering to provide additional surplus to Twin Bridges in order to permit Twin Bridges to seek to assume additional portions of the excess coverage provided by the U.S. admitted insurers to our managed groups. We anticipate that revenues from our reinsurance business could account for an increasing portion of our total revenues and net income. We currently reinsure 50% of the excess coverage provided to our groups by NY Marine & General which provides excess coverage to 13 of our 14 groups. We have recently executed a term sheet with NY Marine & General which we believe will allow us to substantially increase the portion of the excess coverage we will reinsure.

Our groups may determine to obtain excess coverage insurance from other U.S. admitted insurers and these insurers or NY Marine & General, to the extent any of our groups continue to obtain excess coverage insurance from NY Marine & General, may not offer us the opportunity to reinsure a portion of the excess coverage or may only do so in lower amounts or on terms and conditions that are not acceptable to us. This may occur if these insurers are offered a better rate or more favorable terms from one of our competitors. We could lose all or a substantial portion of our reinsurance premium revenues which, for the nine months ended September 30, 2005 and the year ended December 31, 2004, represented approximately 17% and 16% of our overall revenues, respectively. Any of the adverse developments described above would have a material adverse effect on our business, financial condition and results of operations.

In addition, the groups we manage are and will continue to be exposed to the credit risk of the insurers that provide excess coverage. Placing excess coverage with these insurers does not and will not relieve the members of our managed groups from liability. Furthermore, if these insurers fail to maintain satisfactory ratings from relevant rating agencies, they may not be eligible to insure the excess coverage. Any failure of these insurers to pay covered losses or to maintain the required ratings could have a material adverse effect on our reputation, business, financial condition and results of operations.

***We presently depend on our relationship with a single provider of excess worker's compensation coverage for all of our reinsurance business and the termination of this relationship could adversely affect us.***

NY Marine & General currently provides excess workers' compensation coverage purchased by 13 of our 14 groups. Under our reinsurance agreement, as amended, with NY Marine & General, we reinsure 50% of all of the coverage it provides and receive 50% of the premiums, which we refer to as our assumed premium, paid to it by these groups. The agreement provides that either party may cancel the agreement upon five days' prior written notice if the other party becomes the subject of regulatory or supervisory action or suffers a reduction of net worth greater than 50% since the date of its last audited financial statements. The agreement is also cancellable by either party upon 60 days' prior written notice to be effective on any anniversary date of the agreement.

We have recently executed a term sheet with NY Marine & General with respect to our reinsurance of the excess coverage which NY Marine & General provides to our groups. Pursuant to the term sheet, we will reinsure 70% of the excess coverage provided to our groups by NY Marine & General in exchange for 70% of the premiums paid to NY Marine & General by our groups. Under certain circumstances, we will be required to reinsure 100% of losses and loss adjustment expenses of our groups in excess of certain thresholds. In addition, the term sheet provides that NY Marine & General will offer full statutory excess coverage for losses and loss adjustment expenses in excess of the \$500,000 per occurrence liability typically retained by the groups upon renewal of their policies, subject to the purchase of reinsurance from other insurers for losses and loss adjustment expenses above certain thresholds. The next renewal date for excess coverage policies held by our groups is January 1, 2006. These arrangements with NY Marine & General are subject to the execution of a definitive agreement.

In addition to termination provisions that are similar to those contained in our current reinsurance agreement with NY Marine & General, any definitive reinsurance agreement will be cancelable by either party upon 120 days prior written notice to be effective on any anniversary date of the agreement and is also cancelable upon five days' prior written notice by NY Marine & General if:

Twin Bridges agrees to reinsure workers' compensation insurance or reinsurance issued by any other insurer or reinsurer without NY Marine & General's prior written consent unless NY Marine & General had previously declined a proposal by Twin Bridges for NY Marine & General to insure or reinsure such business; or

Twin Bridges distributes more than ten percent of its retained earnings by way of dividends, intercompany transfers, or related party loans since the date of its last audited financial statements.

In the event that Twin Bridges agrees to reinsure such insurance or reinsurance without NY Marine & General's prior written consent and NY Marine & General chooses to cancel our reinsurance agreement as a result, we will be obligated to pay to NY Marine & General \$1,000,000 in addition to certain other costs.

Under the term sheet, CRM Holdings will be required to guarantee Twin Bridges' performance of its obligations under any definitive reinsurance agreement with NY Marine & General, subject to regulatory approval, if required. The term sheet also contains an "intermediary" provision which will expose us to the credit risk of the reinsurance broker who will handle any payments to or from Twin Bridges.

Neither we nor Twin Bridges is a licensed U.S. admitted insurer, and we are presently dependent on NY Marine & General to offer Twin Bridges the opportunity to reinsure a portion of the excess coverage it insures and we will be similarly dependent on any other U.S. admitted insurer which provides excess coverage to our groups. If we are unable to execute a definitive agreement with NY Marine & General, or such an agreement is not renewed in the future or is otherwise terminated for any reason, or is only renewable on terms that are less favorable to us, or NY Marine & General determines not to provide excess workers' compensation coverage for our managed groups, and no suitable replacement arrangement with another admitted excess insurer is available, we would be required to cease providing reinsurance. Such a development would have a material adverse effect on our business, financial condition and results of operations. Our reinsurance business accounted for approximately 17% and 16% of our revenues and approximately 26% and 15% of our net income for the nine months ended September 30, 2005 and the year ended December 31, 2004, respectively. Additionally, we are required to provide NY Marine & General with significant security to secure our reinsurance obligations, which security may consist of a bank-issued letter of credit, a reinsurance trust fund for the benefit of NY Marine & General or cash. If we are unable to provide this security, we may no longer be offered the opportunity to reinsure any portion of the excess coverage that NY Marine & General provides to our managed groups.

***We may be deemed to have a conflict of interest in concurrently managing groups and placing excess coverage for these groups with a U.S. admitted insurer that cedes a part of this excess coverage to Twin Bridges.***

It is possible that one or more of the groups could conclude that our acting as manager of the groups and reinsurance broker for our groups, while also reinsuring any U.S. admitted insurer for a portion of the excess coverage which it may provide to our groups, presents an unacceptable conflict of interest. If this should occur, we would lose all or a substantial portion of our reinsurance business or our brokerage business, either of which would have a material adverse effect on our business, financial condition and results of operations. A group of commonly owned former members of our largest group filed suit against CRM on December 30, 2004 alleging, among other things, that CRM had engaged in self dealing and had committed a breach of fiduciary duties owed to them in connection with the placement of reinsurance for the members of the group.

***We are dependent upon a number of our larger managed groups, and any failure to retain our management agreements with these groups would adversely impact our business.***

A significant amount of our existing business is dependent on a relatively small number of our managed groups. The Healthcare Insurance Trust of New York, or HITNY, provided approximately 26% and 38% of our revenues from fee-based management services for the nine months ended September 30, 2005 and the year ended December 31, 2004, respectively. Two other groups, Elite Contractors Trust of New York and Transportation Industry Workers' Compensation Trust of New York, provided approximately 21% and 13%, respectively, of our revenues from fee-based management services for the nine months ended September 30, 2005 and approximately 22% and 14%, respectively, of our revenues from fee-based management services for the year ended December 31, 2004. The loss of one or more of these groups would have a material adverse effect on our business, financial condition and results of operations.

***Due to the joint and several liability of New York and California self-insured groups, the failure of any self-insured group in the state of New York or California could adversely affect our group management business.***

Each member of a self-insured group has joint and several liability for the obligations of the group incurred during the period of its membership and that group may assess the members for any short-fall, even after a member leaves a group, if the loss was incurred during such member's participation in the group. If a group is not able to pay its liabilities from its assets or these assessments, the New York State Workers' Compensation Board may use the security posted by the group and can also assess all of the other groups in New York State to pay these liabilities. In California, each member of a self-insured group must participate as a member in the Self-Insurers' Security Fund established by state law. Such fund may assess each of its members a pro rata share of the funding necessary as a result of the failure of a private self-insured employer or self-insured group to meet its compensation obligations when the employer's or group's security deposit is either inadequate or not immediately accessible for the payment of benefits. The failure of a single large self-insured group in New York or California, even if it is a group that we do not manage, could have an adverse effect on the other groups in the state and could affect the regulation of groups by the state. Any such developments may seriously hamper our ability to retain existing members, attract new members to our managed groups and form new groups, each of which could have a material adverse effect on our business, financial condition and our results of operations.

***Our groups are dependent on obtaining excess coverage for the workers' compensation coverage they provide to their members and the loss of excess coverage would adversely affect our business.***

Our groups are required to purchase excess coverage from U.S. admitted insurers under state law or regulation or by administrative determination and thus are dependent on the availability of this coverage to carry on their business. The availability and cost of excess coverage for the groups are subject to market conditions, which are beyond our control. Currently, there is a high level of demand for excess coverage and we may experience difficulties in obtaining or renewing this excess coverage for the groups in future periods. Our managed groups are dependent on these insurers and may be unable to provide workers' compensation

coverage to their members if, in future periods, excess coverage becomes unavailable or only available on unacceptable terms and conditions or includes material sub-limits or exclusions. We cannot assure you that we will be able to continue to obtain adequate levels of excess coverage for the groups with U.S. admitted insurers at cost-effective rates. In such an event, our managed groups may be unable to retain existing members or attract new members, and we may not be able to form new groups, which would have a material adverse effect on our business, financial condition and results of operations.

***Our geographic concentration ties our performance to the business, economic and regulatory conditions in New York and California and any changes in those conditions could adversely affect our business.***

Our business is conducted entirely in New York and California. Unfavorable business, economic or regulatory conditions in either of those two states could negatively impact our business, and, consequently, we are exposed to economic and regulatory risks that are greater than the risks faced by insurance companies that conduct business over a greater geographic area. Furthermore, the California group self-insurance market is still developing and remains volatile. This concentration of our business could have a material adverse effect on our business, financial condition and results of operations. In addition, the regulations applicable to our operations in New York and California are currently undergoing regulatory review and are subject to change. Any changes in the applicable regulatory conditions in New York or California could have a material adverse effect on our business, financial condition or results of operations.

***Our business is heavily dependent upon general agents and brokers with whom we do not have exclusive relationships and the loss of any of these important relationships would adversely affect our business.***

All of the members of the groups we manage are introduced by general agents and brokers, and these groups derive a significant portion of their members from a limited number of these general agents and brokers. As of September 30, 2005, approximately 75% of the aggregate annualized premiums paid or attributable to the groups we manage was derived from members referred to our groups by approximately 20% of our general agents and brokers. We do not have an exclusive relationship with these general agents and brokers. They are not obligated to promote our groups and may sell products offered by our competitors. Many of our competitors have longer relationships with the general agents and brokers that we use or intend to use. We cannot assure you that we will successfully maintain these relationships, cultivate new ones or be able to meet the future requirements of these general agents and brokers and their customers. In addition, consolidation in the general agency and insurance brokerage industry may lead to the loss of one or more of these relationships. The failure to maintain satisfactory relationships with general agents and brokers from whom we obtain or expect to obtain our business or to develop new relationships would have a material adverse effect on our business, financial condition and results of operations.

***Our reinsurance business and our managed groups in California have limited operating histories, and it is difficult to predict their future performance.***

We began our reinsurance operations in December 2003 by reinsuring a portion of the excess workers' compensation coverage NY Marine & General provides to groups we manage. We started providing management services to our first workers' compensation group in California in October 2003 and we are still developing name recognition and a reputation in this market. We must hire and retain additional key employees and other staff, develop and maintain business relations, continue to establish operating procedures, acquire or lease additional facilities, implement new systems, obtain approvals from regulatory agencies or organizations to form new groups and complete other similar tasks necessary for the conduct of our group management business in California. In order to form a new group in California, the proposed group must submit to the California Department of Industrial Relations a feasibility study, a group operating plan, individual member applications, financial statements, Occupational Safety and Health Administration inspections and evaluations of past losses for each proposed member of the group. We assist the members of the proposed group in completing and submitting these documents and in processing the group's application for approval by the Department of Industrial Relations. If we are unable to conduct these activities efficiently, it could have a material adverse effect on our business, financial condition and results of operation.

***If we underestimate the liabilities from the risks we assume as a reinsurer of a portion of the excess coverage of our managed groups, our financial condition and results of operation could be adversely affected.***

We establish or adjust reserves for Twin Bridges as we recognize our liabilities for unpaid losses, which represent estimates of amounts needed to pay our reported losses and unreported losses and the related loss adjustment expenses. Since the period of time that generally elapses between the underwriting and pricing of our reinsurance of the excess coverage purchased by the groups we manage and the payment of a claim pursuant to such reinsurance is even longer than that for the managed groups, our reserves are more difficult to estimate and are even less likely to be accurate. Our reserves are only an estimate, involving many uncertainties and subjective judgments, and do not represent an exact calculation of potential liability, and actual results are likely to differ from original estimates and could differ by material amounts. These uncertainties include, for example, the period of time between the occurrence of an insured loss and actual settlement and the effects of trends in loss severity and frequency risks, fluctuations in inflation, prevailing economic, social and judicial trends, legislative changes and internal and third party claims handling procedures. Furthermore, Twin Bridges has only been in existence since December 2003, has had limited loss experience and a relatively small population of underlying risks, and therefore is exposed to an increased likelihood that actual results may not conform to our estimates. Our business strategy includes providing reinsurance for an increased amount of the excess coverage obtained by the groups we manage.

Under our recently executed term sheet with NY Marine & General, we will substantially increase the amount of reinsurance that we will provide as compared to our current agreement with NY Marine & General. Pursuant to the terms of our current agreement, NY Marine & General provides our groups with excess coverage for losses and loss adjustment expenses in excess of the \$500,000 per occurrence liability retained by the groups up to a per occurrence limit of \$500,000 and we reinsure 50% of such coverage. Our groups currently purchase separate "catastrophic coverage" from other U.S. admitted carriers for losses and loss adjustment expenses in excess of \$1,000,000. The term sheet provides that NY Marine & General will offer full statutory excess coverage for losses and loss adjustment expenses in excess of the \$500,000 per occurrence liability retained by the groups upon renewal of their policies. NY Marine & General will seek reinsurance from other insurers to cover NY Marine & General and us for 100% of losses and loss adjustment expenses in excess of \$5,000,000 per occurrence up to \$50,000,000 per occurrence as well as limited reinsurance with respect to other layers of the coverage provided to the groups. Under the term sheet, we will reinsure 70% of coverage provided to our groups by NY Marine & General. In the event any of these reinsurers is unable to pay any losses or loss adjustment expenses or the reinsurance purchased is insufficient, we will be obligated to cover 70% of such amounts and we may, under certain circumstances, be obligated to cover 100% of amounts in excess of certain thresholds. These arrangements with NY Marine & General are subject to the execution of a definitive agreement.

As a result of our new arrangements with NY Marine & General, we believe that we will increase substantially the amount of risk we assume under the reinsurance we provide, and the amount of our reserves for losses and loss adjustment expenses may be required to be increased. To the extent our loss reserves are insufficient to cover actual losses and loss adjustment expenses, we will have to adjust our loss reserves and may incur charges to our earnings, which could have a material adverse effect on our business, financial condition and results of operations.

***If we underestimate the liabilities incurred by the managed groups, our business could be adversely affected.***

Significant periods of time generally elapse between the underwriting and pricing of workers' compensation insurance coverage and the payment of claims by our managed groups. As the groups recognize liabilities for unpaid losses, the groups establish or adjust reserves, which represent estimates of amounts the groups need to pay their reported losses and unreported losses and the related loss adjustment expenses. These reserves are only an estimate, involving many variables and subjective judgments, and do not represent an exact calculation of potential liability, and actual results are likely to differ from original estimates and could differ by material amounts. To the extent the loss reserves for any of our managed groups is insufficient to



cover such group's actual losses and loss adjustment expenses, the group will have to adjust its loss reserves and it may incur charges to its earnings, which could have a material adverse effect on its financial condition and cash flows and could require the group to assess its members. This could expose us to liability for our management of the group, have a negative impact on our future management of the group, and adversely affect our reputation as a manager.

***We may have difficulty managing our growth, which could limit our ability to increase revenues and cash flow.***

As we have expanded our fee-based management services business into California and began reinsuring a portion of the excess coverage obtained by the groups that we manage, we have experienced significant growth in the scope of our operations and the number of our employees. We expect this growth to continue as we grow our California fee-based management services business and hire additional administrative staff to assist us with meeting the increased compliance obligations of being a publicly-traded company. In addition, part of our strategy includes the growth of our medical bill review and case management services. This growth has and will continue to place significant demands on our management and our financial and operational resources. Continued growth will likely increase our challenges in:

- hiring, retaining and training of new employees;
- managing a large organization;
- implementing appropriate operating and financial procedures and systems; and
- acquiring or leasing additional facilities.

If we cannot scale and manage our business appropriately, we may not be able to timely execute our business strategies, and our business and results of operations could be adversely affected.

***Our groups in California employ a single third party administrator, or TPA, to manage claims and the failure to maintain these services could adversely affect our business.***

Under California law, we are not permitted to manage the claims of the groups we manage in California. Therefore, our groups in California contract with an independent TPA to perform this task. As manager of the groups, we retain claims settlement authority and establish loss reserves and review the work performed by the TPA on a regular basis. If the TPA fails to manage the claims of our California groups effectively, such failure may adversely affect the operation of these groups and, consequently, may adversely affect our ability to retain members or attract new members. Furthermore, all of our California groups are currently managed by a single TPA, Matrix Absence Management, Inc., or Matrix, a subsidiary of Delphi Financial Group, Inc. If Matrix were to fail to continue offering administrative services on competitive terms to these groups in California, our ability to maintain and grow our fee-based management services business could be materially and adversely affected.

***We and the groups we manage face intense competition from a large number of companies in the workers' compensation insurance business and in the reinsurance business and we may be unable to compete effectively, which would have a material adverse effect on our businesses.***

We and the groups we manage compete with many companies in the workers' compensation insurance business. These competitors include:

- the state funds in New York and California;
- specialty, regional and major insurers in New York, such as American International Group, Inc., Chubb Group of Insurance Companies, Zurich Financial Services, Utica National Insurance Group, Greater New York Mutual Insurance Company, Travelers Insurance Group Holdings Inc., Liberty Mutual Insurance Company and Hartford Financial Services Group Inc, and in California, such as Employers Direct Insurance Company, Redwood Fire & Casualty Insurance Co., Republic Companies Group, Inc., Redlands Insurance Co., St. Paul Travelers, Zenith National Insurance Corp, National



Liability and Fire Insurance Company, Preferred Employers, SeaBright Insurance Company, CompWest Insurance Company, Employers Compensation Insurance Company of California, Everest Insurance Company, American International Group, Inc., Chubb Group of Insurance Companies, ICW Group and The Hartford Financial Services Group, Inc.; and

groups managed by other group administrators, such as First Cardinal Corporation and New York Compensation Managers, Inc. in New York and Bickman Risk Services in California.

Many of the insurance companies listed above have more capital, better name and brand recognition and greater marketing and management resources than we or the groups we manage have. Competition within our industry is often intense and from time to time results in a significant reduction in premiums for workers' compensation insurance. Many of our competitors have offered, and may continue to offer, workers' compensation insurance combined with other lines of insurance coverage. Some of our competitors offer workers' compensation insurance on a multi-state basis. We may be competitively disadvantaged because key members of our groups may be obliged or inclined to purchase packaged products or multi-state workers' compensation coverage from our competitors in order to receive favorable rates for other types of liability coverage or because our competitors offer superior premium rates or policy terms. We cannot assure you that we will be able to implement our business strategy in a manner that will allow us to be competitive. Increased competition could reduce the ability of our groups to attract new members and retain existing members and would adversely impact the groups we manage. If we are unable to overcome these competitive disadvantages, it would have a material adverse effect on our business, financial condition and results of operations.

***We intend to develop a program to offer fee-based services to third-party entities with which we have no pre-existing relationships. We could fail to successfully market and provide these services to third parties.***

Our business strategy includes offering our medical bill review and case management services to large, self-insured entities and insurance companies, self-insured groups and other third-party entities with which we have no pre-existing relationships and which require these services. We have recently secured two new clients and have identified and are currently negotiating arrangements with additional prospects. We expect to expand our marketing of these services significantly within the next year. We will need to develop new relationships with these parties and we will incur expenses in marketing our services to these third parties. If we are unable to develop new relationships and successfully market these services, we will not be able to implement part of our business strategy and the failure to do so could have a material adverse effect on our business, financial condition and results of operations.

***We may pursue opportunities to offer other insurance products to the members of our managed groups; any failure to manage the risks involved could have a material adverse effect on our business.***

We intend to explore the development and offering of certain non-workers' compensation property and casualty insurance products to carefully selected members of the groups we manage. Initially we would offer these products as a broker through unrelated U.S. admitted insurers. If we develop and offer these additional insurance products, Twin Bridges may consider reinsuring a portion of the risk that is assumed by the U.S. admitted insurers. Certain risks are inherent in this strategy. These risks include:

- greater loss exposure, especially if we fail to successfully manage or underwrite this new business;
- the diversion of management's attention;
- an increase in our expenses and working capital requirements;
- the need to hire additional marketing personnel, underwriters, claims personnel and other staff dedicated to the new lines of business;
- the need to obtain additional regulatory approvals, if required by applicable laws; and
- the expense of using an unrelated U.S. admitted insurer to underwrite this new business.

If we are unable to effectively manage these or other potential risks inherent in the marketing and sale of additional insurance products, it could have a material adverse effect on our business, financial condition and results of operations.

***We may require additional capital in the future, which may not be available on favorable terms or at all.***

As we expand our group management business, we intend to reinsure additional excess coverage which may require us to have additional capital. Further, if we offer new insurance products, we may need additional capital. The amount and timing of these capital requirements will depend on many factors, including our ability to grow our group management business, to successfully reinsure the excess coverage required by our groups and our ability to offer new insurance products. At this time, we are not able to estimate the amount of additional capital we may require in the future or predict the timing of our future capital needs. Any additional equity or debt financing, if available at all, may be available only on terms that are not favorable to us. If we are able to raise capital through equity financings, your interest in our company would be diluted, and the securities we issue may have rights, preferences and privileges that are senior to our common shares. If we raise capital through the issuance of debt, the incurrence and repayment of any debt could have a material adverse effect on our business, financial condition and results of operations.

***We depend on our key executives, and may not be able to hire and retain additional key employees or successfully integrate new members of our management team and the loss of a key employee could have a material adverse effect on our business.***

Our success will depend largely on our continued reliance on the experience and expertise of our senior management, which includes, among others, Daniel G. Hickey, Jr. and Martin D. Rakoff, our Co-Chief Executive Officers, each of whom has more than 15 years of insurance industry experience. We have entered into employment agreements with Messrs. Hickey and Rakoff that become effective upon the closing of this offering. The agreements each provide that the respective executive shall be employed for a five-year term, which will automatically renew for successive one-year terms, unless terminated earlier. If we terminate the employment of the executive without cause, as defined in the agreement, if we fail to renew such executive's employment for a successive one-year term, or if such executive terminates his employment for good reason (as defined in the agreement), we will be obligated to make severance payments equal to three times his base salary and bonuses, among other matters. Notwithstanding these agreements, these key executives may terminate their employment with us and seek employment with others who may seek their expertise. The loss of their expertise through death, disability or termination of employment would have a material and adverse effect on our business, financial condition and results of operations. We are not the beneficiary of life or disability insurance covering any of our executives, key employees or other personnel.

Our ability to implement our business strategy will depend on our success in recruiting, retaining and successfully integrating our management team and other personnel. If we are unable to retain employees and to attract and integrate new members of our management team, key employees or other personnel, we may be unable to successfully implement our business strategy in a timely manner. If we are unable to do so or if we were to lose the services of our senior executives or key employees, it could have a material adverse effect on our business, financial condition and results of operations.

***Our fee-based management services business may expose us to liability in excess of our current insurance coverage.***

The management of our groups exposes us to significant risks. We may have liability for errors or omissions in the services we perform. We may also be liable to our groups, third parties and governmental authorities for, among other things, fines, penalties and regulatory actions. These liabilities may exceed our insurance coverage and financial resources. The cost of obtaining errors and omissions, general liability and professional liability insurance is rising. We cannot assure you that our insurance will be sufficient to cover the liabilities we may incur or that we will be able to maintain insurance at reasonable rates or at all. If our policies are terminated and do not contain retroactive coverage, we will not be insured for claims made after the

termination of coverage even if these claims are based on events or acts that occurred during the term of the policy. In such an event, we could be exposed to liability which could have a material adverse effect on our business, financial condition and results of operations.

***Our revenues may decrease if our insured groups obtain reduced rates under their management agreements with us.***

Recently, we agreed to a modification of our management agreement with HITNY which reduces the amount of revenue we derive from our management of HITNY. HITNY was and continues to be our largest group and accounted for approximately 38% of our revenues from fee-based management services for the year ended December 31, 2004 and approximately 26% of these revenues for the nine months ended September 30, 2005. While we do not believe any other group is similarly situated, in the event that another group grows sufficiently and seeks a rate reduction which we are compelled to accept, our financial condition and results of operations could be adversely affected.

***A significant amount of our invested assets will be subject to changes in interest rates and market volatility which could adversely affect our financial condition and results of operations.***

We currently invest the premiums we receive from our reinsurance in short-term U.S. Treasury bills, cash and money market equivalents. Upon the closing of this offering, our board of directors will establish our investment policies, and management will implement our investment strategy with the assistance of independent investment managers. We expect that our investment portfolio will include a significant amount of interest rate-sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Because of the unpredictable nature of losses that may arise under reinsurance policies, our liquidity needs could be substantial and may increase at any time. Increases in interest rates will decrease the value of our investments in fixed-income securities. If increases in interest rates occur during periods when we sell investments to satisfy liquidity needs, we may experience investment losses. If interest rates decline, reinvested funds will earn less than expected.

Our investment results may also be adversely affected by changes in the business, financial condition or results of operations of the entities in which we invest, as well as changes in government monetary policies, general economic and overall market conditions. Furthermore, general economic conditions may be adversely affected by U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts.

If we do not structure our investment portfolio so that it is appropriately matched with our insurance and reinsurance liabilities, we may be forced to liquidate investments prior to maturity at a significant loss to cover such liabilities. For this or any of the other reasons discussed above, investment losses could significantly decrease our asset base, which will adversely affect our ability to conduct business.

Any of these events or changes could have a material adverse effect on our business, financial condition and results of operations.

***Our profitability may be adversely impacted by inflation.***

The effects of inflation could cause the amount of each claim to rise in the future. Our reserves for losses and loss adjustment expenses include assumptions about future payments for settlement of claims and claims handling costs, such as medical treatments and litigation costs. To the extent inflation causes these costs to increase above reserves established for these costs, we would be required to increase our loss reserves with a corresponding reduction in our net income in the period in which the deficiency is identified, which could have a material adverse effect on our business, financial condition and results of operations.

***Our holding company structure and certain regulatory, tax and other constraints affect our ability to pay dividends, make other payments and redeploy capital among our subsidiaries.***

CRM Holdings is a holding company and, as such, has no substantial operations. Dividends and other permitted distributions from our subsidiaries are expected to be our primary source of funds to meet our ongoing cash requirements and other expenses, and to pay dividends, if any, to shareholders. Bermuda law and regulations, including Bermuda insurance regulations, restrict the declaration and payment of dividends out of retained earnings, and the making of distributions out of contributed surplus, by Twin Bridges unless certain regulatory requirements are met. Pursuant to our recently executed term sheet with NY Marine & General, Twin Bridges will be restricted from distributing more than ten percent of its retained earnings by way of dividends, intercompany transfers or related party loans since the date of its last audited financial statements. The inability of Twin Bridges to pay dividends in an amount sufficient to enable us to meet our cash requirements could have a material adverse effect on our business.

***U.S. withholding tax payable on dividends paid to CRM Holdings by our U.S. subsidiaries affects our ability to pay dividends and redeploy capital.***

Any dividends paid from our U.S. subsidiaries to us would be subject to a U.S. federal withholding tax of 30%. We therefore do not expect to receive dividends from our U.S. subsidiaries for the foreseeable future. This will also restrict our ability to redeploy capital from our U.S. subsidiaries to our Bermuda operations. If Twin Bridges requires capital because of unanticipated losses or for other reasons, and we are unable to provide the required capital from the profits and cash flow of our U.S. operations, it could have a material adverse effect on our business, financial condition and results of operations.

***We and the groups we manage are subject to extensive regulation in the United States that may adversely affect our ability to achieve our business objectives. If we and these groups do not comply with these regulations, we and they may be subject to penalties, including fines, suspensions, withdrawals of licenses and restrictions on the growth of our groups.***

We and the groups we manage are subject to extensive governmental regulation and supervision. Most insurance regulations are designed to protect the interests of policyholders or members of the groups, rather than shareholders and other investors.

These regulations, generally administered by a department of insurance or the workers' compensation or similar board in each jurisdiction in which we do business, relate to, among other things:

- approval of premium, contribution and funding rates;
- ratios of assets to liabilities, credit and risk reserves, net worth levels and standards of solvency;
- formation of groups and licensing as a third-party claims administrator in New York;
- limits on the size and nature of risks assumed and retained, including requiring the purchase of excess coverage for loss above levels established by the applicable state regulatory agency;
- mandatory guidelines for the investment of funds;
- reserves for unearned premium, losses and other purposes;
- periodic audits and other regulatory reviews of the financial statements of the groups and Twin Bridges;
- deposits for the benefit of the Chairman of the New York State Workers' Compensation Board or Director of Industrial Relations of the State of California; and
- annual reporting and disclosure agreements.

Insurance departments and state workers' compensation or similar boards also conduct periodic examinations of the affairs of the insurance companies and groups they regulate and require the filing of periodic, annual and other reports relating to financial condition, approval of new members, groups and other matters. Moreover, the National Association of Insurance Commissioners, or NAIC, which is an organization

of insurance regulators from the 50 states, the District of Columbia, and the four U.S. territories, and the state insurance regulators regularly reexamine existing laws and regulations, interpretations of existing laws and proposals for new laws. Such laws, regulations or interpretations by NAIC or state insurance regulators may be more restrictive or result in higher costs to us and the groups we manage.

In addition, regulatory authorities have relatively broad discretion to deny or revoke licenses or suspend underwriting of business for various reasons, including the violation of regulations. We intend to base some of our practices on our interpretations of regulations or practices that we believe are generally accepted by the insurance industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we, or the groups we manage, do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us or the groups we manage from carrying on some or all of our or their activities, including placing restrictions on how many new members may be admitted to a group each year or on the amount of growth in manual premiums a group may experience, or otherwise impose penalties. In such an event, our reputation as well as our ability to operate our business would be materially and adversely affected.

From time to time, one or more of our groups have been subject to certain operating restrictions, none of which has materially impacted our operations to date.

Further, changes in the level of regulation of the insurance or reinsurance industry or changes in the laws or regulations or their interpretations by regulatory authorities could materially and adversely affect our ability to manage our groups or operate our business.

The offshore insurance and reinsurance regulatory markets have long been the subject of scrutiny by federal and state legislative and regulatory bodies. This scrutiny has led to a number of legislative and regulatory initiatives designed to make it more difficult for offshore companies to transact business with U.S. persons. If Twin Bridges were to become subject to any United States federal or state law or regulation, Twin Bridges may be required to post deposits or maintain minimum surplus and may be prohibited from engaging in lines of business or from writing specified types of policies or contracts. Compliance with these laws and regulations could have a material adverse effect on our business, financial condition and results of operations.

***Twin Bridges is subject to extensive regulation in Bermuda that may adversely affect its ability to achieve its business objectives. If Twin Bridges fails to comply with these regulations, it may be subject to penalties, including fines, suspensions and withdrawal of its insurance license.***

Twin Bridges is subject to regulation and supervision in Bermuda. Among other matters, Bermuda statutes, regulations and policies of the Bermuda Monetary Authority, require Twin Bridges to maintain minimum levels of statutory capital, statutory capital and surplus, and liquidity, to meet solvency standards, to obtain prior approval of certain issuances and transfers of shares as well as to submit to certain periodic examinations of its financial condition.

These statutes and regulations may, in effect, restrict Twin Bridges' ability to write reinsurance, to make certain investments and to distribute funds. We cannot predict whether any change to these regulations will materially and adversely affect our business.

If Twin Bridges fails to comply with any of the above mentioned statutes and regulations, the Bermuda Monetary Authority may, among other things, direct Twin Bridges:

- not to take on any new insurance business;
- not to vary any insurance contract if the effect would be to increase the insurer's liabilities;
- not to make certain investments;
- to realize certain investments;
- to maintain in, or transfer to the custody of, a specified bank, certain assets;
- not to declare or pay any dividends or other distributions or to restrict the making of such payments; and/or
- to limit its premium income.

Neither CRM Holdings nor Twin Bridges has been subject to penalties, fines or suspensions for failure to meet any regulatory requirements that have materially impacted operations to date.

The approval of the Bermuda Monetary Authority is required for all transfers of shares in Bermuda companies prior to the completion of the transfer. We must obtain, and have obtained, the consent of the Bermuda Monetary Authority with respect to the transfer of Twin Bridges shares to CRM Holdings in the restructuring. Also, the Bermuda Monetary Authority in its policy dated June 1, 2005 provides that where any equity securities, including our common shares, of a Bermuda company are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of a company from and/or to a non-resident, for as long as any equities securities of such company remain so listed. The Nasdaq National Market is deemed to be an appointed stock exchange under Bermuda law. Notwithstanding the above general permission, the Bermuda Monetary Authority has granted CRM Holdings permission to, subject to the common shares in CRM Holdings being listed on an appointed stock exchange, issue, grant, create, sell and transfer any of CRM Holdings' shares to and among persons who are either resident or non-resident of Bermuda for exchange control purposes, whether or not such securities are listed on an appointed stock exchange.

***The regulations applicable to workers' compensation self-insured groups are undergoing review and are subject to change in both New York and California, and regulations applicable to insurance brokers are undergoing review, and we may be adversely affected by any changes in those regulations.***

We and the groups we manage are subject to regulations in New York and California governing workers' compensation self-insured groups. These regulations are undergoing review and are subject to changes in both New York and California. Much of the potential revisions in these regulations remain in the preliminary stages and have not yet been submitted for comment; however we cannot assure you that we are aware of all potential revisions that may be considered by the regulators. Nonetheless, the New York State Workers' Compensation Board has expressed concern about rating the solvency of self-insured groups and may, in the future, institute a new system of grading self-insured groups in New York. The New York State Workers' Compensation Board has also expressed concern over the need to ensure homogeneity among members of new self-insured groups and may, in the future, promulgate regulations to ensure that the members of all newly formed self-insured groups are insuring the same type of risks. Additionally, the California Department of Insurance also has proposed new regulations concerning brokers. If adopted as currently written, the regulations would apply to all lines of insurance and all brokers and general agents and would require brokers to disclose to clients the receipt or potential receipt of any income from a third party if that income derives from the broker's transaction with the client. Under the proposed regulations, among other provisions, a misrepresentation or unfair act occurs if the broker does not advise a client whether the broker will seek a quote from one or more carriers. Also, the broker is subject to additional disclosure obligations if the broker makes a recommendation regarding such quotes. We may be subject to these regulations with respect to the brokerage services we provide to our groups. We cannot predict the adoption or effect of any future regulations in New York or California. Any regulations that are promulgated may subject us to additional compliance requirements and may materially and adversely affect our ability to achieve some or all of our business objectives and our results of operation.

***Our business could be adversely affected by Bermuda employment restrictions.***

Under Bermuda law, non-Bermudians (other than spouses of Bermudians) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government upon showing that, after proper public advertisement in most cases, no Bermudian (or spouse of a Bermudian) is available who meets the minimum standard requirements for the advertised position. In 2001, the Bermuda government announced a new policy limiting the duration of work permits to six years, with certain exemptions for key employees. We may not be able to use the services of one or more of our key employees in Bermuda if we are not able to obtain work permits for them, which could have a material adverse effect on our business. While none of our employees currently holds a Bermuda work permit, we plan to obtain non-resident work permits for our Co-Chief Executive Officers, our General Counsel, our Chief Operating Officer and our Chief Financial Officer. We also plan to hire at least two



employees in Bermuda, who could be either Bermudian or non-Bermudian. If we are unable to obtain work permits for any of these employees, we may not be able to conduct our business operations fully or efficiently and our business, financial condition and results of operations would be adversely affected.

***CRM Holdings could be considered a U.S. corporation for U.S. federal income tax purposes, and thus subject to U.S. tax on its worldwide income (including current income of Twin Bridges), under recently enacted U.S. legislation, if the value of Twin Bridges does not exceed 20% of the total value of CRM, CRM CA, Eimar and Twin Bridges.***

The American Jobs Creation Act of 2004 provides that, if a foreign corporation acquires substantially all of the assets of a U.S. corporation, and 80% or more of the stock of the foreign corporation (excluding new stock issued in a public offering related to the acquisition) is owned by former shareholders of the U.S. corporation by reason of their ownership of the U.S. corporation, the foreign corporation will be considered a U.S. corporation for U.S. federal income tax purposes. The existing shareholders will contribute all of their interests in CRM and Eimar to CRM USA Holdings in return for all of the common stock of CRM USA Holdings. The existing shareholders will then contribute all of their CRM USA Holdings shares to us in exchange for 6,372,425 of our common shares. CRM will then distribute its interests in CRM CA to CRM USA Holdings. In addition, immediately prior to the closing of this offering, the existing shareholders will contribute all of their shares in Twin Bridges to us in exchange for 3,874,690 of our common shares. As a result of these exchanges, the existing shareholders will own 10,247,115 of our common shares.

Based on discussions with our professional advisors, we believe the existing shareholders will not obtain 80% or more of the stock of CRM Holdings (excluding the stock sold in this offering) by reason of their ownership of CRM and Eimar (i.e., we believe that Twin Bridges is worth more than 20% of the combined value of CRM, CRM CA, Eimar and Twin Bridges). We cannot assure you that the U.S. Internal Revenue Service, or the IRS, will agree with our conclusions. If the IRS successfully challenges our conclusions, CRM Holdings would be subject to United States federal income tax on its worldwide income at the rate applicable to U.S. corporations, which is currently 35%, rather than being subject to tax on only certain U.S. source income and income effectively connected with a U.S. trade or business. However, in that case, dividends paid to CRM Holdings by its U.S. subsidiaries would not be subject to any U.S. federal income tax, nor would they be subject to the 30% U.S. federal withholding tax. The tax liability that would result if CRM Holdings is treated as a U.S. corporation for U.S. federal income tax purposes could have a material adverse effect on our business, financial condition and results of operations.

***We may be deemed to be engaged in a U.S. trade or business or considered to be a personal holding company subject to U.S. tax.***

CRM Holdings and Twin Bridges are both Bermuda exempted companies. An exempted company is a company that states in its memorandum of association that it is an exempted company and is registered under the Bermuda Companies Act 1981 as amended, or the Companies Act, as such. An exempted company does not have to comply with the requirements of management and ownership by Bermudians applicable to local companies under the Companies Act. We intend to manage our business so that each of these companies will not be treated as engaged in a trade or business within the United States and, as a result, will not be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on certain U.S. source investment income). However, because there is considerable uncertainty as to what activities constitute being engaged in a trade or business within the United States, we cannot be certain that the IRS will not successfully contend that CRM Holdings or Twin Bridges is engaged in a trade or business within the United States. In the event that CRM Holdings or Twin Bridges is deemed to be engaged in a business within the United States, we would be subject to U.S. corporate income and branch profits taxes on the portion of our earnings effectively connected to such U.S. business, which could have a material adverse effect on our business, financial condition and results of operations.

Any of CRM Holdings' U.S. subsidiaries might be subject to additional U.S. federal income tax on a portion of its income if it is considered a personal holding company for U.S. federal income tax purposes. This status will depend on whether more than 50% of our shares by value could be deemed to be owned (taking into

account indirect and constructive ownership) by five or fewer individuals and whether 60% or more of such subsidiary's adjusted ordinary gross income consists of "personal holding company income," which is, in general, certain forms of passive and investment income. We believe that none of CRM Holdings' subsidiaries should be considered a personal holding company, because the gross income of our U.S. subsidiaries is primarily fee income, not passive income. Additionally, we intend to manage our business to minimize the possibility that we will meet the 60% income threshold. We intend to monitor share ownership in CRM Holdings by monitoring the filings of our shareholders with the U.S. Securities and Exchange Commission, or the SEC, under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. It may not be possible, however, to ensure that stock has not been purchased by multiple members of one family or other individuals or entities whose share ownership may be attributed to others for U.S. federal income tax purposes. Because of the lack of complete information regarding our ultimate share ownership (i.e., particularly as determined by the constructive ownership rules for personal holding companies), we cannot assure you that none of CRM Holdings' subsidiaries will be considered a personal holding company or that the amount of U.S. federal income tax that would be imposed would be immaterial. We have not sought and do not intend to seek an opinion of legal counsel as to whether any of CRM Holdings' subsidiaries will be considered a personal holding company.

***We may become subject to taxes in Bermuda after March 28, 2016.***

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda has given each of CRM Holdings and Twin Bridges an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to CRM Holdings or Twin Bridges or any of their operations, shares, debentures or other obligations until March 28, 2016. Given the limited duration of the Minister of Finance's assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 28, 2016. In the event that we become subject to any Bermuda tax after such date, it would have a material adverse effect on our financial condition and results of operations.

**Risks Related to the Industry**

***The insurance and reinsurance business is historically cyclical, and we expect to experience periods with excess underwriting capacity and unfavorable premium rates which could materially and adversely affect our business.***

Historically, insurers and reinsurers have experienced significant fluctuations in operating results due to competition, frequency of occurrence or severity of catastrophic and other loss events, levels of capacity, general economic and social conditions and other factors. The supply of insurance and reinsurance is related to prevailing prices, the level of insured losses and the level of industry surplus which, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance and reinsurance industry. As a result, the insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. The supply of insurance and reinsurance may increase, either due to capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates and additional competition for business.

In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance business significantly. In the event that negative market conditions develop in the workers' compensation industry or the insurance industry as a whole, our groups may experience difficulties in providing workers' compensation insurance at competitive rates. Because our groups do not have capital and surplus, they do not have the ability to provide coverage over any period of time at rates that produce a loss after considering investment income and available reinsurance. As a result, our groups may lose members and experience a reduction in their premium revenues. We would then experience a reduction in our fee-based management services revenues and could be unable to reinsure a



portion of the excess coverage at rates that we consider appropriate relative to the risks assumed. This could have a material adverse effect on our business, financial condition and results of operations.

***Negative developments in the workers' compensation insurance industry could have a material adverse effect on our business, financial condition and results of operations.***

We principally offer management and other services for workers' compensation self-insured groups and reinsure a portion of the excess workers' compensation coverage for the risks assumed by these groups. Although we are exploring the possibility of offering to carefully selected members of our groups property and casualty insurance products through an unrelated U.S. admitted insurer, we currently do not do so. As a result, negative developments in the economic, competitive or regulatory conditions affecting the workers' compensation insurance industry could have a material adverse effect on our business, financial condition and results of operations. Negative developments in the workers' compensation insurance industry could have a greater effect on us than on more diversified insurance companies that also sell other types of insurance.

***Our groups may have exposure to losses from terrorism for which they are required by law to provide coverage.***

Our managed groups are required by law to provide workers' compensation benefits for losses arising from acts of terrorism. The impact of any terrorist act is unpredictable, and the ultimate impact on our groups would depend upon the nature, extent, location and timing of such an act. Currently, the excess coverage for our groups does not include any sub-limits or exclusions limiting their excess insurers' obligation to cover losses caused by acts of terrorism, although we cannot assure you that sub-limits or exclusions will not be included in future years, particularly if the Terrorism Risk Insurance Act of 2002 is not renewed. This Act is set to expire on December 31, 2005 and the U.S. Department of the Treasury has recommended that Congress not extend the law in its current form. If this law is not extended or is extended in a scaled-back form, which is currently proposed by the U.S. Department of the Treasury, excess coverage for losses arising from terrorism may be unavailable or prohibitively expensive, and our managed groups may be further exposed to losses arising from acts of terrorism. This could make membership in our managed groups less attractive, which could have a material adverse effect on our business, financial condition and results of operations. The Senate and the House of Representatives have each recently passed bills to extend the Act, with differing modifications, for two years beyond its current expiration date. Both bills provide for increasing the amount of insured losses arising from a terrorist event required to trigger the federal financial backstop contained in this law from \$5 million at present to \$50 million in 2006 and \$100 million in 2007.

***The effects of emerging claim and coverage issues on our business are uncertain and could have a material adverse effect on our financial condition and results of operation.***

As industry practices and legal, judicial, social, regulatory and other conditions change, unexpected issues related to claims and coverage may emerge. In some instances, as has been the case with asbestos-related injuries, these issues may not become apparent until some time after the insurance coverage has been provided. Such issues may adversely affect the coverage provided by our managed groups and thus our business of reinsuring a portion of the excess coverage obtained by the groups, by either expanding the scope of the coverage provided or by increasing the number or size of claims. As a result, the full extent of liability under a group's coverage or under our reinsurance may not be known until after coverage is provided.

Recent examples of emerging claims and coverage issues include post traumatic stress disorder and whether recent legislation can effectively reduce the incidence of work-related injury medical treatments (e.g., chiropractor services).

The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could have a material adverse effect on our business, financial condition and results of operations.

***Recent insurance industry investigations and regulatory proposals could result in increased regulation that has a material adverse effect on our business.***

The insurance industry has recently become the focus of increased scrutiny by regulatory and law enforcement authorities, as well as class action attorneys and the general public, relating to allegations of improper special payments, price-fixing, bid-rigging, improper accounting practices and other alleged misconduct, including payments made by insurers to brokers and the practices surrounding the placement of insurance business. Formal and informal inquiries have been made of a large segment of the industry, and a number of companies in the insurance industry have received or may receive subpoenas, requests for information from regulatory agencies or other inquiries relating to these and similar matters. These efforts are expected to result in both enforcement actions and proposals for new state and federal regulation. It is difficult to predict the outcome of these investigations, whether they will expand into other areas not yet contemplated, whether activities and practices currently thought to be lawful will be characterized as unlawful, what form new regulations will have when finally adopted and the impact, if any, of increased regulatory and law enforcement action and litigation on our business and financial condition.

Additionally, proposed legislation or new regulatory requirements are expected to be imposed on the insurance industry and may impact our business and the manner in which we compensate our brokers, particularly if we acquire a U.S. admitted insurer. In December 2004, NAIC adopted amendments to NAIC's Producer Licensing Model Act which were ratified by NAIC's Broker Activities Task Force in June 2005. These amendments require a broker to disclose to the customer, prior to selling insurance to that customer, that the broker will be receiving compensation from the insurer, or other third party, for the placement of the insurance, or that the broker represents the insurer and may provide services to the customer for the insurer.

Any of the foregoing could increase our cost of doing business, result in the loss of members of our groups and otherwise adversely affect the way we conduct business, which could have a material adverse effect on our business, financial condition and results of operations.

**Risks Related to Our Shares Sold in this Offering**

***An active trading market for our common shares may not develop and you may have difficulty selling your shares.***

Our common shares have no established trading market and are not currently listed on any securities exchange. We have applied to the Nasdaq National Market to list our common shares for quotation under the symbol "CRMH." However, an active trading market for our common shares may not develop. If an active trading market does not develop or is not maintained, holders of our common shares may experience difficulty in reselling, or an inability to sell, their common shares and the price of our shares may decline significantly.

***The price of our common shares after this offering may be volatile and might decline.***

The initial public offering price per common share will be determined by agreement among us and the representatives of the underwriters and may not be indicative of the trading price of our common shares after this offering. The trading price of our common shares may be volatile and decline for many reasons, some of which are beyond our control, including among others:

- quarterly variations in our results of operations;
- results of operations that vary from those expected by securities analysts and investors;
- changes in expectations regarding our future results of operations, including financial estimates by securities analysts and investors;
- announcements by third parties of claims against us;
- changes in law and regulations;
- future sales of our common shares;

changes in the overall market for our common shares; and

the performance or prospects for companies in our industry.

In addition, the stock market in recent years has experienced price and volume fluctuations that often have been unrelated or disproportionate to a company's operating performance. As a result, the trading price of our common shares may fall below the initial public offering price.

***Future sales of common shares by our affiliates and other shareholders or by us may adversely affect the price, and the future exercise of options may lower the price, of our common shares.***

We cannot predict what effect, if any, future sales of our common shares, or the availability of shares for future sale, will have on the trading price of our common shares. Future sales of common shares by our existing shareholders and other shareholders or by us, or the perception that such sales may occur, could adversely affect the market price of our common shares and may make it more difficult for you to sell your common shares at a time and price that you determine appropriate. Upon closing of this offering, there will be 16,247,115 of our common shares outstanding. This includes the 8,850,000 common shares we and the selling shareholders are selling in this offering, which may be resold in the public market immediately after this offering. Any sales of our shares could reduce the market price of our common shares and our ability to raise additional capital in the equity markets may be adversely affected. Moreover, additional common shares may be issuable pursuant to our 2005 long-term incentive plan, pursuant to which we have reserved an aggregate of up to 1,500,000 common shares for issuance (including 86,214 restricted common shares to be issued to certain of our employees and additional restricted common shares having an aggregate value of \$50,000 to be issued to our non-employee directors upon the closing of this offering).

The remaining 7,397,115 common shares, representing approximately 45.5% of our total outstanding common shares following this offering, are subject to 180-day lock up agreements and will become available for public sale 180 days after the date of this prospectus, subject to holding period requirements and volume limitations under the U.S. Securities Act of 1933. To the extent that the underwriters exercise the over-allotment option in full, the number of shares subject to lock-up agreements will be reduced to 6,449,163, or 39.7% of our common shares outstanding following this offering.

***Public investors will suffer immediate and substantial dilution as a result of this offering.***

The initial price to the public per share is significantly higher than the pro forma net tangible book value per share of our common shares as of September 30, 2005. Accordingly, if you purchase shares in this offering, you will suffer immediate and substantial dilution of your investment. Based upon the issuance and our sale of 6,000,000 common shares at an assumed initial price to the public of \$14.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, you will incur immediate dilution of approximately \$9.83 in the net tangible book value per share of the common shares you purchase in this offering. In addition, if you purchase shares in this offering, you will:

pay a price per share that substantially exceeds the book value per share of our assets after subtracting liabilities; and

contribute 100% of the total amount invested in us to date, based on an assumed initial price to the public of \$14.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, but will own only approximately 54.5% of our common shares outstanding after closing of this offering.

***We do not intend to pay dividends on our shares.***

We currently do not intend to pay dividends on our shares and even if our board determined to pay dividends, we are subject to Bermuda regulatory constraints that will affect our ability to pay dividends on our common shares. Under the Companies Act we may declare or pay a dividend out of retained earnings, or make a distribution out of contributed surplus, only if we have reasonable grounds for believing that we are, or would after the payment be, able to pay our liabilities as they become due and if the realizable value of our

assets would thereby not be less than the aggregate of our liabilities and issued share capital and share premium accounts.

***Our internal audit and reporting systems might not be effective in the future, which could increase the risk that we would become subject to regulatory action or litigation or other developments that could adversely affect our business.***

Our ability to comply with applicable laws, rules and regulations is largely dependent on our establishment and maintenance of internal audit and reporting systems, as well as on our ability to attract and retain qualified management and accounting personnel. If we fail to effectively establish and maintain such reporting and accounting systems or fail to attract and retain personnel who are capable of designing and operating such systems, these failures will increase the likelihood that we will become subject to legal and regulatory infractions, including civil litigation and investigations by regulatory agencies including the SEC.

***We will become subject to additional financial and other reporting and corporate governance requirements that may be difficult for us to satisfy.***

We have historically operated our business as a private company. Upon completion of this offering, we will become subject to new financial and other reporting and corporate governance requirements, including the requirements of the Nasdaq National Market and certain provisions of the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder, which will impose significant compliance obligations upon us. In particular, we are, or will be, required to:

- create or expand the roles and duties of our board of directors, our board committees and management;
- supplement our internal accounting function, including hiring accounting staff with expertise in accounting and financial reporting for a public company, as well as enhance and formalize closing procedures at the end of our accounting periods;
- prepare and distribute periodic public reports in compliance with our obligations under the U.S. federal securities laws;
- involve and retain to a greater degree outside counsel and accountants in the activities listed above;
- implement procedures to verify premiums assumed by Twin Bridges as reported by any U.S. admitted insurer with which we may have a reinsurance arrangement;
- establish or outsource an internal audit function;
- enhance our investor relations function; and
- establish new control policies, such as those relating to disclosure controls and procedures, segregation of duties and procedures and insider trading.

In addition, we have historically maintained our accounting records on a cash basis. Upon the completion of this offering, we will convert to the accrual method for the purposes of maintaining our accounting records.

These obligations require a significant commitment of additional resources. We may not be successful in implementing these requirements, and implementing them could adversely affect our business or operating results. In addition, if we fail to implement the requirements with respect to our internal accounting and audit functions, our ability to report our operating results on a timely and accurate basis would be impaired.

***Provisions in our charter documents may reduce or increase the voting power associated with our common shares and thereby affect your voting rights.***

Our bye-laws generally provide that shareholders have one vote for each share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, pursuant to a mechanism specified in our bye-laws, the voting rights exercisable by a shareholder will be limited so that certain persons or groups are not deemed to hold more than 9.9% of the total voting power conferred by our shares. In addition, our board of

directors retains certain discretion to make adjustments to the aggregate number of votes attaching to the shares of any shareholder that they consider fair and reasonable in all the circumstances to ensure that no person will hold more than 9.9% of the total voting power represented by our then outstanding shares. Our bye-laws provide, generally, that any shareholder owning, directly, indirectly or, in the case of any U.S. person, by attribution, more than 9.9% of our common shares will have the voting rights attached to such common shares reduced so that it may not exercise more than 9.9% of the total voting rights. The reduction in votes is generally to be applied proportionately among all shareholders who are members of the first shareholder's control group. A control group means, with respect to any person, all shares directly owned by such person and all shares directly owned by each other shareholder any of whose shares are included in the controlled shares of such person. Controlled shares means all common shares that a person is deemed to own directly, indirectly (within the meaning of Section 958(a) of the Code) or, in the case of a U.S. person, constructively (within the meaning of Section 958(b) of the Code). A similar limitation is to be applied to shares held directly by members of a related group. A related group means a group of shareholders that are investment vehicles and are under common control and management. Any reduction in votes will generally be reallocated proportionately among members of the shareholder's control group or related group, as the case may be. The amount of any reduction of votes that occurs by operation of the above limitations will generally be reallocated proportionately among all of our other shareholders who were not members of these groups so long as such reallocation does not cause any person to hold more than 9.9% of the total voting power of our shares.

Although the limitation on voting rights will apply to our existing shareholders who receive common shares pursuant to the restructuring that will occur immediately prior to the closing of this offering, the attribution rules with respect to a control group will not apply to Messrs. Daniel G. Hickey, Sr. and Daniel G. Hickey, Jr. Accordingly, the voting rights of each of Messrs. Hickey, Sr. and Hickey, Jr. will be limited to 9.9% on an individual basis and not on a joint and aggregate basis.

Under these provisions, some shareholders may have the right to exercise their voting rights limited to less than one vote per share. Moreover, these provisions could have the effect of reducing the voting power of certain shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership.

As a result of any reduction in the votes of other shareholders, your voting power might increase above 5% of the aggregate voting power of the outstanding shares, which may result in your becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Exchange Act.

We also have the authority to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be reallocated pursuant to the bye-laws. If a shareholder fails to respond to a request for information from us or submits incomplete or inaccurate information (after a reasonable cure period) in response to a request, we, in our reasonable discretion, may reduce or eliminate the shareholder's voting rights.

***Anti-takeover provisions in our bye-laws could impede an attempt to replace or remove our directors, which could diminish the value of our common shares.***

Our bye-laws contain provisions that may entrench directors and make it more difficult for shareholders to replace directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control that a shareholder might consider favorable. For example, these provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our common shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging changes in management and takeover attempts in the future.

Examples of provisions in our bye-laws that could have such an effect include the following:

election of our directors is staggered, meaning that the members of only one of three classes of our directors are elected each year;

the total voting power of any shareholder owning more than 9.9% of our common shares will be reduced to 9.9% of the total voting power of our common shares; and

our directors may, in their discretion, decline to record the transfer of any common shares on our share register if the shares have not been fully paid for, if the directors are not satisfied that all required regulatory approvals for such transfer have been obtained, if as a result of the transfer a shareholder would own more than 9.9% of our common shares, or if the instrument of transfer is in favor of more than five persons jointly.

***Upon closing of this offering, our principal shareholders will still have the ability to significantly influence our business, which may be disadvantageous to other shareholders and adversely affect the price of our common shares.***

Upon closing of this offering Daniel G. Hickey, Sr., one of our directors, Daniel G. Hickey, Jr., our Co-Chief Executive Officer and Chairman of the Board, Martin D. Rakoff, our Co-Chief Executive Officer and Deputy Chairman of our Board, and Louis J. Viglotti, our General Counsel and Assistant Secretary, collectively, will beneficially own approximately 37.2% of our outstanding common shares and will possess approximately 32.3% of the total voting power of our outstanding common shares. As a result, these shareholders, if they act together, will have the ability to exert substantial influence over all matters requiring approval by our shareholders, including the election and removal of directors, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. These shareholders may have interests that are different from ours or other investors.

Our officers, directors and principal shareholders could delay or prevent an acquisition or merger of our company even if the transaction would benefit other shareholders. Moreover, this concentration of share ownership may make it difficult for shareholders to replace management. This concentration could be disadvantageous to other shareholders with interests different from those of our officers, directors and principal shareholders and the price of our common shares could be adversely affected.

***U.S. persons who own our common shares may have more difficulty protecting their interests than U.S. persons who are shareholders of a U.S. corporation.***

The Companies Act, which applies to us, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. In order to highlight those differences, we have set forth below a summary of certain significant provisions of the Companies Act, including, where relevant, information on the Company's bye-laws, which differ in certain respects from the provisions of Delaware corporate law. Further, under certain circumstances, our bye-laws impose greater restrictions on us than required by the Companies Act. Because the following statements are summaries, they do not discuss all aspects of Bermuda law that may be relevant to us and our shareholders.

***Shareholders' Suits.*** The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders in many United States jurisdictions. Class actions and derivative actions are generally not available to shareholders under Bermuda law. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence a derivative action in the name of a company where the act complained of is alleged to be beyond the corporate power of the company, is illegal or would result in the violation of such company's memorandum of association or bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of our shareholders than actually approved it. The successful party in such an action generally would be able to recover a portion of the attorney's fees incurred in connection with such action. Our bye-laws provide that shareholders waive all claims or rights of action that they might have, individually or in our right, against any director or officer or any person appointed to any committee by the board of directors or resident representative for any action or failure to act in the performance of his duties, except such waiver shall not extend to any claims or rights of action that would render the waiver void pursuant to the Companies Act and arise out of fraud or dishonesty on the part of such person or with respect to the recovery of any gain, personal profit or advantage to which



such person is not legally entitled. Class actions and derivative actions generally are available to shareholders under Delaware corporate law, for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions under Delaware law, the court has discretion to permit the winning party to recover attorney's fees in connection with such action.

**Indemnification of Directors and Officers.** Under Bermuda law and our bye-laws, we will indemnify our directors or officers or any person appointed to any committee by the board of directors and any resident representative (and their respective heirs, executors or administrators) against all actions, costs, charges, liabilities, loss, damage or expense, to the fullest extent permitted by law, incurred or suffered by such officer, director or other person by reason of any act done, conceived in or omitted in the conduct of our business or in the discharge of his duties; provided that such indemnification shall not extend to any matter involving any fraud or dishonesty on the part of such director, officer or other person. In general, under Delaware law, U.S. companies may limit the personal liability of their directors as long as they acted in good faith and reasonably believed their actions were not opposed to the best interests of the company and, with regard to criminal actions or proceedings, without knowing violation of law.

***We are a Bermuda company and it may be difficult for you to enforce judgments against us.***

We are a Bermuda company and a substantial portion of our assets are or may be located in jurisdictions outside the United States. It may therefore be difficult for investors to effect service of process against us or to enforce against us judgments of U.S. courts predicated upon civil liability provisions of the U.S. federal securities laws.

There is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a United States judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the U.S. court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules. A judgment debt from a U.S. court that is final and for a sum certain based on U.S. federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the U.S. court, and the issue of submission and jurisdiction is a matter of Bermuda (not United States) law.

In addition to and irrespective of jurisdictional issues, the Bermuda courts will not enforce a United States federal securities law that is either penal or contrary to the public policy of Bermuda. An action brought pursuant to a public or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the state in its sovereign capacity, may not be entertained by a Bermuda court. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, will not be available under Bermuda law or enforceable in a Bermuda court, as they may be contrary to Bermuda public policy. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violations of U.S. federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

***If you acquire 10% or more of our shares, you may be subject to taxation under the "controlled foreign corporation" rules.***

Each "10% U.S. Shareholder" of a foreign corporation that is a controlled foreign corporation for an uninterrupted period of 30 days or more during a taxable year, and that owns shares in the controlled foreign corporation directly or indirectly through foreign entities on the last day of the corporation's taxable year on which such corporation was a controlled foreign corporation, must include in its gross income for U.S. federal income tax purposes its pro rata share of the controlled foreign corporation's "subpart F income," even if the subpart F income is not distributed. Subpart F income generally includes, among other things, investment income such as dividends, interest and capital gains, and income from insuring risks located outside the insurer's country of incorporation. A foreign corporation is considered a controlled foreign corporation if "10%

U.S. Shareholders” own more than 50% of the total combined voting power of all classes of voting stock of the foreign corporation, or the total value of all stock of the corporation. A 10% U.S. Shareholder is a U.S. person, as defined in the Code, that owns at least 10% of the total combined voting power of all classes of stock of the foreign corporation entitled to vote. For purposes of taking into account subpart F income consisting of insurance income, a controlled foreign corporation also includes a foreign corporation of which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders, on any day during the taxable year of such corporation, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance or annuity contracts generating subpart F income exceeds 75% of the gross amount of premiums or other consideration in respect of all risks. It is expected that all of Twin Bridges’ income will be considered subpart F insurance income. For purposes of determining whether the more-than-50% (or more-than-25%, in the case of insurance income) and 10% ownership tests have been satisfied, and therefore whether a corporation is a controlled foreign corporation, shares owned includes shares owned directly or indirectly through foreign entities or shares considered owned under constructive ownership rules. The attribution rules are complicated and depend on the particular facts relating to each investor.

CRM Holdings’ bye-laws contain provisions that impose limitations on the concentration of voting power of its shares. Accordingly, based upon these provisions and the anticipated dispersion of our share ownership, we do not believe that we have any 10% U.S. Shareholders. It is possible, however that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge.

***U.S. persons who hold shares could be subject to adverse tax consequences if we are considered a “passive foreign investment company” for U.S. federal income tax purposes.***

We do not intend to conduct our activities in a manner that would cause us to become a passive foreign investment company. However, it is possible that we could be deemed a passive foreign investment company by the IRS for 2005 or any future year. If we were considered a passive foreign investment company it could have material adverse tax consequences for an investor that is subject to U.S. federal income taxation, including subjecting the investor to a greater tax liability than might otherwise apply or subjecting the investor to tax on amounts in advance of when tax would otherwise be imposed. There are currently no regulations regarding the application of the passive foreign investment company provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be issued in the future. We cannot predict what impact, if any, this guidance would have on a shareholder that is subject to U.S. federal income taxation. We have not sought and do not intend to seek an opinion of legal counsel as to whether or not we were a passive foreign investment company for the year ending December 31, 2005.

***U.S. persons who hold shares may be subject to U.S. income taxation on their pro rata share of our “related person insurance income.”***

In the event that:

Twin Bridges’ gross related person insurance income equals or exceeds 20% of its gross insurance income in any taxable year, direct or indirect insureds (and persons related to such insureds) own (or are treated as owning directly or indirectly) 20% or more of the voting power or value of the shares of Twin Bridges, and

U.S. persons are considered to own in the aggregate 25% or more of the stock of Twin Bridges by vote or value, then a U.S. person who owns any of our shares directly or indirectly through foreign entities on the last day of Twin Bridges’ taxable year on which it is a controlled foreign corporation would be required to include in its income for U.S. federal income tax purposes the shareholder’s pro rata share of Twin Bridges’ related person insurance income for the U.S. person’s taxable year that includes the end of Twin Bridges’ taxable year determined as if such related person insurance income were distributed proportionately to such U.S. shareholders at that date regardless of whether such income is distributed. In addition any related person



insurance income that is includible in the income of a U.S. tax-exempt organization will be treated as unrelated business taxable income. The amount of related person insurance income earned by Twin Bridges (generally, premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect U.S. shareholder of Twin Bridges or any person related to such shareholder) will depend on a number of factors, including the identity of persons directly or indirectly insured or reinsured by Twin Bridges. Although we do not expect our gross related person insurance income to equal or exceed 20% of our gross insurance income in the foreseeable future, some of the factors which determine the extent of related person insurance income in any period may be beyond Twin Bridges' control. Consequently, Twin Bridges' gross related person insurance income could equal or exceed 20% of its gross insurance income in any taxable year and ownership of its shares by direct or indirect insureds and related persons could equal or exceed the 20% threshold described above.

The related person insurance income rules provide that if a shareholder that is a U.S. person disposes of shares in a foreign insurance corporation that has related person insurance income (even if the amount of related person insurance income is less than 20% of the corporation's gross insurance income or the ownership of its shares by direct or indirect insureds and related persons is less than the 20% threshold) and in which U.S. persons own 25% or more of the shares, any gain from the disposition will generally be treated as ordinary income to the extent of the shareholder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the shareholder owned the shares (whether or not such earnings and profits are attributable to related person insurance income). In addition, such a shareholder will be required to comply with reporting requirements, regardless of the amount of shares owned by the shareholder. We believe that these rules should not apply to dispositions of our shares because CRM Holdings will not itself be directly engaged in the insurance business and because proposed U.S. Treasury regulations appear to apply only in the case of shares of corporations that are directly engaged in the insurance business. However, the IRS might interpret the proposed regulations in a different manner and the applicable proposed regulations may be promulgated in final form in a manner that would cause these rules to apply to dispositions of our shares.

***Changes in U.S. federal income tax law could materially adversely affect an investment in our shares.***

The U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the United States, or is a passive foreign investment company or whether U.S. persons would be required to include in their gross income the subpart F income or the related person insurance income of a controlled foreign corporation are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the passive foreign investment company rules to insurance companies and the regulations regarding related person insurance income are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be issued in the future. We cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such regulations or guidance will have a retroactive effect.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward looking statements. These forward looking statements include, in particular, statements about our plans, strategies and prospects under the headings “Prospectus Summary,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” These statements are based on our current expectations and projections about future events and are identified by terminology such as “may,” “will,” “should,” “expect,” “scheduled,” “plan,” “seek,” “intend,” “anticipate,” “believe,” “estimate,” “aim,” “potential,” or “continue” or the negative of those terms or other comparable terminology. Although we believe that our plans, intentions and expectations are reasonable, we may not achieve our plans, intentions or expectations.

These forward-looking statements involve risks and uncertainties. Important factors that could cause actual results to differ materially from the forward looking statements we make in this prospectus are set forth in “Risk Factors.” We undertake no obligation to update any of the forward looking statements after the date of this prospectus to conform those statements to reflect the occurrence of unanticipated events, except as required by applicable law.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement on Form S-1, of which this prospectus is a part, that we have filed with the SEC, completely and with the understanding that our actual future results, levels of activity, performance and achievements may be different from what we expect and that these differences may be material. We qualify all of our forward looking statements by these cautionary statements. The forward looking statements contained in this prospectus are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended.

## USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately \$77,445,000, based on an assumed initial offering price of \$14.50, which is the midpoint of the price range set forth on the cover page of this prospectus, after the payment of the underwriters' discounts and commissions and our payment of the expenses of this offering estimated to be \$3,900,000. A \$1.00 increase (or decrease) in the assumed initial offering price of \$14.50, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (or decrease) net proceeds to us from this offering by \$5,610,000, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the assumed underwriting discounts and commissions. We intend to use approximately \$47,000,000 of our net proceeds from this offering to increase the capital and surplus of Twin Bridges to at least \$50,000,000, \$4,500,000 to pay the entire amount outstanding under our revolving credit facility with KeyBank National Association, or KeyBank, and the balance for general corporate purposes. From time to time we may contribute further amounts to Twin Bridges as additional surplus. As of September 30, 2005, a total of \$3,500,000 was outstanding under our revolving credit facility. In October 2005, we borrowed an additional \$1,000,000 under this facility to pay a portion of the expenses of this offering. The loans outstanding under the revolving credit facility are due and payable on June 30, 2006 and bear interest at the prime rate of KeyBank from time to time. The proceeds of the loans outstanding as of September 30, 2005 were used to pay distributions to members of our subsidiaries. Any decision to allocate to our U.S. subsidiaries a portion of our net proceeds from this offering may be constrained because we will be required to pay a 30% withholding tax on any distribution from our U.S. subsidiaries to us. See "Risk Factors – U.S. withholding tax payable on dividends paid to CRM Holdings by our U.S. subsidiaries affects our ability to pay dividends and redeploy capital."

We will not receive any of the proceeds from the sale of common shares by the selling shareholders.

## DIVIDEND POLICY

Our board of directors currently does not intend to declare dividends or make any other distributions to our shareholders. Any determination to pay dividends in the future will be at the board's discretion and will depend upon our results of operations, financial condition and prospects as well as other factors deemed relevant by our board of directors. Under the Companies Act, we may declare or pay a dividend out of retained earnings, or make a distribution out of contributed surplus, only if we have reasonable grounds for believing that we are and, after the payment of such dividends, will be able to pay our liabilities as they become due and if the realizable value of our assets would thereby not be less than the aggregate of our liabilities and issued share capital and share premium accounts. As a holding company, we depend on future dividends and other permitted payments from our subsidiaries to pay dividends to our shareholders. Our subsidiaries' ability to pay dividends to us, as well as our ability to pay dividends to our shareholders, is subject to regulatory, contractual, rating agency, tax and other constraints. Pursuant to our recently executed term sheet with NY Marine & General, Twin Bridges will be restricted from distributing more than ten percent of its retained earnings by way of dividends, intercompany transfers or related party loans since the date of its last audited financial statements. Risks relating to our holding company structure and its effect on our ability to receive and pay dividends are described under "Risk Factors – Risks Related to Our Business – Our holding company structure and certain regulatory, tax and other constraints affect our ability to pay dividends, make other payments and redeploy capital among our subsidiaries" and "– Risks Related to Our Shares Sold in this Offering – We do not intend to pay dividends on our shares."

In November 2005, CRM and Eimar distributed to the existing shareholders an aggregate of \$1,090,077 in respect of the previously undistributed earnings and profits of CRM, Eimar and Twin Bridges from their inception through October 31, 2005. These amounts were paid from the working capital of CRM and Eimar. We refer to these distributions in this prospectus as the "Distributions." We also will indemnify the existing shareholders for an amount intended to approximate the amount of U.S. federal income taxes, if any, that would be payable by them with respect to the combined net income, if any, for U.S. federal income tax purposes of CRM, Eimar and Twin Bridges for the period from November 1, 2005 through the consummation of the restructuring, computed, with respect to CRM and Eimar, on a cash basis as if such period were a taxable period. We believe that any such indemnification payments will be immaterial and will be paid from CRM's working capital and not from the net proceeds of this offering.

## CAPITALIZATION

The following table sets forth our combined capitalization as of September 30, 2005:

(1) on an actual basis,

(2) on a pro forma basis giving effect to:

the restructuring; and

the Distributions;

(3) on a pro forma as adjusted basis giving effect to:

the pro forma adjustments described above;

the issuance and our sale of 6,000,000 common shares in this offering at an assumed initial price to the public of \$14.50 per share, which is the mid-point of the price range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and our estimated offering expenses; and

the application of the net proceeds of this offering.

	As of September 30, 2005		
	Actual	Pro forma (Unaudited) (Dollar amounts in thousands except for per share amounts)	Pro forma as adjusted(1)
Debt outstanding:	\$ 3,597	\$ 3,597	\$ 97
Shareholders' and members' equity (deficit):			
Twin Bridges			
Common shares, \$1.00 par value per share, 120,000 shares authorized, 120,000 shares issued and outstanding	120	—	—
Additional paid-in capital	880	—	—
Retained earnings	2,212	—	—
LLC members' equity (deficit)	(3,767)	—	—
As adjusted (CRM Holdings, Ltd.):			
Shares, \$0.01 par value per share, 50,000,000,000 shares authorized, 1,200,000 common shares issued and outstanding; 9,457,115 common shares issued and outstanding on a pro forma basis; 15,457,115 common shares issued and outstanding on a pro forma as adjusted basis	12	95	155
Class B shares, \$0.01 par value per share, 790,000 shares issued and outstanding on a pro forma basis; 790,000 shares issued and outstanding on a pro forma as adjusted basis	—	8	8
Additional paid-in capital	—	(1,747)	75,638
Retained earnings	—	—	—
Total shareholders' and members' equity (deficit)	(542 )	(1,644)	75,801
<b>Total capitalization</b>	<b>\$ 3,055</b>	<b>\$ 1,953</b>	<b>\$ 75,898</b>

(1) A \$1.00 increase (or decrease) in the assumed initial offering price of \$14.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (or decrease) each of additional paid-in capital, total shareholders' and members' equity (deficit) and total capitalization by \$5,610,000, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the assumed underwriting discounts and commissions.

You should read this table in conjunction with "Selected Combined and Pro Forma Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the combined financial statements and related notes included elsewhere in this prospectus.

## DILUTION

If you invest in our common shares in this offering, your ownership interest in us will be diluted to the extent of the differences between the initial public offering price per share and pro forma net tangible book value per share after this offering. Our net tangible book value as of September 30, 2005 is presented on a pro forma basis, assuming the consummation of the restructuring and the Distributions. Our pro forma net tangible book value as of September 30, 2005 is determined by subtracting the total amount of our liabilities as of September 30, 2005 and the Distributions from the total amount of our tangible assets as of September 30, 2005. Our pro forma net tangible book value per share as of September 30, 2005 is determined by dividing our pro forma net tangible book value as of September 30, 2005 by the number of common shares outstanding as of September 30, 2005, after giving effect to the restructuring. Our pro forma net tangible book value as of September 30, 2005 was \$(1.6) million, or \$(.16) per share, calculated as described above.

After giving effect to our sale in this offering of 6,000,000 common shares at an assumed initial price to the public of \$14.50 per share, which is the mid-point of the price range set forth on the cover page of this prospectus, the application of our estimated net proceeds therefrom, and after deducting underwriting discounts and commissions and our estimated offering expenses, our pro forma as adjusted net tangible book value as of September 30, 2005 would have been an aggregate of \$75.8 million, or \$4.67 per common share. This amount represents an immediate increase of \$4.83 per share to our existing shareholders and an immediate dilution of \$9.83 per share from the assumed initial price to the public of \$14.50 per share to new investors purchasing shares in this offering. The table below illustrates this per share dilution:

Assumed initial price to the public per share	\$ 14.50
Pro forma net tangible book value per share as of September 30, 2005	\$ (0.16)
Increase in pro forma net tangible book value per share attributable to this offering	\$ 4.83
Pro forma net tangible book value per share after this offering	\$ 4.67
Dilution per share to new investors	<u>\$ 9.83</u>

A \$1.00 increase (or decrease) in the assumed initial public offering price of \$14.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (or decrease) the total consideration paid by new investors, total consideration paid by all shareholders and average price per share paid by all shareholders by \$8,850,000, \$8,850,000 and \$.54, respectively, assuming the number of shares offered by us, as set forth on the cover page, remains the same.

The table below sets forth, as of September 30, 2005, the number of our common shares issued, the total consideration paid and the average price per share paid by our existing shareholders and our new investors, after giving effect to the consummation of the restructuring, the Distributions and our sale of 6,000,000 common shares in this offering at an assumed initial price to the public of \$14.50 per share, which is the mid-point of the price range set forth on the cover page of this prospectus:

	Shares Issued		Total Consideration		Average Price Per Share
	Number	Percent(1)	Amount	Percent	
Existing shareholders	7,397,115	45.5	0	0.0	\$ 0.00
New investors	8,850,000	54.5	128,325,000	100.0	\$ 14.50
Total	<u>16,247,115</u>	<u>100.0</u>	<u>128,325,000</u>	<u>100.0</u>	<u>\$ 7.90</u>

- (1) To the extent the underwriters exercise their over-allotment option in full, the number of common shares held by the existing shareholders will be reduced to 6,449,163 shares, or 39.7% of the total number of common shares to be outstanding after this offering, and the number of common shares held by the new investors will increase to 9,797,952 shares, or 60.3% of the total number of common shares to be outstanding after this offering. See "Principal Shareholders" and "Selling Shareholders."

A \$1.00 increase (or decrease) in the assumed initial offering price of \$14.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (or decrease) the pro forma as adjusted net tangible book value as of September 30, 2005 by \$5,610,000 million, or \$.35 per common share and the dilution per share to new investors by \$.65 assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the assumed underwriting discounts and commissions.

## SELECTED COMBINED AND PRO FORMA FINANCIAL INFORMATION

### Selected Combined Financial Information

The following table sets forth our selected combined financial information for the periods ended and as of the dates indicated. The historical results are not necessarily indicative of results to be expected in any future period.

The selected unaudited combined income statement information for the nine months ended September 30, 2005 and 2004 and the selected unaudited combined balance sheet information as of September 30, 2005 are derived from our unaudited combined financial statements included elsewhere in this prospectus.

The selected combined income statement information for the years ended December 31, 2004, 2003 and 2002 and the selected combined balance sheet information as of December 31, 2004 and 2003 are derived from our audited combined financial statements included elsewhere in this prospectus. The selected unaudited combined income statement information for the years ended December 31, 2001 and 2000 and the selected unaudited combined balance sheet information as of December 31, 2001 and 2000 are derived from our unaudited combined financial statements not included in this prospectus. The selected combined balance sheet information as of December 31, 2002 is derived from our audited combined financial statements not included in this prospectus.

The selected combined balance sheet information as of September 30, 2005 was prepared:

on an actual basis; and

on an as adjusted basis to give effect to our sale of 6,000,000 common shares in this offering, after deducting underwriting discounts and commissions and the estimated expenses of this offering, the restructuring, the Distributions and the application of our net proceeds from this offering.

You should read the following selected combined and pro forma financial information in conjunction with the information contained in this prospectus, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the combined financial statements and related notes included elsewhere in this prospectus. Many factors may cause our actual results to differ materially from the financial information and results presented below including, but not limited to, the following:

We began our group administration business in California during October 2003;

We commenced our reinsurance business during December 2003; and

Those factors discussed in “Risk Factors.”

## [Table of Contents](#)

Selected Combined Income Statement Information	Nine Months Ended September 30,		Years Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
(Dollar amounts in thousands except per share amounts)							
<b>Revenues</b>							
Fee-based management services	\$ 26,200	\$ 20,519	\$ 27,656	\$ 20,821	\$ 17,614	\$ 7,967	\$ 2,563
Net reinsurance premiums	5,295	3,566	5,110	253	—	—	—
Investment income, net of advisory fees	115	30	54	16	37	13	—
Total revenues	31,610	24,115	32,820	21,090	17,651	7,980	2,563
<b>Expenses</b>							
Losses and loss adjustment expenses	2,269	1,975	2,528	168	—	—	—
Fees paid to general agents and brokers	8,444	7,380	9,507	7,830	7,651	3,615	1,046
Selling, general and administrative expenses	13,970	9,803	13,441	9,240	6,471	3,140	1,317
Policy acquisition costs and other expenses	1,608	1,092	1,538	121	33	21	21
Total expenses	26,291	20,250	27,014	17,359	14,155	6,776	2,384
Income before taxes	5,319	3,865	5,806	3,731	3,496	1,204	179
Provision for income taxes	—	—	—	—	—	—	—
Net income	5,319	3,865	5,806	3,731	3,496	1,204	179
Pro forma provision for income taxes	1,498	1,308	1,869	1,437	1,328	458	68
Pro forma net income	\$ 3,821	\$ 2,557	\$ 3,937	\$ 2,294	\$ 2,168	\$ 746	\$ 111
Pro forma net income per common share(1)	\$ 0.37	\$ 0.25	\$ 0.38	\$ 0.22	\$ 0.21	\$ 0.07	\$ 0.01
Pro forma adjusted net income per common share(2)	\$ 0.37	—	\$ 0.38	—	—	—	—
Pro forma cash dividends declared per common share(1)	\$ 0.65	\$ 0.28	\$ 0.36	\$ 0.66	\$ 0.34	\$ 0.03	\$ 0.00
Pro forma common shares outstanding(1)	10,247	10,247	10,247	10,247	10,247	10,247	10,247

Columns may not total due to rounding.

Selected Combined Balance Sheet Information	As of September 30,		As of December 31,				
	2005 (As Adjusted)	2005 (Actual)	2004	2003	2002	2001	2000
(Dollar amounts in thousands)							
<b>Assets</b>							
Cash and cash equivalents	\$ 74,814(3)	\$ 634	\$ 1,584	\$ 767	\$ 4,644	\$ 2,342	\$ 143
Cash and cash equivalents, restricted	1,596	1,596	4,391	1,000	—	—	—
Investments, restricted	5,533	5,533	—	—	—	—	—
Premiums receivable, net	2,948	2,948	3,758	2,140	—	—	—
Earned unbilled commissions and premiums	1,010	1,010	—	—	—	—	—
Accounts receivable	1,618	1,618	41	90	705	388	562
Deferred policy acquisition costs	919	919	1,413	824	—	—	—
Property and equipment, net	972	972	913	792	796	209	106
Loans receivable	413	413	432	173	73	—	—
Deferred initial public offering costs	—	1,334	—	—	—	—	—
Prepaid expenses and other assets	650	650	192	96	586	63	7
Total assets	\$ 90,473(3)	\$ 17,627	\$ 12,724	\$ 5,882	\$ 6,804	\$ 3,002	\$ 818

Columns may not total due to rounding.

Footnotes on following page



[Table of Contents](#)

Selected Combined Balance Sheet Information	As of September 30,		As of December 31,				
	2005 (As Adjusted)	2005 (Actual)	2004	2003	2002	2001	2000
(Dollar amounts in thousands)							
<b>Liabilities and shareholders' and members' equity</b>							
Reserve for losses and loss adjustment expenses	\$ 4,965	\$ 4,965	\$ 2,696	\$ 168	\$ –	\$ –	\$ –
Unearned reinsurance premiums	3,106	3,106	4,780	2,785	–	–	–
Unearned management fees	1,137	1,137	671	614	1,789	341	–
Unearned commission income	2,069	2,069	2,334	2,247	2,163	1,145	–
Borrowings under credit facilities	97	3,597	158	285	1,104	169	200
Fees payable to general agents and brokers	772	772	565	578	537	375	172
Accrued expenses	2,526	2,535	632	369	317	75	428
<b>Total liabilities</b>	<b>14,672</b>	<b>18,181</b>	<b>11,836</b>	<b>7,046</b>	<b>5,910</b>	<b>2,105</b>	<b>800</b>
<b>Twin Bridges</b>							
Common stock	–	120	120	120	–	–	–
Additional paid-in capital	–	880	880	880	–	–	–
Retained earnings (deficit)	–	2,212	835	(51 )	–	–	–
LLC members' equity (deficit)	–	(3,767 )	(947 )	(2,113)	894	897	18
<b>As adjusted (CRM Holdings Ltd.):</b>							
Shares, \$0.01 par value per share, 50,000,000,000 shares authorized, 1,200,000 common shares issued and outstanding; 15,457,115 common shares issued and outstanding on an as adjusted basis	155	–	–	–	–	–	–
Class B shares, \$0.01 par value per share, 790,000 shares issued and outstanding on an as adjusted basis	8	–	–	–	–	–	–
Additional paid-in capital	75,638(3)	–	–	–	–	–	–
Retained earnings(deficit)	–	–	–	–	–	–	–
<b>Total shareholders' and members' equity (deficit)</b>	<b>75,801(3)</b>	<b>(554 )</b>	<b>888</b>	<b>(1,164)</b>	<b>894</b>	<b>897</b>	<b>18</b>
<b>Total liabilities and shareholders' and members' equity</b>	<b>\$ 90,473(3)</b>	<b>\$ 17,627</b>	<b>\$ 12,724</b>	<b>\$ 5,882</b>	<b>\$ 6,804</b>	<b>\$ 3,002</b>	<b>\$ 818</b>

Columns may not total due to rounding.

- (1) Based on 10,247,115 common shares outstanding after giving effect to the restructuring but not including 6,000,000 common shares to be offered by us in this offering.
- (2) Based on 10,421,747 common shares outstanding, after giving effect to the restructuring and including 174,632 common shares representing the excess of distributions during the nine month period ended September 30, 2005 over net income during the same period. A \$1.00 increase (or decrease) in the assumed initial offering price of \$14.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (or decrease) each of cash and cash equivalents, total assets, additional paid-in capital and total shareholders' and members' equity (deficit) by \$5,610,000, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same after deducting the assumed underwriting discounts and commissions.
- (3)



## Pro Forma Financial Information

Pro forma financial information is provided to illustrate the impact that state and federal income tax rates would have had on historical balance sheets and income statements after giving effect to the restructuring in which CRM, CRM CA and Eimar will elect to be taxed as corporations and will be subject to taxation at an effective rate of 38%. These pro-forma statements are intended to illustrate the possible scope of the changes in our historical financial position and results of operations caused by the application of federal and state taxes. Additionally, the pro forma combined balance sheet as of September 30, 2005 has been adjusted to reflect the Distributions.

The following tables present:

- condensed combined historical balance sheets as of September 30, 2005 and December 31, 2004;

- pro-forma adjustments to the condensed combined historical balance sheets as of September 30, 2005 and December 31, 2004 for the Distributions;

- pro-forma condensed combined balance sheets as of September 30, 2005 and December 31, 2004 that result from the pro-forma adjustments described above;

- further pro-forma adjustments to the pro-forma condensed combined historical balance sheets as of September 30, 2005 and December 31, 2004 with respect to the issuance and our sale of 6,000,000 common shares in this offering at an assumed initial price to the public of \$14.50 per share, which is the mid-point of the price range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and our estimated offering expenses, and the application of the net proceeds of this offering;

- pro-forma condensed combined historical balance sheets as of September 30, 2005 and December 31, 2004 that result from all of the pro-forma adjustments described above;

- condensed combined historical income statements for the nine months ended September 30, 2005 and for the year ended December 31, 2004;

- pro-forma adjustments to the condensed combined historical income statements for the nine months ended September 30, 2005 and for the year ended December 31, 2004 with respect to statutory federal and state income tax rates in effect during such periods; and

- pro-forma condensed combined income statements for the nine months ended September 30, 2005 and for the year ended December 31, 2004 that result from the pro-forma adjustments.

[Table of Contents](#)

Condensed Combined Income Statement	Nine Months Ended September 30, 2005		
	Historical	Pro Forma Adjustments	As Adjusted
		(Dollar amounts in thousands except per share amounts)	
<b>Revenues:</b>			
Fee-based management services	\$ 26,200		\$ 26,200
Net reinsurance premiums	5,295		5,295
Investment income, net of advisory fees	115		115
<b>Total revenues</b>	<b>31,610</b>	<b>–</b>	<b>31,610</b>
<b>Expenses:</b>			
Losses and loss adjustment expenses	2,269		2,269
Fees paid to general agents and brokers	8,444		8,444
Selling, general and administrative expenses	13,970		13,970
Policy acquisition costs and other expenses	1,608		1,608
<b>Total expenses</b>	<b>26,291</b>	<b>–</b>	<b>26,291</b>
Income before taxes	5,319	–	5,319
Provision for income taxes	–	\$ 1,498 (1)	1,498
<b>Net income</b>	<b>\$ 5,319</b>	<b>\$ (1,498)</b>	<b>\$ 3,821</b>
Pro forma net income per common share(2)	\$ 0.52	\$ (0.15 )	\$ 0.37
Pro forma adjusted net income per common share(3)	\$ 0.51	\$ (0.14 )	\$ 0.37
Pro forma common shares outstanding(2)	10,247	10,247	10,247
Pro forma adjusted common shares outstanding(3)	10,422	10,422	10,422

Columns may not total due to rounding.

Condensed Combined Balance Sheet	As of September 30, 2005				
	Historical	Pro Forma Adjustments	As Adjusted	Offering Adjustments	Pro Forma
		(Dollar amounts in thousands)			
<b>Assets</b>					
Cash and cash equivalents	\$ 634		\$ 634	\$ 74,180	\$ 74,814(4)
Cash and cash equivalents, restricted	1,596		1,596		1,596
Investments, restricted	5,533		5,533		5,533
Premiums receivable, net	2,948		2,948		2,948
Earned unbilled commissions and premiums	1,010		1,010		1,010
Accounts receivable	1,618		1,618		1,618
Deferred policy acquisition costs	919		919		919
Property and equipment, net	972		972		972
Loans receivable	413		413		413
Deferred initial public offering costs	1,334		1,334	(1,334 )	–
Prepaid expenses and other assets	650		650		650
<b>Total assets</b>	<b>\$ 17,627</b>	<b>\$ –</b>	<b>\$ 17,627</b>	<b>\$ 72,846</b>	<b>\$ 90,473(4)</b>

Columns may not total due to rounding.

Footnotes on following page

[Table of Contents](#)

Condensed Combined Balance Sheet	As of September 30, 2005				
	Historical	Pro Forma Adjustments	As Adjusted	Offering Adjustments	Pro Forma
(Dollar amounts in thousands)					
Liabilities and shareholders' and members' equity					
Reserve for losses and loss adjustment expenses	\$ 4,965		\$ 4,965		\$ 4,965
Unearned reinsurance premiums	3,106		3,106		3,106
Unearned management fees	1,137		1,137		1,137
Unearned commission income	2,069		2,069		2,069
Borrowings under credit facilities	3,597		3,597	(3,500 )	97
Fees payable to general agents and brokers	772		772		772
Accrued expenses	2,535	1,090 (5)	3,625	(1,099 )	2,526
Total liabilities	18,181	1,090	19,271	(4,599 )	14,672
Twin Bridges					
Common stock	120		120	(120 )	–
Additional paid-in capital	880		880	(880 )	–
Retained earnings (deficit)	2,212		2,212	(2,212 )	–
LLC members' (deficit) equity	(3,767 )	(1,090)(5)	(4,857 )	4,857	–
As adjusted (CRM Holdings Ltd.):					
Shares, \$0.01 par value per share, 50,000,000,000 shares authorized, 1,200,000 common shares issued and outstanding; 15,457,115 common shares issued and outstanding on a pro forma as adjusted basis after giving effect to the restructuring and the closing of this offering	–	–	–	155	155
Class B shares, \$0.01 par value per share, 790,000 shares authorized, 790,000 shares issued and outstanding on a pro forma as adjusted basis after giving effect to the restructuring and the closing of this offering	–	–	–	8	8
Additional pain-in capital	–	–	–	75,638	75,638(4)
Retained earnings (deficit)	–	–	–	–	–
Total shareholders' and members' equity (deficit)	(554 )	(1,090)	(1,644 )	77,445	75,801(4)
Total liabilities and shareholders' and members' equity	\$ 17,627	\$ –	\$ 17,627	\$ 72,846	\$ 90,473(4)

Columns may not total due to rounding.

- (1) Represents the amount of income tax expense after giving effect to the restructuring in which CRM, CRM CA and Eimar will elect to be taxed as corporations and will be subject to taxation at an effective rate of 38%. The amount of income tax expense would correspondingly have decreased the amount of distributions made to shareholders during the period and accordingly, total shareholders' and members (deficit) equity would remain unchanged.

## [Table of Contents](#)

- (2) Based on 10,247,115 common shares outstanding after giving effect to the restructuring but not including 6,000,000 common shares to be offered by us in this offering.
- (3) Based on 10,421,747 common shares outstanding, after giving effect to the restructuring and including 174,632 common shares representing the excess of distributions during the nine month period ended September 30, 2005 over net income during the same period.  
A \$1.00 increase (or decrease) in the assumed initial offering price of \$14.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (or decrease) each of cash and cash equivalents, total assets, additional paid-in capital, total shareholders' and members' equity (deficit) and total liabilities and shareholders' and members' equity by \$5,610,000, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same after deducting the assumed underwriting discounts and commissions.
- (4) capital, total shareholders' and members' equity (deficit) and total liabilities and shareholders' and members' equity by \$5,610,000, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same after deducting the assumed underwriting discounts and commissions.
- (5) Represents the amount of the Distributions paid in November 2005.

[Table of Contents](#)

Condensed Combined Income Statement	Year Ended December 31, 2004		
	Historical	Pro Forma	As Adjusted
		Adjustments	
	(Dollar amounts in thousands except per share amounts)		
<b>Revenues:</b>			
Fee based management services	\$ 27,656		\$ 27,656
Net reinsurance premiums	5,110		5,110
Investment income, net of advisory fees	54		54
<b>Total revenues</b>	<b>32,820</b>	<b>—</b>	<b>32,820</b>
<b>Expenses</b>			
Losses and loss adjustment expenses	2,528		2,528
Fees paid to general agents and brokers	9,507		9,507
Selling, general and administrative expenses	13,441		13,441
Policy acquisition costs and other expenses	1,538		1,538
<b>Total expenses</b>	<b>27,014</b>	<b>—</b>	<b>27,014</b>
Income before taxes	5,806	—	5,806
Provision for income taxes	—	\$ 1,869 (1)	1,869
<b>Net income</b>	<b>\$ 5,806</b>	<b>\$ (1,869)</b>	<b>\$ 3,937</b>
Pro forma net income per common share(2)	\$ 0.57	\$ (0.18 )	\$ 0.38
Pro forma adjusted net income per common share(3)	\$ 0.56	\$ 0.18	\$ 0.38
Pro forma common shares outstanding(2)	10,247	10,247	10,247
Pro forma adjusted common shares outstanding(3)	10,422	10,422	10,422

Columns may not total due to rounding.

Condensed Combined Balance Sheet	As of December 31, 2004				
	Historical	Pro Forma	As Adjusted	Offering	Pro Forma
		Adjustments		Adjustments	
	(Dollar amounts in thousands)				
<b>Assets</b>					
Cash and cash equivalents	\$ 1,584		\$ 1,584	77,445	\$ 79,029(4)
Cash and cash equivalents, restricted	4,391		4,391		4,391
Premiums receivable, net	3,758		3,758		3,758
Deferred policy acquisition costs	1,413		1,413		1,414
Property and equipment, net	913		913		913
Loans receivable	432		432		432
Prepaid expenses and other assets	233		233		233
<b>Total assets</b>	<b>\$ 12,724</b>	<b>\$ —</b>	<b>\$ 12,724</b>	<b>77,445</b>	<b>\$ 90,169(4)</b>

Columns may not total due to rounding.

Footnotes on following page

[Table of Contents](#)

Condensed Combined Balance Sheet	As of December 31, 2004				
	Historical	Pro Forma Adjustments	As Adjusted	Offering Adjustments	Pro Forma
(Dollar amounts in thousands)					
<b>Liabilities and shareholders' and members' equity</b>					
Reserve for losses and loss adjustment expenses	\$ 2,696		\$ 2,696		\$ 2,696
Unearned reinsurance premiums	4,780		4,780		4,780
Unearned management fees	671		671		671
Unearned commission income	2,334		2,334		2,334
Borrowings under credit facilities	158		158		158
Fees payable to general agents and brokers	565		565		565
Accrued expenses	632		632		632
<b>Total liabilities</b>	<b>11,836</b>	<b>–</b>	<b>11,836</b>	<b>–</b>	<b>11,836</b>
<b>Twin Bridges</b>					
Common stock	120		120	(120 )	–
Additional paid-in capital	880		880	(880 )	–
Retained earnings (deficit)	835		835	(835 )	–
LLC members' (deficit) equity	(947 )	–	(947 )	947	–
As adjusted (CRM Holdings Ltd.):					
Shares, \$0.01 par value per share, 50,000,000,000 shares authorized, 1,200,000 common shares issued and outstanding; 15,457,115 common shares issued and outstanding on a pro forma as adjusted basis after giving effect to the restructuring and the closing of this offering	–	–	–	155	155
Class B shares, \$0.01 par value per share, 790,000 shares authorized, 790,000 shares issued and outstanding on a pro forma as adjusted basis after giving effect to the restructuring and the closing of this offering	–	–	–	8	8
Additional paid-in capital	–	–	–	78,170	78,170(4)
Retained earnings (deficit)	–	–	–	–	–
<b>Total shareholders' and members' (deficit) equity</b>	<b>888</b>	<b>–</b>	<b>888</b>	<b>77,445</b>	<b>78,333(4)</b>
<b>Total liabilities and shareholders' and members' equity</b>	<b>\$ 12,724</b>	<b>\$ –</b>	<b>\$ 12,724</b>	<b>\$ 77,445</b>	<b>\$ 90,169(4)</b>

Columns may not total due to rounding.

- (1) Represents the amount of income tax expense after giving effect to the restructuring in which CRM, CRM CA and Eimar will elect to be taxed as corporations and will be subject to taxation at an effective rate of 38%. The amount of income tax expense would correspondingly have decreased the amount of distributions made to shareholders during the period and accordingly, total shareholders' and members (deficit) equity would remain unchanged.

## [Table of Contents](#)

- (2) Based on 10,247,115 common shares outstanding after giving effect to the restructuring but not including 6,000,000 common shares to be offered by us in this offering.
- (3) Based on 10,421,747 common shares outstanding, after giving effect to the restructuring and including 174,632 common shares representing the excess of distributions during the nine month period ended September 30, 2005 over net income during the same period. A \$1.00 increase (or decrease) in the assumed initial offering price of \$14.50 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, would increase (or decrease) each of cash and cash equivalents, total assets, additional paid-in capital and total shareholders' and members' equity (deficit) by \$5,610,000, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and deducting the assumed underwriting discounts and commissions.
- (4)



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited and unaudited financial statements and related notes included in this prospectus on pages F-1 through F-31. We caution you that our results of operations for prior periods are not indicative of the actual results that may be achieved in future periods. In addition, some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. Many factors may cause our actual results to differ materially from those anticipated or implied by these forward-looking statements including, but not limited to, those discussed in "Risk Factors." You should read the information under "Risk Factors" beginning on page 12 for information about material risks and uncertainties that affect us, our business and our common shares and "Cautionary Note Regarding Forward-Looking Statements" on page 35.*

### Overview

#### ***Our Business and Operating Segments***

We are a leading provider of fee-based management and other services for workers' compensation self-insured groups in New York and California. We also provide reinsurance of a portion of the excess workers' compensation coverage for these groups, subject to certain limits, through our subsidiary Twin Bridges. We have two operating segments: fee-based management services and reinsurance.

***Fee-based Management Services.*** We provide fee-based management services for workers' compensation self-insured groups in New York and California. We began conducting our business of providing management and other services to self-insured workers' compensation groups in New York through CRM in 1999 and expanded this business to California through CRM CA in October 2003. We form the groups and provide them with a broad range of services, including general management, underwriting, risk assessment, medical bill review and case management, general recordkeeping and regulatory compliance. We also provide safety and loss control services to group members to help reduce workers' compensation risks and expenses. In New York, we provide claims management services. In addition, we act as a broker and place excess insurance coverage and any required surety bonds for the groups. Each group we manage is composed of participants from the same industry, all of which are located in a single state. We currently manage 14 self-insured groups in 12 industries, with eight groups in New York and six in California. Investment management services are provided for our larger groups by one or more independent investment management firms. Our fee-based management services accounted for approximately 83% of our total revenues and approximately 74% of our net income for the nine months ended September 30, 2005 and approximately 84% of our total revenues and approximately 85% of our net income for the year ended December 31, 2004.

***Reinsurance.*** The groups we manage purchase excess workers' compensation coverage from U.S. admitted insurers to cover claims that exceed a minimum level established by state law or regulation or by administrative determination. We began reinsuring a portion of this coverage through our subsidiary Twin Bridges in December 2003. We write our reinsurance on a quota share basis also known as proportional or pro rata. Under quota share reinsurance, we share the premiums as well as the losses and expenses in an agreed proportion with the U.S. admitted insurer, subject to certain limits. Our reinsurance segment accounted for approximately 17% of our total revenues and approximately 26% of our net income for the nine months ended September 30, 2005 and approximately 16% of our total revenues and approximately 15% of our net income for the year ended December 31, 2004.

The determination of these two segments was based on our methodology for monitoring the performance of our group management business and reinsurance business. We evaluate each segment based on management fees and commission income or reinsurance premiums earned, as applicable, including items of revenue and expense that are associated with, and directly related to, each segment.

### ***Our Restructuring***

CRM Holdings is a Bermuda exempted holding company incorporated in September 2005 and will acquire CRM, CRM CA, Eimar and Twin Bridges through a share exchange, as described in “Business – Organization and Restructuring,” which will occur immediately prior to the closing of this offering.

Prior to the consummation of the restructuring, certain members of our management team, including Daniel G. Hickey, Jr., Martin D. Rakoff and Louis J. Viglotti, as well as the other persons listed in “Selling Shareholders” are the beneficial owners of CRM, CRM CA, Eimar and Twin Bridges. We sometimes refer to these owners in this prospectus as the “existing shareholders.”

Immediately prior to the closing of this offering, the existing shareholders will contribute all of their interests in CRM and Eimar to CRM USA Holdings, which will be our wholly owned subsidiary and will hold all of the outstanding interests in our U.S. subsidiaries. In exchange, the existing shareholders will receive shares issued by CRM USA Holdings. The existing shareholders will then contribute their CRM USA Holdings shares to us in exchange for 6,372,425 of our common shares. CRM will then distribute its interests in CRM CA to CRM USA Holdings. CRM, CRM CA and Eimar will elect to be taxed as corporations. In addition, immediately prior to the closing of this offering, the existing shareholders will contribute all of their shares in Twin Bridges to us in exchange for 3,874,690 of our common shares. We refer to these transactions in this prospectus as the “restructuring.” The existing shareholders ultimately will receive a total of 10,247,115 of our common shares in exchange for and in the same proportion as they own their interests in CRM (including its subsidiary, CRM CA), Eimar and Twin Bridges.

In November 2005, CRM and Eimar distributed to the existing shareholders an aggregate of \$1,090,077 in respect of the previously undistributed earnings and profits of CRM, Eimar and Twin Bridges from their inception through October 31, 2005. These amounts were paid from the working capital of CRM and Eimar. We refer to these distributions in this prospectus as the “Distributions.” We also will indemnify the existing shareholders for an amount intended to approximate the amount of U.S. federal income taxes, if any, that would be payable by them with respect to the combined net income, if any, for U.S. federal income tax purposes of CRM, Eimar and Twin Bridges for the period from November 1, 2005 through the consummation of the restructuring, computed, with respect to CRM and Eimar, on a cash basis as if such period were a taxable period. We believe that any such indemnification payments will be immaterial and will be paid from CRM’s working capital and not from the net proceeds of this offering.

### ***Our Combined Financial Information***

Our combined financial statements include the results of CRM (and its wholly-owned subsidiary, CRM CA), Eimar and Twin Bridges.

### ***Revenue***

Our revenues consist primarily of the following:

*Fee-based Management Services Revenue.* In New York, the fees we receive from all but one of our groups are based on a percentage of the manual workers’ compensation rates set by the New York State Workers’ Compensation Board that are attributable to the members of the groups we manage, and our fees include claims management services. With respect to our groups in California and one of our groups in New York, our fees are based on a percentage of the premiums paid to the groups we manage by their members. Our groups in California pay the fees for claims management services directly to a third party administrator. In addition, our fees for medical bill review and case management services are paid fees based on the specific services rendered. We also receive commission income from: (1) U.S. admitted insurers for placing the excess coverage which the groups are required to obtain and (2) insurers for placing the required surety bonds for the groups we manage.

A significant amount of our existing business is dependent on a relatively small number of our managed groups. The Healthcare Insurance Trust of New York, or HITNY, provided approximately 26% and 38% of our revenues from fee-based management services for the nine months ended September 30, 2005 and the

year ended December 31, 2004, respectively. Two other groups, Elite Contractors Trust of New York and Transportation Industry Workers' Compensation Trust of New York, provided approximately 21% and 13%, respectively, of our revenues from fee-based management services for the nine months ended September 30, 2005 and approximately 22% and 14%, respectively, of our revenues from fee-based management services for the year ended December 31, 2004.

Effective October 1, 2004 we agreed to a modification of our agreement with HITNY which reduced the amount of revenue we derive from our management of HITNY. HITNY was and continues to be our largest group. We do not expect such rate reduction to materially affect our revenues or net income from our New York groups, because we anticipate such rate reduction to be offset by membership increases, recently approved manual rate increases as well as corresponding reductions in the fees paid to our managing general agents.

U.S. admitted insurers other than NY Marine & General pay commissions to CRM and CRM CA for any coverage placed with such U.S. admitted insurers equal to 10% of gross premiums. The coverage placed with these U.S. admitted insurers is generally for "catastrophic coverage" for losses and loss adjustment expenses which exceed the per occurrence limits of the coverage currently provided by NY Marine & General. Currently, NY Marine & General pays commissions to CRM and CRM CA for any excess coverage placed with NY Marine & General equal to 20% of gross premiums. Commission income for the placement of excess coverage represented placements with 7, 7 and 9 U.S. admitted insurers for the years ended December 31, 2004, 2003 and 2002, respectively. Commission income from NY Marine & General represented 50%, 4% and 0% of such revenues for the years ended December 31, 2004, 2003 and 2002, respectively.

We have recently executed a term sheet with NY Marine & General with respect to our reinsurance of the excess coverage which NY Marine & General provides to our groups. In connection with the term sheet, we have agreed to lower the commission paid to CRM and CRM CA for any excess coverage placed with NY Marine & General from 20% of gross premiums under our current agreement to 15%. Under the terms of the term sheet, NY Marine & General will offer coverage to our groups for all losses and loss adjustment expenses in excess of the \$500,000 per occurrence liability typically retained by the groups upon the renewal of their excess coverage policies, obviating the need for our groups to purchase catastrophic coverage from other U.S. admitted insurers. Consequently, we believe that, although we have agreed to lower the percentage of gross premiums payable by NY Marine & General to CRM and CRM CA as commissions, our commission income will increase to the extent our groups elect to obtain all of their excess coverage from NY Marine & General. These arrangements with NY Marine & General are subject to the execution of a definitive agreement.

*Reinsurance Premiums.* We reinsure a portion of the excess coverage obtained by the self-insured groups that we manage. NY Marine & General provides the excess coverage for 13 of our 14 groups. Under our current reinsurance agreement with NY Marine & General, we reinsure 50% of the risks it undertakes and receive 50% of the premiums, which we refer to as our assumed premium, paid to it by these groups. We allow NY Marine & General a ceding commission of 28% of our assumed premium to cover its acquisition, general and administrative expenses, a further 2% for stop-loss coverage and 1% to cover the U.S. federal excise tax, or a total of 31% of our assumed premium. The stop loss coverage limits our losses under our reinsurance agreement to 181.16% of our assumed premium, net of the ceding commission and the cost of the stop-loss coverage and the U.S. federal excise tax. Our net reinsurance premiums are comprised of our assumed premium, net of the 2% fee for the stop-loss coverage. The ceding commission of 28% of our assumed premium and the 1% cost to cover the U.S. federal excise tax are recorded as part of policy acquisition costs. NY Marine & General in turn pays a commission equal to 20% of gross premiums to CRM and CRM CA for any excess coverage placed with NY Marine & General by CRM or CRM CA. Pursuant to the recently executed term sheet, we will reinsure 70% of the excess coverage provided to our groups by NY Marine & General in exchange for 70% of the premiums paid to NY Marine & General by our groups. We will allow NY Marine & General a ceding commission which we estimate will be 23.5% of our new assumed premiums to cover its acquisition, general and administrative expenses and additional amounts to cover U.S. federal excise tax and certain other costs which we estimate will be 2.45% of our new assumed premiums. NY Marine & General will in turn pay a commission equal to 15% of gross premiums to CRM and CRM CA for any excess

coverage placed with NY Marine & General by CRM or CRM CA. We will also share in the cost of any reinsurance purchased by NY Marine & General from other carriers with respect to such coverage. These arrangements with NY Marine & General are subject to the execution of a definitive agreement.

To the extent that the aggregate loss ratio of the excess coverage of our groups by NY Marine & General exceeds 70%, we will be required to cover all losses and loss adjustment expenses of such groups in excess of the \$500,000 per occurrence liability that they typically retain, net of losses and loss adjustment expenses covered by other reinsurers and certain other adjustments, that are in excess of 70% of the aggregate gross premiums received by NY Marine & General from our groups, net of premiums paid to other reinsurers. In such an event, we will not be entitled to an increased portion of the premiums paid to NY Marine & General by such group. However, in the event that the aggregate loss ratio of the excess coverage of our groups by NY Marine & General is equal to or exceeds 90%, we will only be required to cover 70% of the losses and loss adjustment expenses of such groups, net of losses and loss adjustment expenses covered by other reinsurers and certain other adjustments, that are equal to or in excess of 90% of the aggregate gross premiums received by NY Marine & General from our groups, net of premiums paid to other reinsurers. For the purposes of the term sheet, the term “loss ratio” means the ratio of (i) the annual aggregate losses and loss adjustment expenses of all of our groups that obtain excess coverage from NY Marine & General in excess of the \$500,000 per occurrence liability that they typically retain, net of losses and loss adjustment expenses covered by other reinsurers and certain other adjustments to (ii) the annual aggregate gross premiums received by NY Marine & General from our groups, net of premiums paid to other reinsurers. If these arrangements had been in effect as of January 1, 2005 for each of our groups for which NY Marine & General currently provides excess coverage, our net reinsurance premiums as a percentage of gross premiums for excess coverage would have been approximately 62% for the nine months ended September 30, 2005 compared to approximately 19% under our agreement with NY Marine & General in effect for that period.

Under the term sheet, CRM Holdings will be required to guarantee Twin Bridges’ performance of its obligations under any definitive reinsurance agreement with NY Marine & General, subject to regulatory approval, if required. See “Business – Our Reinsurance Business.”

*Investment Income Relating to Our Reinsurance Business.* To date, our entire investment portfolio is comprised of short-term U.S. treasury bills, cash and money market equivalents. We anticipate that after the closing of this offering our investment portfolio will be invested principally in fixed income securities, short-term liquid funds, cash and cash equivalents. Our investment income relating to our reinsurance business will depend on the average invested assets in our investment portfolio and the yield that we earn on those invested assets. Our investment yield depends on market interest rates and the credit quality and maturity period of our invested assets. In addition, we expect to realize capital gains or losses on sales of investments as a result of changing market conditions, including changes in market interest rates and changes in the credit quality of our invested assets. See “Risk Factors – Risks Related to Our Business – A significant amount of our invested assets will be subject to changes in interest rates and market volatility.”

### ***Expenses***

*Fee-based Management Services.* The expenses of our fee-based management services segment primarily consist of fees paid to general agents and brokers for placing business with the self-insured groups that we manage, and selling, general and administrative expenses.

*Reinsurance.* The expenses of our reinsurance segment primarily consist of loss and loss adjustment expenses, policy acquisition costs and professional fees.

*Losses and Loss Adjustment Expenses.* Losses and loss adjustment expenses reflect our best estimate of ultimate losses and loss adjustment expenses that we expect to incur on each reinsurance contract written using various actuarial analyses. Consistent with Bermuda statutory requirements, we do not discount our estimates to present value. Actual losses and loss adjustment expenses will depend on actual costs to settle reinsurance claims. Our ability to accurately estimate ultimate losses and loss adjustment expenses at the time of pricing each reinsurance contract will be a critical factor in determining our profitability. See “Risk

Factors – Risks Related to Our Business – we may underestimate the liabilities from the risks we assume as a reinsurer of a portion of the excess coverage of our managed groups.”

*Fees Paid to General Agents and Brokers.* Fees paid to general agents and brokers consist primarily of commissions paid to general agents and brokers for introducing members to the self insured groups we manage.

*Policy Acquisition Costs.* Policy acquisition costs consist principally of ceding commissions paid to NY Marine & General and the U.S. federal excise tax. These costs are based on a fixed percentage of the premiums written on reinsurance contracts.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses consist primarily of personnel expenses, professional fees and other operating costs. We anticipate that in the future, selling, general and administrative expenses will increase in relation to our growth. In addition, we believe that additional regulatory and compliance costs will increase significantly once we become a publicly traded company. All non-direct operating expenses are included in our fee-based management services segment because our reinsurance segment to date has been small relative to our fee-based management services segment and our reinsurance segment has no direct employees. In the future, we intend to develop a methodology to allocate non-direct items of expenses between our segments.

*Income Taxes.* Prior to the consummation of the restructuring, CRM, CRM CA and Eimar have been organized as limited liability companies. The members of a limited liability company are taxed on their proportionate share of the limited liability company’s taxable income. Therefore, no provision or liability for federal and state income taxes has been included in the financial statements. Upon the consummation of the restructuring, CRM, CRM CA and Eimar will be subject to U.S. federal and state income taxes, which will reduce our net income.

CRM Holdings and Twin Bridges have each received an undertaking from the Bermuda government exempting each company from all tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax until March 28, 2016. See “Material Tax Considerations – Certain Bermuda Tax Considerations.”

## **Business Trends and Conditions**

The workers’ compensation insurance market has historically fluctuated with periods of low premium rates and excess underwriting capacity resulting from increased competition, followed by periods of high premium rates and shortages of underwriting capacity resulting from decreased competition. These conditions, along with poor customer service and substandard loss control and claims management, have motivated businesses to self-insure against workers’ compensation claims. Large companies generally have the financial strength to meet the significant statutory requirements to self-insure, or to create their own captive insurance companies to insure these claims. Small and mid-sized companies generally lack the financial and administrative resources to do this, and in recent years have resorted to pooling their resources through the formation of self insurance groups as a means to obtain workers’ compensation insurance at acceptable rates and terms. CRM was formed in response to this relatively new market to manage self-insured groups.

California has undergone a period of rapid growth in the formation of new self-insured groups. From 1999 until 2005, average workers’ compensation rates increased by nearly 50% after taking into account significant average rate decreases during the last two years. As a result of this overall increase, 26 private self-insured groups have been formed in California since 2001 when California authorized the formation of private self-insured groups. California Bill 899 was passed in April 2004 with the goal of reducing over time the medical and indemnity benefits paid to injured workers. This legislation has allowed insurers to reduce rates. Even though average rates in California have decreased significantly during the last two years, California workers’ compensation insurance rates remain substantially higher than those charged for similar risks in New York.

In contrast to the California market, self-insured groups have existed in New York since the mid-1990s and the market is substantially more mature, with approximately 64 groups in existence. New York is in the process of reevaluating its regulations relating to the formation of new groups. This has led to a temporary



moratorium on the formation of new groups. This moratorium should not affect our ability to grow in New York as we believe we have formed groups in all desired industry classes that we have targeted. We believe growth in our New York business will occur as a result of increases in the number of members in our existing groups and recently approved manual rate increases. Following three years of relatively stable rates, the New York Workers' Compensation Board passed a rate increase in July 2005 averaging five percent across all industry groups. This increase will become effective in October 2005, and manual rates across the industries in which we have formed self-insured groups will increase by approximately 8% on average commencing in 2006.

### **Critical Accounting Policies and Estimates**

Our significant accounting policies are described in the notes to our audited combined financial statements included elsewhere in this prospectus.

Our combined financial statements contain certain amounts that are inherently subjective in nature and require management to make certain judgments and assumptions in the application of accounting policies used to determine those amounts reported in the combined financial statements. The use of different assumptions could produce materially different estimates of the reported amounts. In addition, if factors such as those described in "Risk Factors" cause actual events to differ materially from management's assumptions used in applying the relevant accounting policy, there could be a material adverse effect on our financial condition and results of operations.

We believe that the following are the critical accounting policies used in the preparation of our combined financial statements.

#### ***Combination Accounting***

Our historical combined financial information and statements include the accounts of CRM, CRM CA, Eimar and Twin Bridges. These entities, in substance, have common ownership and common management. These combined financial statements have been prepared in conformity with U.S. generally accepted accounting principles. For Twin Bridges, this presentation differs from the basis of accounting followed in reporting to insurance regulatory authorities. All significant intercompany transactions and balances have been eliminated in the combined financial statements.

#### ***Revenue Recognition***

*Fee-based Management Services.* Our fee-based management services revenues include management fees received from our groups for management and other services. In New York, the fees we receive from all but one of our groups are based on a percentage of the aggregate manual workers' compensation rates set by the New York State Workers' Compensation Board that are attributable to the members of the groups we manage. With respect to our groups in California and one of our groups in New York, our fees are based upon a percentage of the premiums paid to the groups we manage by their members. The portion of our fees that is equal to the related fees we pay to general agents and brokers is recorded as revenue when payable by the groups, which is the same time that fees paid to general agents and brokers are recorded. The balance of our management fees is earned ratably over the period to which such fees apply. The portion of the balance of management fees that relate to the remaining period at the balance sheet date is recorded as unearned management fee revenues. Revenue from medical bill review and case management services also is included in fee based management services revenues, and is recorded as revenue as the services are rendered.

In determining revenue recognition policy, we have been guided by FASB Statement of Financial Accounting Concepts No. 5 and SAB 101 and we rely on the fact that the management fee is contractually determined, that the fee is realizable, and that the contract term is firm. All management services are provided within each respective policy period. As a result, no reserves for further obligations are recorded. Contractually, upon the termination of a management services agreement, all obligations of the parties to each other are ended.

We also receive commission income for excess coverage and surety bonds we place for these groups. Such commission income is earned ratably over the terms of the underlying excess coverage and surety bonds. The portion of commission income that relates to the remaining term of the underlying excess coverage or surety bond at the balance sheet date is recorded as unearned commission income revenues.

**Reinsurance Revenue.** Pursuant to SFAS No. 113, Accounting and Reporting for Reinsurance of Short Duration and Long-Duration Contracts, we have evaluated our current reinsurance agreement with NY Marine & General and have determined that it is a short duration prospective contract. Accordingly, reinsurance premiums are earned ratably over the term of the excess coverage that we have reinsured through our agreement with NY Marine & General. The portion of the reinsurance premiums that relate to the remaining term of the underlying excess coverage policy that we have reinsured at the balance sheet date is recorded as unearned reinsurance premiums. These reinsurance premiums are subject to adjustment based upon modification to the premiums charged on the underlying workers' compensation coverage. Any adjustments which can be reasonably estimated are included in income in the period to which they apply. If such adjustments cannot be reasonably estimated, they are included in the period in which the adjustment is made. Our net reinsurance premiums are our assumed premium, net of the 2% fee we pay for stop-loss coverage. We believe that any definitive reinsurance agreement with NY Marine & General pursuant to our recently executed letter of intent with NY Marine & General or any other reinsurance arrangement that we may enter into with a U.S. admitted insurer will also be deemed to be a short duration prospective contract under SFAS 113.

### ***Material Estimates***

The premiums paid by our groups under their excess coverage policies are subject to periodic audit by the excess coverage carrier. As membership in our groups grow, we estimate the additional premiums generated by the excess coverage policies based on premiums charged to new members of the groups, net of premiums lost due to member cancellations. We recognize both commission income and net reinsurance premiums based upon these estimates. Upon completion of the excess coverage carrier's audit, we adjust our estimated commission income and net reinsurance premium on the basis of the audit. Earned unbilled commissions and premiums represent the sum of the estimated earned, but unbilled, commission income and the estimated earned, but unbilled, net reinsurance premiums. The amounts recorded in this line item are reduced as the excess coverage carrier completes its periodic audits.

### ***Policy Acquisition Costs***

Policy acquisition costs are comprised of ceding commissions and U.S. federal excise tax costs incurred pursuant to our reinsurance agreement with NY Marine & General. These costs are deferred and amortized as the related reinsurance premiums are earned or recorded. We consider estimated investment income in determining the recoverability of these costs.

### ***Reserve for Losses and Loss Adjustment Expenses***

The reserve for losses and loss adjustment expenses represents an estimate of the ultimate cost of all reported and unreported losses and loss adjustment expenses insured pursuant to reinsurance agreements associated with reported claims and claims incurred but not reported which are unpaid at the balance sheet date. The liability is estimated using actuarial studies of individual case-basis validations, statistical analyses and industry data. We believe that our aggregate liability for losses and loss adjustment expenses at year-end represent our best estimate, based upon available data, of the amounts necessary to settle the ultimate cost of expected losses and loss adjustment expenses. Twin Bridges has only been in existence since December 2003, has had limited loss experience and a relatively small population of underlying risks, and therefore is exposed to an increased likelihood that actual results may not conform to our estimates. These estimates are also subject to the effects of trends in loss severity and frequency risks, fluctuations in inflation, prevailing economic, social and judicial trends, legislative changes and internal and third party claims handling procedures. There also may be a significant delay between the occurrence of the insured event and the time it



is actually reported to us. Accordingly, the ultimate settlement of losses and related loss adjustment expenses may vary significantly from the estimates included in our financial statements.

Since we have very limited loss development experience, the independent external actuarial specialists that estimate our loss reserves and loss adjustment expenses combine several methods to calculate reserves for unpaid reported losses as well as losses incurred-but-not-reported, or IBNR, reserves. The actuarial methods employed include (i) the paid and incurred loss development method, (ii) the loss ratio method, and (iii) the Bornhuetter-Ferguson method. The Bornhuetter-Ferguson method is a generally accepted actuarial technique that produces expected loss ratios that are implied by actual loss experience and developments. The combination of these three methods has led to a range of estimated total reserves. We believe that the assumptions by the independent external actuarial specialists represent a realistic and appropriate basis for currently estimating our reserves for losses and loss adjustment expenses.

Reserve estimates and reserving methodologies are reviewed regularly, taking into account all currently known information and updated assumptions related to unknown information. Reserves for losses and loss adjustment expenses established in prior periods are adjusted as claim experience develops and new information becomes available. Any such adjustments are included in income in the period in which they are made. Any adjustments to previously established reserves may significantly impact current period net income by reducing net income if previous period reserve estimates prove to be inadequate and are required to be increased or increasing net income if prior period reserves become overstated and are required to be reduced. We also review the estimate of losses and loss adjustment expenses provided to us by NY Marine & General.

The table below shows the reconciliation of reserves for the nine months ended September 30, 2005 and the years ended December 31, 2004 and 2003, reflecting changes in losses incurred and paid losses for such periods.

	September 30, 2005	December 31,	
		2004	2003
	(Dollar amounts in thousands)		
Balance at January 1	\$ 2,696	\$ 168	\$ –
Incurred related to:			
Current period end	2,269	2,528	168
Prior period end	–	–	–
Total incurred	<u>2,269</u>	<u>2,528</u>	<u>168</u>
Paid related to:			
Current period end	–	–	–
Prior period end	–	–	–
Total paid	<u>–</u>	<u>–</u>	<u>–</u>
Net increase	<u>2,269</u>	<u>2,528</u>	<u>168</u>
Balance at period end	<u>\$ 4,965</u>	<u>\$ 2,696</u>	<u>\$ 168</u>

Our claims reserving practices are intended to establish reserves that in the aggregate are adequate to pay all losses and loss adjustment expenses at their ultimate settlement value. Thus, our reserves are not discounted for inflation or other factors.

Through September 30, 2005, there have been no changes in subsequent years from prior years' loss estimates. As actual history develops, there may be adjustments to these estimates in the future. At December 31, 2004, there are no outstanding case loss reserves. The entire amount of reserves for losses and loss adjustment expenses is comprised of IBNR and development.

While we believe that we will be able to make a reasonable estimate of our ultimate losses and loss adjustment expenses, we may not be able to predict our ultimate claims experience as reliably as other

companies that have had reinsurance operations for a substantial period of time, and we cannot assure you that our actual losses and loss adjustment expenses will not exceed our total reserves.

### ***Loans receivable***

A significant portion of our loans receivable comprise amounts due from a general agent and its principals which were advanced as a working capital loan in connection with a self-insured group managed by CRM. CRM is currently engaged in litigation with this agent as described in "Business – Legal Proceedings." The general agent and its principals failed to make timely installment payments due under the working capital loan commencing March 15, 2005, and CRM has declared the loan in default and immediately due and payable in full and brought an action against the borrowers for collection. Although we believe that the loan receivable balance will be collectible, and accordingly, we have not established any reserves with respect to the loan receivable, we cannot predict the outcome of the litigation. If the loan receivable balance is not collected, the write-off of this receivable could have a material adverse impact on our results of operations, and will be recorded when determinable.

### ***Investments***

Currently, our investment portfolio is comprised of short-term U.S. Treasury bills, cash and money market equivalents. Upon the closing of this offering, our board of directors will establish our investment policies and management will implement our investment strategy with the assistance of independent investment managers. We expect that as our investment portfolio changes from money market funds to other investments, such as publicly traded and non-publicly traded fixed maturity, short-term investments and equity securities, we will classify such securities as "available-for-sale" and, accordingly, they will be recorded at estimated fair value and the difference between cost or amortized cost and fair value, net of the effect of taxes, will be included as a separate component of accumulated other comprehensive income in the combined balance sheet.

### ***Stock-based compensation***

We will account for our stock-based compensation in accordance with the revised statement SFAS No. 123-R, an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation," which requires that the cost of share-based payment transactions be recognized in the financial statements. Accordingly, our net income will be reduced by the stock compensation expense required to be recognized by SFAS No. 123-R.

## **Combined Results of Operations**

The following is a discussion of our combined results of operations for the nine months ended September 30, 2005 and 2004 and for the three years ended December 31, 2004.

### ***Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004***

**Total Revenues.** Total revenues increased 31%, or \$7,494,938, to \$31,610,137 for the nine months ended September 30, 2005 from \$24,115,199 for the comparable period in 2004. Of this increase, 76% was attributable to growth in our fee-based management services segment, particularly in California, and 24% of this increase was attributable to the increase in our reinsurance segment. Of the revenues from our fee-based management services segment for the nine months ended September 30, 2005, 76% and 24% were attributable to revenues from our groups in New York and in California, respectively, compared to 95% and 5%, respectively, of these revenues for the nine months ended September 30, 2004. Of the revenues from our reinsurance segment for the nine months ended September 30, 2005, 73% and 27% were attributable to our groups in New York and in California, respectively, compared to 89% and 11%, respectively, of these revenues for the nine months ended September 30, 2004.

**Revenues from Fee-based Management Services.** Revenues from fee-based management services for the nine months ended September 30, 2005 increased 28%, or \$5,679,812, to \$26,199,429 from \$20,519,617 for

the comparable period in 2004. Of this increase, 60% was attributable to the growth in our self-insured groups covering the contracting industry. Of this growth in revenues 95% is attributable to our groups in California as our relatively new market presence gained momentum. Revenues from fee-based management services attributable to our groups in New York increased by 3% to \$19,992,198 for the nine months ended in September 30, 2005 from \$19,404,002 for the comparable period in 2004. Revenues attributable to our New York groups were adversely affected by lower fees received from the Healthcare Industry Trust of New York, or HITNY, our largest group, as a result of a modification to our agreement with HITNY. This modification changed the basis on which HITNY's rates are calculated to negotiated rates from New York manual premium rates. The increase to New York manual premium rates passed by the New York Workers' Compensation Board in July 2005 are effective for new and renewal business after October 1, 2005 and should positively impact management fee revenue that we receive from most of the New York groups we manage. Over the next year, we expect moderate growth in New York and relatively more rapid growth in California. The table below provides information about our revenues from our fee-based management services segment attributable to the groups we manage in New York and California:

	Nine Months Ended September 30,			
	2005		2004	
	NY	CA	NY	CA
Total revenues from fee-based management services	\$ 19,992,198	\$ 6,207,231	\$ 19,404,002	\$ 1,115,615

*Revenues from Reinsurance.* Net reinsurance premiums increased 49%, or \$1,729,670, to \$5,295,237 for the nine months ended September 30, 2005 from \$3,565,567 for the comparable period in 2004. This increase was attributable to the increase in the number of the self-insured groups that we manage for which Twin Bridges reinsures a portion of the excess coverage these groups obtain. During the first nine months of 2005, Twin Bridges reinsured a portion of the excess coverage obtained by 13 of the 14 groups that we managed at that time. During the first nine months of 2004, Twin Bridges reinsured a portion of the excess coverage obtained by only 9 of the 12 groups we then managed. As reinsurance policies were renewed during the second half of 2004 and into 2005, groups that we managed which previously had obtained excess coverage from other insurers began to obtain their excess coverage from NY Marine & General. In turn, NY Marine & General ceded a portion of these coverages to Twin Bridges. Management expects that as we form new groups in California, these groups will obtain excess coverage from NY Marine & General or another U.S. admitted insurer and the insurer will cede a portion of this coverage to Twin Bridges; however, we can provide no assurance that the groups we manage will continue to obtain excess coverage from NY Marine & General or any other U.S. admitted insurer or that Twin Bridges will continue to have the opportunity to reinsure a portion of this coverage. See "Risk Factors – Risks Related to Our Business – We depend on our reinsurance business for a substantial portion of our revenues and profits and we could be adversely affected if we are not able to maintain or increase this business" and "Risk Factors – Risks Related to Our Business – We presently depend on our relationship with a single provider of excess workers' compensation coverage for all of our reinsurance business and the termination of this relationship could adversely affect us." Geographically, 60% of the growth in net reinsurance premiums in the first nine months of 2005 was attributable to the groups we manage in California. Over the next year, we expect rapid growth in our reinsurance business in California. The table below provides information about our revenues from our reinsurance segment attributable to the groups we manage in New York and California:

	Nine Months Ended September 30,			
	2005		2004	
	NY	CA	NY	CA
Total net reinsurance premiums	\$ 3,881,875	\$ 1,413,361	\$ 3,190,717	\$ 374,850

*Investment Income, net of Advisory Fees.* Investment income, net of advisory fees, for the nine months ended September 30, 2005 increased to \$115,471 from \$30,015 for the comparable period in 2004. This increase was due to an increased level of investments held by our reinsurance segment.

*Total Expenses.* Total expenses increased 30%, or \$6,041,567, to \$26,291,303 for the nine months ended September 30, 2005 from \$20,249,736 for the comparable period in 2004. Of the total expenses for the nine months ended September 30, 2005, \$22,283,059, or 85%, was attributable to our fee-based management services segment, and \$4,008,244, or 15%, was attributable to our reinsurance segment.

*Losses and loss adjustment expenses.* Losses and loss adjustment expenses increased 15%, or \$294,137, to \$2,269,387 for the nine months ended September 30, 2005 from \$1,975,250 for the comparable period in 2004. This increase was much less than the 49% increase in net reinsurance premiums during the same period because of the refinement of estimated loss reserves. During the start up phase of Twin Bridges in 2004, we estimated ultimate losses and loss adjustment expenses to be 55% of net reinsurance premiums. For the nine months ended September 30, 2005, we estimated losses and loss adjustment expenses to be 43% of net reinsurance premiums. These loss reserve estimates are reviewed regularly and are adjusted as experience develops or new information becomes known; such adjustments are included in income in the period in which they are made.

*Fees paid to general agents and brokers.* Fees paid to general agents and brokers increased 14%, or \$1,063,887, to \$8,443,514 for the nine months ended September 30, 2005 from \$7,379,627 for the comparable period in 2004. The entire increase is attributable to the growth of our California groups.

*Policy Acquisition Costs.* Policy acquisition costs increased 49%, or \$511,541, to \$1,565,879 for the nine months ended September 30, 2005 from \$1,054,338 for the comparable period in 2004. These costs are a fixed percentage (approximately 29%) of our assumed reinsurance premiums and grew in proportion to the 49% increase in net reinsurance premiums discussed above.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased 43%, or \$4,167,347, to \$13,970,318 for the nine months ended September 30, 2005 from \$9,802,971 for the comparable period in 2004. Approximately \$2,242,547, or 54%, of this increase is attributable to increased payrolls and related employee expenses for our fee-based management services segment. The total number of employees in our fee-based management services segment increased from 121 at September 30, 2004 to 133 at January 1, 2005 and to 155 at September 30, 2005. During this period, we added 18 employees in New York for CRM, 8 employees in California for CRM CA and 8 employees in New York for Eimar. We will need to add additional employees to complete our anticipated staffing needs to operate as a public company and, as a public company, we expect to incur significant additional costs for directors' fees, legal and accounting fees and other professional services. In addition, as our fee-based management services business continues to grow, we will need to hire additional staff. Approximately \$1,703,759, or 41%, of the increase in selling, general and administrative expenses for the nine months ended September 30, 2005 is attributable to increases in other components of selling, general and administrative expenses, including professional fees, advertising and marketing expenses, claims review expenses, office administration, dues and fees, and occupancy costs. These expenses rose significantly as we expanded in California. All non-direct operating expenses are included in our fee-based management services segment because our reinsurance segment to date has been small relative to our fee-based management services segment and our reinsurance segment has no direct employees. Office and administrative expenses of our reinsurance segment amounted to \$172,978 for the nine months ended September 30, 2005 compared with \$119,995 for the nine months ended September 30, 2004. We contract with Quest Management Services Limited, an independent management firm based in Bermuda, to perform general and administrative functions for Twin Bridges.

*Net Income.* Net income increased 38%, or \$1,453,371, to \$5,318,834 for the nine months ended September 30, 2005 from \$3,865,463 for the comparable period in 2004. Net income as a percentage of revenues was 17% for the nine months ended September 30, 2005 compared to 16% for the comparable period in 2004.

*Net Income from Fee-based Management Services.* Net income from our fee-based management services segment for the nine months ended September 30, 2005 increased 15%, or \$499,692, to \$3,941,268, or 15% of our fee-based management services revenues for that period, from \$3,441,576, or 17% of our fee-based management services revenues, for the comparable period in 2004.

*Net Income from Reinsurance.* Net income from our reinsurance segment for the nine months ended September 30, 2005 increased 225%, or \$953,677, to \$1,377,566, or 26% of our net reinsurance premiums for that period, from \$423,887, or 12% of our net insurance premiums, for the comparable period in 2004.

#### ***Year Ended December 31, 2004 Compared to Year Ended December 31, 2003***

*Total Revenues.* Total revenues increased 56%, or \$11,730,002, to \$32,820,086 for the year ended December 31, 2004 from \$21,090,084 for the year ended December 31, 2003. Of this increase, 58% was attributable to growth in our fee-based management services segment, particularly in California, and 42% of this increase was attributable to the increase in our reinsurance segment. Of the revenues from our fee-based management services segment for the year ended December 31, 2004, 93% and 7% were attributable to revenues in New York and in California, respectively, compared to nearly 100% and less than 1%, respectively, of these revenues for the year ended December 31, 2003. Of the revenues from our reinsurance segment for the year ended December 31, 2004, 87% and 13% were attributable to our groups in New York and in California, respectively, compared to 100% and 0%, respectively, of these revenues for the year ended December 31, 2003.

*Revenues from Fee-based Management Services.* Revenues from fee-based management services for the year ended December 31, 2004 increased 33%, or \$6,834,598, to \$27,655,726 from \$20,821,128 for the year ended December 31, 2003. Approximately 64% of this growth was attributable to our self-insured groups in the following industries: healthcare, contracting, transportation and auto dealerships. Geographically, revenues from groups in New York grew 24%, or \$4,914,988, to \$25,662,420 for the year ended December 31, 2004 from \$20,747,432 for the year ended December 31, 2003, while revenues from groups in California grew by \$1,919,611 to \$1,993,307 for the year ended December 31, 2004 from \$73,696 for the year ended December 31, 2003 primarily because we formed three new groups in California. California commenced operations in October 2003 and recorded only minimal revenues for that year.

The table below provides information about our revenues from fee-based management services to each of the groups we manage in New York and California:

	Years Ended December 31,			
	2004		2003	
	NY	CA	NY	CA
Total revenues from fee-based management services	\$ 25,662,420	\$ 1,993,307	\$ 20,747,432	\$ 73,696

*Revenues from Reinsurance.* Our reinsurance segment commenced operations in December 2003 and we had recorded minimal revenue for that year. Net reinsurance premiums increased to \$5,109,883 for the year ended December 31, 2004 from \$253,167 for the year ended December 31, 2003. As reinsurance policies were renewed during December 2003 and into 2004, five of the New York groups that we manage which previously had obtained excess coverage from other insurers began to obtain their excess coverage from NY Marine & General. We also formed two groups in California which purchased their excess coverage from NY Marine & General. In turn, Twin Bridges reinsured a 50% portion of these excess coverages. The table below provides information about our net reinsurance premiums attributable to the groups we manage in New York and California:

	Years Ended December 31,			
	2004		2003	
	NY	CA	NY	CA
Total net reinsurance premiums	\$ 4,458,183	\$ 651,700	\$ 253,167	—

*Investment Income, net of Advisory Fees.* Investment income, net of advisory fees, increased to \$54,477 for the year ended December 31, 2004 from \$15,789 for the year ended December 31, 2003 as a result of an increased level of investments held by our reinsurance segment.

*Total Expenses.* Total expenses increased 56%, or \$9,655,238, to \$27,014,256 for the year ended December 31, 2004 from \$17,359,018 for the year ended December 31, 2003. Of the total expenses for the year ended December 31, 2004, 84%, or \$22,768,870, was attributable to our fee-based management services segment and 16%, or \$4,245,386, was attributable to our reinsurance segment.

*Losses and loss adjustment expenses.* Losses and loss adjustment expenses increased to \$2,528,083 for the year ended December 31, 2004 from \$167,917 for the comparable period in 2003 and grew as our reinsurance segment grew. Management estimated losses and loss adjustment expenses for the year ended December 31, 2004 to be 49% of net reinsurance premiums.

*Fees paid to general agents and brokers.* Fees paid to general agents and brokers increased 21%, or \$1,677,861, to \$9,507,546 for the year ended December 31, 2004 from \$7,829,685 for the year ended December 31, 2003. The increase was attributable to our managed groups in New York and was consistent with the 24% increase in fee-based management services revenues from these groups.

*Policy Acquisition Costs.* Policy acquisition costs increased to \$1,511,065 for the year ended December 31, 2004 from \$74,865 for the comparable period in 2003. These costs are a fixed percentage (approximately 29%) of our assumed reinsurance premiums and grew in proportion to the increase in net reinsurance premiums discussed above.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased 45%, or \$4,200,247, to \$13,440,809 for the year ended December 31, 2004 from \$9,240,562 for the year ended December 31, 2003. Approximately \$2,266,131, or 54%, of this increase was attributable to increased payrolls and related employee expenses for our fee-based management services segment. The total number of employees in our fee-based management services segment increased from 80 at January 1, 2003 to 110 at January 1, 2004 and to 133 at December 31, 2004. During 2004, we added 9 employees in New York for CRM, 4 employees in California for CRM CA and 10 employees in New York for Eimar. Approximately \$1,934,116, or 46%, of the increase in selling, general and administrative expenses for the year ended December 31, 2004 is attributable to increases in other components of selling, general and administrative expenses, predominately advertising, marketing, claims review expenses and occupancy costs. During 2004 we began implementing a new marketing campaign. Also, claims review expenses relating to our medical bill review and case management services grew significantly as the corresponding fee-based revenues from these services grew. Occupancy costs grew as we opened offices in California and leased additional space in New York. All non-direct operating expenses are included in our fee-based management services segment because our reinsurance segment to date has been small relative to our fee-based services segment and our reinsurance segment has no direct employees. Direct selling, general and administrative expenses of our reinsurance segment amounted to \$206,238 for the year ended December 31, 2004 compared with \$61,749 for the year ended December 31, 2003. We contract with Quest Management Services Limited, an independent management firm based in Bermuda, to perform general and administrative functions for Twin Bridges.

*Net Income.* Net income increased 56%, or \$2,074,764, to \$5,805,830 for the year ended December 31, 2004 from \$3,731,066 in the year ended December 31, 2003. Net income was 18% of total revenues in both periods.

*Net Income from Fee-based Management Services.* Net income from our fee-based management services segment for the year ended December 31, 2004 increased 30%, or \$1,137,321, to \$4,919,663, or 18% of our fee-based management services revenues for that year, from \$3,782,342, or 18% of our fee-based management services revenues, for the year ended December 31, 2003.

*Net Income from Reinsurance.* Net income from our reinsurance segment for the year ended December 31, 2004 increased to \$886,167, or 17% of our net reinsurance premiums for that year, from a net loss of \$51,276, or (20%) of our net reinsurance premiums, for the year ended December 31, 2003. Our reinsurance business commenced in December 2003.



***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002***

***Total Revenues.*** Total revenues increased 19%, or \$3,438,760, to \$21,090,084 for the year ended December 31, 2003, from \$17,651,324 for the year ended December 31, 2002. All of our revenues were attributable to our fee-based management services segment since our reinsurance segment did not commence operations until December 2003.

***Revenues from Fee-based Management Services.*** Revenues from fee-based management services increased 18%, or \$3,206,803, to \$20,821,128 for the year ended December 31, 2003, from \$17,614,325 for the year ended December 31, 2002. Approximately 78% of this growth was attributable to the growth in fees from three of our self-insured groups covering the following industries: healthcare, transportation and wholesale & retail. Geographically, nearly all of our revenues were attributable to our managed groups in New York since our California fee-based management services business commenced operations in October 2003. In 2003, we formed one self-insured group in California which generated revenues from fee-based management services in the amount of \$73,696.

***Revenues from Reinsurance.*** Net reinsurance premiums were only \$253,167 for the year ended December 31, 2003. Our reinsurance segment commenced operations in December 2003.

***Investment Income, net of Advisory Fees.*** Investment income, net of advisory fees, for the year ended December 31, 2003 decreased to \$15,789 from \$36,999 for the comparable period in 2002, resulting largely from a decline in overall market interest rates during those periods.

***Total Expenses.*** Total expenses increased 23%, or \$3,203,943, to \$17,359,018 for the year ended December 31, 2003 from \$14,155,075 for the comparable period in 2002. All of our expenses were attributable to our fee-based management services segment since our reinsurance segment did not commence operations until December 2003.

***Losses and loss adjustment expense.*** Losses and loss adjustment expenses for the year ended December 31, 2003 were \$167,917. There were no such costs in the prior year because our reinsurance segment did not commence operations until December 2003.

***Fees paid to general agents and brokers.*** These expenses increased 2%, or \$179,056, to \$7,829,685 for the year ended December 31, 2003 from \$7,650,629 for the year ended December 31, 2002. Geographically, all of our fees paid to general agents and brokers were attributable to our fee-based management services business in New York. No fees were paid to general agents and brokers in California in 2003 or 2002.

***Policy Acquisition Costs.*** Policy acquisition costs were \$74,865 for the year ended December 31, 2003. There were no such costs in the prior year because our reinsurance segment did not commence operations until December 2003. These costs are a fixed percentage (approximately 29%) of our assumed reinsurance premiums and grew in proportion to the increase in net reinsurance premiums discussed above.

***Selling, general and administrative expenses.*** Selling, general and administrative expenses increased 43%, or \$2,769,289, to \$9,240,562 for the year ended December 31, 2003 from \$6,471,273 for the year ended December 31, 2002. Approximately \$1,037,871, or 37%, of this increase is attributable to increased payrolls and related employee expenses. The total number of employees in our fee-based management services segment increased from 65 at January 1, 2002 to 80 at January 1, 2003 and to 110 at December 31, 2003. During 2003, we added 14 employees in New York for CRM, 3 employees in California for CRM CA and 13 employees in New York for Eimar. Approximately \$1,328,060, or 48%, of the increase is attributable to increases in other components of selling, general and administrative expenses including professional fees, advertising and marketing expenses and medical bill review expenses of Eimar, which commenced operations in 2003. Non-payroll costs associated with the services provided by Eimar, primarily software costs, added approximately \$818,327 to selling, general and administrative expenses for the year ended December 31, 2003.

***Net Income.*** Net income increased 7%, or \$234,817, to \$3,731,066 for the year ended December 31, 2003 from \$3,496,249 for the year ended December 31, 2002. Net income was 18% of total revenues in the year ended December 31, 2003 and 20% in the prior year.



*Net Income from Fee-based Management Services.* Net income from our fee-based management services segment for the year ended December 31, 2003 increased 8%, or \$286,093, to \$3,782,342, or 18% of our fee-based management services revenues for that year, from \$3,496,249, or 20% of our fee-based management services revenues, for the year ended December 31, 2002.

*Net Loss from Reinsurance.* Net loss from our reinsurance business for the year ended December 31, 2003 was \$51,276. Our reinsurance business commenced in December 2003.

## **Liquidity and Capital Resources**

We are organized as a Bermuda exempted holding company, and as such, have no direct operations. Our assets consist of investments in our subsidiaries through which we conduct substantially all of our management and other services for the self-insured groups that we manage and our reinsurance operations. Upon the closing of this offering, we will have subsidiary operations in Bermuda and the United States. Funds to meet any obligations we may have will come primarily from dividends, interest and other statutorily permissible payments from our subsidiaries. The ability of our subsidiaries to make these payments will be limited by the applicable laws and regulations of the domiciles in which the subsidiaries operate. In addition, we are subject to a U.S. federal withholding tax of 30% on any dividends paid to us from our U.S. subsidiaries. Accordingly, we do not expect to receive dividends from our U.S. subsidiaries for the foreseeable future. In addition, Bermuda law and regulations will restrict the payment of dividends from retained earnings, or distributions out of contributed surplus, by Twin Bridges unless certain regulatory requirements are met. Pursuant to our recently executed term sheet with NY Marine & General, Twin Bridges will be restricted from distributing more than ten percent of its retained earnings by way of dividends, intercompany transfers or related party loans since the date of its last audited financial statements. See “Risk Factors – Our holding company structure and certain regulatory, tax and other constraints affect our ability to pay dividends, make other payments and redeploy capital among our subsidiaries.”

### **Cash Flows**

Net cash provided by operating activities amounted to \$8,105,210 for the nine months ended September 30, 2005, compared to \$3,543,158 for the same period in 2004. For the first nine months of 2005, major components of cash provided by operating activities were net income of \$5,318,834, the decrease in restricted cash and cash equivalents of \$2,794,972 and the increases in reserves for losses and loss adjustment expenses of \$2,269,387 and accrued expenses of \$1,901,948 offset by the increases in earned unbilled commissions and premiums of \$1,010,400, accounts receivable of \$1,577,054, deferred initial public offering costs of \$1,334,027, prepaid expenses and other assets of \$457,911 and a decrease in unearned reinsurance premiums of \$1,673,525. Major components of cash provided by operating activities in the first nine months of 2004 were net income of \$3,865,463 and the increases in reserves for losses and loss adjustment expenses of \$1,975,250 and accrued expenses of \$820,998, offset by the increases of \$2,270,758 in restricted cash and cash equivalents and premiums receivable of \$200,158 and the decrease in unearned reinsurance premiums of \$625,568.

Net cash provided by operating activities was \$5,267,153 for the year ended December 31, 2004, \$3,006,623 for the year ended December 31, 2003, and \$5,632,897 for the year ended December 31, 2002. Major components of cash provided by operating activities for the year ended December 31, 2004 were net income of \$5,805,830, the increase in unearned reinsurance premiums of \$1,995,116 and the increase in reserves for losses and loss adjustment expenses of \$2,528,083 offset by the increase of \$3,390,738 in restricted cash and cash equivalents. Major components of cash provided by operating activities for the year ended December 31, 2003 were net income of \$3,731,066 and the increase in reserves for losses and loss adjustment expenses of \$167,917 offset by the increase of \$1,000,000 in restricted cash and cash equivalents. Major components of cash provided by operating activities for the year ended December 31, 2002 were net income of \$3,496,249 and the increase in deferred management fees of \$1,447,682 and deferred commissions of \$1,018,217.

Net cash used in investing activities amounted to \$5,733,377 for the nine months ended September 30, 2005 as compared to \$471,155 for the same period in 2004. For the first nine months of 2005, investing

activities were primarily purchases of fixed maturity securities. For the first nine months of 2004, net cash used in investing activities amounted to \$471,155, which was comprised of capital expenditures of \$158,833 and net advances of notes receivable of \$312,322.

Net cash used in investing activities was \$569,177 for the year ended December 31, 2004, \$275,109 for the year ended December 31, 2003 and \$767,813 for the year ended December 31, 2002. In 2004, capital expenditures totaled \$310,238 and net advances of notes receivable totaled \$258,939. In 2003, capital expenditures totaled \$175,442 and net advances of notes receivable totaled \$99,667. In 2002, capital expenditures totaled \$694,813 and net advances of notes receivable totaled \$73,000.

Net cash used in financing activities for the nine months ended September 30, 2005 totaled \$3,321,829 as compared to \$3,077,015 for the nine months ended September 30, 2004. Major components of cash used in financing activities for the first nine months of 2005 were proceeds from credit facilities of \$3,439,098 offset by member distributions of \$6,760,927. Major components of cash used in financing activities for the first nine months of 2004 were repayments under credit facilities of \$216,823 and member distributions of \$2,860,192.

Net cash used in financing activities was \$3,880,590 for the year ended December 31, 2004, \$6,608,892 for the year ended December 31, 2003, and \$2,563,151 for the year ended December 31, 2002. Major components of cash used in financing activities for the year ended December 31, 2004 were member distributions of \$3,753,866 and reductions of net borrowings under credit facilities of \$126,724. In 2003, Twin Bridges was capitalized with proceeds of capital stock of \$120,000 and additional paid-in capital of \$880,000. This additional paid-in capital was offset by repayment of short term borrowings of \$704,482, member distributions of \$6,789,106 and borrowings under credit facilities of \$115,304. Major components of cash used in financing activities for the year ended December 31, 2002 were member distributions of \$3,498,782 offset by net proceeds from borrowings under credit facilities of \$935,631.

### ***Liquidity and Capital requirements***

Our principal cash requirements are expected to be the expenses to develop and implement our business strategy, as well as capital expenditures, losses and loss adjustment expenses, fees paid to general agents and brokers, the servicing of future borrowing arrangements, taxes and other operating expenses. In addition, we will be required to increase the amount of security we provide to NY Marine & General as we increase the amount of excess coverage we reinsure in the event that we execute a definitive agreement pursuant to our recently executed term sheet with NY Marine & General. This security may be in the form of letters of credit or a pledge of cash. The potential for a large claim under one of our reinsurance contracts means that we may need to make substantial and unpredictable payments within relatively short periods of time. While our board of directors currently does not intend to declare dividends or make any other distributions to the shareholders of CRM Holdings, our cash requirements will also include the payment of any future dividends to our shareholders if and when our board of directors determines to change our dividend policy.

We have an option to purchase a building, which is currently under construction, with parking space and office space on approximately three acres in Poughkeepsie, New York. The option is exercisable 120 days prior to the anticipated occupancy of the building under our lease. The term of the lease will commence March 1, 2007 or such later date on which the construction is substantially complete and the building is available for occupancy. The option price is approximately \$3,500,000 plus all documented out-of-pocket construction costs after May 1, 2005. If we fail to exercise this initial option, we have an additional option to purchase the building during the first two years of our lease for the fair market value of the property, which will not be less than \$3,500,000 plus the costs incurred by the landlord in developing and constructing the building. If we do exercise the option, we intend to finance the acquisition of the property with proceeds from a commercial mortgage.

Other than the possible exercise of the option to purchase the property in Poughkeepsie, capital expenditures for the next 12 months are expected to be approximately \$400,000 for furniture, equipment and technology systems.

### ***Sources of cash***

We expect our future sources of funds will consist of fees and commissions earned from our fee-based management services business, premiums written in connection with our reinsurance business, investment income and proceeds from sales and redemptions of investment assets. CRM has entered into a revolving credit facility with KeyBank under which CRM is entitled to borrow up to \$5,000,000 until June 30, 2006. Borrowings under the facility may be used for general business purposes, including distributions to members. Loans under the facility are due on demand, and any loan outstanding on June 30, 2006, if not sooner demanded. Interest on the loans outstanding under the facility is payable monthly at a rate per annum equal to KeyBank's prime rate from time to time. All of CRM's obligations under the facility are secured by a lien on substantially all of CRM's assets and is guaranteed by CRM CA, Eimar and Compensation Risk Managers Agency Captive, LLC, or Agency Captive, a licensed insurance broker that is owned by the existing shareholders. The facility limits CRM's ability to purchase or sell assets otherwise than in the ordinary course of business, prohibits CRM from permitting any liens on its assets, subject to customary exceptions, prohibits CRM from incurring debt for borrowed money, including leases, except for trade debt incurred in the normal course of business and indebtedness or leases for term loans, leases, vehicles or equipment of up to \$400,000, limits mergers and consolidations of CRM and prohibits investments and loans by CRM. The facility also requires CRM to maintain a minimum level of members' equity, which requirement was waived at December 31, 2004 and June 30, 2005. At September 30, 2005, \$3,500,000 was outstanding under the facility, and the weighted average interest rate for the nine months ended September 30, 2005 was 6.2%. In October 2005, we borrowed an additional \$1,000,000 under this facility to pay a portion of the expenses associated with this offering.

We believe that our cash from operations and, if needed, borrowings under our credit facility will be sufficient to meet our working capital and other operating requirements over the next 12 months.

### ***Adequacy of Capital***

While insurance regulations differ by location, each jurisdiction requires that minimum levels of capital be maintained in order to write new insurance business. Factors that affect capital requirements generally include premium volume, the extent and nature of loss and loss expense reserves, the type and form of insurance and reinsurance business underwritten and the availability of reinsurance protection on terms that are acceptable to us.

We intend to use approximately \$47,000,000 of our net proceeds from this offering to provide additional surplus to Twin Bridges.

In Bermuda and the United States, insurers and reinsurers are required to maintain certain minimum levels of capital and risk-based capital, the calculation of which includes numerous factors specified by the respective insurance regulatory authorities and the related insurance regulations.

We may need to raise additional funds to expand our business and manage our growth. The amount and timing of these capital requirements will depend on many factors. At this time, we are not able to quantify the amount of additional capital we will require in the future or predict the timing of our future capital needs. If we cannot maintain or obtain adequate capital to manage our business strategy and expected growth targets, our business, results of operations and financial condition may be adversely affected.

### ***Posting of Security by Twin Bridges***

Under our current agreement with NY Marine & General, Twin Bridges is required to post security, which may be in the form of letters of credit issued by an acceptable bank, in order to cover any unpaid liabilities under the contract. Twin Bridges has entered into a letter of credit loan facility (the "Unsecured Letter of Credit Facility") with KeyBank under which Twin Bridges is entitled to draw letters of credit in the principal amount of up to \$6,500,000, for which Twin Bridges pays a fee of 1.50% of the principal amount of each letter of credit drawn. The Unsecured Letter of Credit Facility was extended until September 30, 2005, subsequently was amended and restated on October 3, 2005 to further extend the termination date to June 30, 2006 and was further amended on December 14, 2005, to increase the amount available thereunder from \$4,500,000 to \$6,500,000 and reduce the fees payable for letters of credit drawn from 1.75% to 1.5%. The

## [Table of Contents](#)

Unsecured Letter of Credit Facility contains covenants similar to the covenants in CRM's revolving credit facility with KeyBank described elsewhere in this prospectus and borrowings outstanding under it have been guaranteed by CRM, CRM CA, Eimar and Agency Captive. In addition, Twin Bridges entered into a second letter of credit loan facility (the "Secured Letter of Credit Facility") under which Twin Bridges is entitled to draw letters of credit in the principal amount of up to \$7,500,000, for which Twin Bridges pays a fee of 1.50% of the principal amount of each letter of credit drawn. Any letter of credit issued under the Secured Letter of Credit Facility is secured by cash and cash equivalents held in a carrying value in equal amount and guaranteed by CRM, CRM CA, Eimar and Agency Captive. The Secured Letter of Credit Facility was amended on June 30, 2005 and was subsequently amended and restated on October 3, 2005 to extend the termination date to June 30, 2006. In addition, we obtain cash collateralized letters of credit under informal arrangements with KeyBank and Smith Barney Citigroup. At September 30, 2005, letters of credit in the principal amount of \$2,767,721 were outstanding under the Unsecured Letter of Credit Facility and letters of credit in the amount of \$7,128,977 were outstanding under the Secured Letter of Credit Facility and an informal arrangement with Smith Barney Citigroup. We anticipate that at December 31, 2005, letters of credit in the principal amount of approximately \$5,600,000 will be outstanding under the Unsecured Letter of Credit Facility and letters of credit in the principal amount of approximately \$9,100,000 will be outstanding under the Secured Letter of Credit Facility and an informal arrangement with Smith Barney Citigroup. A significant amount of these letters of credit which we expect to issue by December 31, 2005 is the result of premiums which we have received since September 30, 2005, for which secured and unsecured letters of credit are required to be issued pursuant to our reinsurance agreement with NY Marine & General and an adjustment to the amount of unsecured letters of credit required to be issued under our reinsurance agreement. Until October 2005, the Unsecured Letter of Credit Facility and the Secured Letter of Credit Facility were guaranteed personally by the existing shareholders and we have not experienced and do not anticipate any material impact from the termination of such guarantees. In the event that we are able to enter into a definitive agreement with NY Marine & General pursuant to our recently executed term sheet, we will be subject to similar security requirements. In addition, we believe that any reinsurance arrangement we may enter into with other U.S. admitted insurers will likely also contain similar security requirements.

### Contractual Obligations

The following table summarizes information about our contractual obligations as of December 31, 2004.

	Payment due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
<b>Contractual Obligations</b>					
Long-Term Debt Obligations	—	—	—	—	—
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	\$ 1,217,000	\$ 493,000	\$ 633,000	\$ 91,000	—
Purchase Obligations	—	—	—	—	—
Other Long-Term Liabilities Reflected on our Balance Sheet under GAAP	—	—	—	—	—
<b>Total</b>	<b>\$ 1,217,000</b>	<b>\$ 493,000</b>	<b>\$ 633,000</b>	<b>\$ 91,000</b>	<b>—</b>

### Off-Balance Sheet Transactions

We have no off-balance sheet arrangements or transactions with unconsolidated, special purpose entities.

### Quantitative and Qualitative Disclosures about Market Risk

Market risk can be described as the risk of change in fair value of a financial instrument due to changes in interest rates, creditworthiness, foreign exchange rates or other factors. We will seek to mitigate that risk by a number of actions, as described below.

### ***Disclosure About Market Risk***

Our exposure to market risk is confined to our cash, cash equivalents and restricted investments. We currently invest in highly-rated financial instruments, primarily money market funds and United States treasury bills and maintain an effective portfolio duration of less than four months. We do not currently hedge interest rate exposure. Due to the short-term nature of our investments, we do not believe that we have any material exposure to interest rate risk arising from our investments.

### ***Credit Risk***

As we broaden our array of invested assets, we expect our portfolio will primarily include fixed income securities and short-term investments, which will be subject to credit risk. This risk is defined as default or the potential loss in market value resulting from adverse changes in the borrower's ability to repay the debt. Our risk management strategy and investment policy will be to earn competitive relative returns while investing in a diversified portfolio of securities of high credit quality issuers, and to limit the amount of credit exposure to any one issuer.

### **Effects of Inflation**

We do not believe that inflation has had a material affect on our combined results of operations. The effects of inflation could cause the severity of claims to increase in the future. Our estimates for losses and loss adjustment expenses include assumptions, including those relating to inflation, about future payments for settlement of claims and claims handling expenses. To the extent inflation causes these costs to increase above our estimated reserves that are established for these claims, we will be required to increase reserves for losses and loss adjustment expenses with a corresponding reduction in our earnings in the period in which the deficiency is identified. The actual effects of inflation on our results cannot be accurately determined until claims are ultimately settled.

## BUSINESS

*While we intend to operate our business as described in this prospectus, we are a company with a new structure and limited operating history for significant portions of our business. Our experience and changes in market conditions and other factors outside our control may require us to alter our methods of conducting our business.*

### Overview

We are a leading provider of fee-based management and other services for workers' compensation self-insured groups in New York and California. We have been in the business of forming and managing self-insured groups in New York since CRM's inception in 1999 and expanded this business to California in 2003.

We provide the groups with a broad range of services, including general management, underwriting, risk assessment, medical bill review and case management, general recordkeeping and regulatory compliance. We provide safety and loss control services to group members to help reduce workers' compensation risks and expenses. In New York, we provide claims management services. We also act as a broker by placing excess coverage insurance and any required surety bonds for the groups, and we provide reinsurance for a portion of this excess coverage through our subsidiary, Twin Bridges.

The fees we receive for our management services are based on a percentage of either the manual workers' compensation rates set by the New York Workers' Compensation Board or the actual premiums paid to the groups by their members. The fees for our medical bill review and case management services are computed on a fee for service basis, and we receive commission income for placing the excess coverage insurance and surety bonds.

A self-insured group is an association of employers which provides workers' compensation insurance to its members. Statutory workers' compensation insurance provides coverage for employees' medical expenses and lost wages arising from work-related injuries and coverage for employers' liability to injured employees and others arising from the circumstances that resulted in the injury.

Each group we manage is composed of employers in the same industry, all of which are located in a single state. The premiums paid by the members of the groups we manage provide funding for claims and loss adjustment expenses and the general expenses of the groups. Each member of a group is jointly and severally liable for the liabilities incurred by the group during the period of the member's participation, even if the member subsequently leaves the group. We concentrate on industries that we believe have favorable risk profiles, and regularly screen and monitor the members of each group we manage.

We have formed and currently manage 14 self-insured groups in 12 industries. Eight of these groups are in New York and six are in California. In New York, the groups cover the following industries: healthcare, contracting, transportation, wholesale and retail, manufacturing, public entities, real estate and cemetery management. In California, the groups cover the healthcare, contracting, new vehicle franchise auto dealerships, plastic manufacturing, banking and winery industries.

We anticipate that our California business will continue its rapid rate of growth in the near term. The aggregate annualized premiums paid by their members to the groups we manage in California were \$64,040,609, \$24,102,728 and \$2,163,674 as of September 30, 2005, December 31, 2004 and December 31, 2003, respectively. These aggregate annualized premiums are the annualized total of the actual premiums payable to our groups by their members in California as in effect as of the dates specified. New York has presently in effect a moratorium on the formation of new groups, but we believe that we have formed groups in New York for all industries that we have targeted and that our New York business will grow as a result of an increase in the number of members in these groups and recently approved manual rate increases. The aggregate annualized premiums attributable to the groups we manage in New York were \$111,461,763, \$110,011,630 and \$106,870,887 as of September 30, 2005, December 31, 2004 and December 31, 2003, respectively. These aggregate annualized premiums are the annualized total of the actual premiums payable to one of our groups in New York by its members and the aggregate manual rates set by the New York Workers' Compensation Board attributable to the members of the other New York groups as in effect on the dates



specified. Our management monitors the period to period changes in these amounts because we believe that it is a meaningful indicator of the change in our expected fee-based management services revenues in the future. Our management fees are based on a percentage of the premiums our groups charge their members and are recognized as income over the year for which such premiums are fixed. Increases and decreases in the aggregate amount of these annualized premiums are an indication of the increase or decrease in the amount of management fees we expect to earn in the future as our unearned management fees are recognized as income.

Self-insured groups are required to purchase excess workers' compensation coverage to cover claims that exceed a minimum level established by state law or regulation or by administrative determination. Since December 2003, we have provided reinsurance for a portion of this excess coverage through our subsidiary, Twin Bridges.

Our net reinsurance premiums for reinsuring a portion of this excess coverage have increased significantly since Twin Bridges began business. We intend to use approximately \$47,000,000 of our net proceeds from this offering to provide additional surplus to Twin Bridges. We believe that this additional surplus will allow Twin Bridges to provide reinsurance for an increased amount of the excess coverage purchased by the groups we manage. We also anticipate that Twin Bridges will grow as our fee-based management services business continues to grow. Our ability to provide reinsurance is a significant element of our plans to grow our fee-based management services business. We believe that our willingness to reinsure a portion of the excess coverage our groups obtain and thereby expose our capital to risk distinguishes us from our competitors.

We have recently executed a term sheet with NY Marine & General which we believe will allow us to reinsure a substantially increased portion of the excess coverage obtained by our groups. Pursuant to the term sheet, we will reinsure 70% of the excess coverage provided to our groups by NY Marine & General in exchange for 70% of the premiums paid to NY Marine & General by our groups. In addition, the term sheet provides that NY Marine & General will offer full statutory excess coverage for losses and loss adjustment expenses in excess of the \$500,000 per occurrence liability typically retained by the groups upon renewal of their policies, subject to the purchase of reinsurance from other insurers for losses and loss adjustment expenses above certain thresholds. The next renewal date for excess coverage policies held by our groups is January 1, 2006. These arrangements with NY Marine & General are subject to the execution of a definitive agreement. If these arrangements had been in effect as of January 1, 2005 for each of our groups for which NY Marine & General currently provides excess coverage, our net reinsurance premiums as a percentage of gross premiums for excess coverage would have been approximately 62% for the nine months ended September 30, 2005 compared to an actual percentage of approximately 19% under our agreement with NY Marine & General in effect for that period. See "Risk Factors – Risks Related to Our Business – We depend on our reinsurance business for a substantial portion of our revenues and profits and we could be adversely affected if we are not able to maintain or increase this business" and "Risk Factors – Risks Related to Our Business – We presently depend on our relationship with a single provider of excess workers' compensation coverage for all of our reinsurance business and the termination of this relationship could adversely affect us."

### **The Group Self-Insurance Market**

The workers' compensation insurance market has historically fluctuated with periods of low premium rates and excess underwriting capacity resulting from increased competition, followed by periods of high premium rates and shortages of underwriting capacity resulting from decreased competition. These conditions, along with poor customer service and substandard loss control and claims management, have motivated businesses to self-insure against workers' compensation claims. Large companies generally have the financial strength to meet the significant statutory requirements to self-insure, or to create their own captive insurance companies to insure, these claims. Small and mid-sized companies generally lack the financial and administrative resources to do this, and in recent years have resorted to pooling their resources through the formation of self-insured groups as a means to obtain workers' compensation insurance at acceptable rates and terms. CRM was formed in response to this relatively new market to manage self-insured groups.

California has undergone a period of rapid growth in the formation of new self-insured groups. From 1999 until 2005, average workers' compensation rates increased by nearly 50% after taking into account significant



average rate decreases during the last two years. As a result of this overall increase, 26 private self-insured groups have been formed in California since 2001 when California authorized the formation of private self-insured groups. California Senate Bill 899 was passed in April of 2004 with the goal of reducing the medical and indemnity benefits paid to injured workers over time. This bill has allowed insurers to reduce rates. Even though average rates in California have decreased significantly, as compared to 2003 and 2004, California workers' compensation rates remain substantially higher than those charged for similar risks in New York.

In contrast to the California market, self-insured groups have existed in New York since the mid-1990s and the market is substantially more mature than the California market, with approximately 64 groups in existence. New York is in the process of reevaluating its regulations relating to the formation of new groups. This has led to a temporary moratorium on the formation of new groups. This moratorium should not affect our ability to grow in New York as we believe we have formed groups in all desired industry classes that we have targeted. We believe growth in our New York business will occur as a result of increases in the number of members in our existing groups and recently approved manual rate increases. Following three years of relatively stable rates, the New York Workers' Compensation Board passed a rate increase in August 2005 averaging five percent across all industry groups. This increase became effective in October 2005, and manual rates across the industries in which we have formed self-insured groups increased by approximately 8% on average commencing in 2006.

We believe that self-insured groups, when managed effectively, provide lower and more stable premium rates to their members than other methods of insuring workers' compensation liabilities for small and mid-sized businesses. For that reason, we believe that self-insured groups will continue to be an attractive workers' compensation insurance option for small and mid-sized companies.

## **Competitive Strengths**

We believe that we have the following competitive strengths:

*Established Operational and Financial Track Record.* We have a well-established track record in forming, managing and growing self-insured workers' compensation groups, with over \$27 million in management fees and commission income for the year ended December 31, 2004. Since we began our group management business in 1999, we have formed and currently manage 14 self-insured groups.

*Full Range of Services for Self-Insured Groups.* We provide a full range of services to the groups we manage, including general management, underwriting, risk assessment and loss control, claims management and medical bill review and case management services.

*Managerial Experience and Expertise.* Our senior management team includes Daniel G. Hickey, Jr. and Martin D. Rakoff, each of whom has more than 15 years of insurance industry experience and has extensive contacts in the insurance and reinsurance industries. We believe that the experience of our senior management team provides us with a competitive advantage over new entrants into the group management market due to the significant regulatory and marketing impediments involved in the formation and management of self-insured groups. Our managerial expertise is in the following areas:

*Formation of groups.* We have significant experience assembling the critical number of initial group members, producing required documentation and obtaining regulatory approvals. We have effective working relationships with the regulatory agencies in New York and California, and serve on a number of advisory bodies that evaluate and recommend regulatory reform.

*Cultivation and maintenance of relationships with our general agents and brokers.* Our business heavily relies on our relationships with general agents and brokers and our executives have established excellent relationships with well-screened general agents and brokers. We also work closely with our general agents and brokers in order to develop new groups, maintain our established groups and attract additional members to our groups. We offer general agents and brokers competitive commissions for coverage placed by our groups

and we provide training programs to general agents and brokers in order to educate them regarding the benefits of workers compensation self-insured groups. We believe that these strong relationships enhance our ability to attract and retain members of our groups and provide us with an advantage over many of our competitors. As of September 30, 2005, approximately 75% of the aggregate annualized premiums paid or attributable to the groups we manage was derived from members introduced to our groups by approximately 20% of our general agents and brokers.

*General management, underwriting, loss control and claims management for the groups.* We have a skilled management team, that is experienced in structuring workers' compensation insurance and reinsurance of excess coverage, a group of underwriters experienced in writing group workers' compensation insurance, an effective risk assessment and loss control group and, in New York, a skilled and effective claims management team.

*Relationships with providers of excess coverage.* New self-insured groups often experience difficulty in obtaining excess coverage because they have few members during their start-up phase. We use our significant premium volume and established relationships with providers of excess coverage to obtain for our managed groups the full excess coverage required by statute. This provides us with a significant advantage in forming new groups and penetrating new markets.

## Strategy

The key elements of our strategy are:

*Continued Growth of Fee-Based Business.* Our California groups have grown rapidly since we began doing business in California. We anticipate continued growth in California in the near term both through an increase in membership in our existing groups and through an increase in the number of groups we manage. In New York, we believe growth will result from increases in the number of members in our existing groups and recently approved manual rate increases that allow our established groups to increase the premiums they charge their members.

We have identified other states which represent possible new market opportunities for our self-insured group model, but we have not entered these states in order to focus our resources on the growth of our California business. Furthermore, in 2006, we intend to offer our medical bill review and case management services to large, self insured entities, insurance companies, self-insured groups and other parties requiring these services.

*Growth of Reinsurance Business.* We intend to use approximately \$47,000,000 of our net proceeds from this offering to provide additional surplus to Twin Bridges. Our reinsurance business represents a significant opportunity to enhance our profitability. This additional surplus will allow Twin Bridges to provide reinsurance for an increased amount of the excess coverage obtained by the groups we manage. Furthermore, as our aggregate management services fees increase, our opportunities to grow our reinsurance business should also increase.

We intend to explore increasing our fee-based management services business by developing and offering non-workers' compensation property and casualty insurance products to carefully selected members of the groups we manage. Initially, we would offer these products as a broker through unrelated U.S. admitted insurers. We believe that our ability to offer these additional insurance products to members of our groups will enable us to compete more effectively with commercial insurers that provide property and casualty insurance products together with workers' compensation insurance as a comprehensive package. If we develop and offer these additional insurance products, Twin Bridges may consider reinsuring a portion of the risk that is assumed by the U.S. admitted insurers.

## Organization and Restructuring

CRM Holdings is a Bermuda exempted holding company incorporated in September 2005, and will acquire CRM, CRM CA, Eimar and Twin Bridges through a share exchange, as described below, which will occur immediately prior to the closing of this offering. Our principal executive offices are located at Skandia International House, 16 Church Street, Hamilton, Bermuda HM 11, and our telephone number is (441) 295-2185. The headquarters of our U.S. subsidiaries is located at the offices of CRM at 112 Delafield Street, Poughkeepsie, NY 12601, and the telephone number is (845) 452-4100.

We conduct our operations principally through the following subsidiaries domiciled in Bermuda and the United States:

Compensation Risk Managers, LLC, or CRM, is a limited liability company organized under the laws of New York that is based in New York. Since 1999, CRM has provided management and other services to groups in New York and since October 2003 has assisted CRM CA in providing its management services;

Compensation Risk Managers of California, LLC, or CRM CA, is a limited liability company organized under the laws of California that is based in California. Since October 2003, CRM CA has provided management services to groups in California;

Twin Bridges (Bermuda) Ltd., or Twin Bridges, is a Bermuda exempted insurance company, incorporated in 2003, which reinsures a portion of the excess coverage that NY Marine & General provides to the groups that CRM and CRM CA manage; and

EIMAR, L.L.C., or Eimar, is a limited liability company organized under the laws of New York that is based in New York. Since 2002, Eimar has provided medical bill review and case management services to our groups in New York and California.

Prior to the consummation of the restructuring, certain members of our management team, including Daniel G. Hickey, Jr., Martin D. Rakoff and Louis J. Viglotti, as well as the other persons listed in "Selling Shareholders" are the beneficial owners of CRM, CRM CA, Eimar and Twin Bridges. We sometimes refer to these owners in this prospectus as the "existing shareholders."

Immediately prior to the closing of this offering, the existing shareholders will contribute all of their interests in CRM and Eimar to CRM USA Holdings, which will be our wholly owned subsidiary and will hold all of the outstanding interests in our U.S. subsidiaries. In exchange, the existing shareholders will receive shares issued by CRM USA Holdings. The existing shareholders will then contribute their CRM USA Holdings shares to us in exchange for 6,372,425 of our common shares. CRM will then distribute its interests in CRM CA to CRM USA Holdings. CRM, CRM CA and Eimar will elect to be taxed as corporations. In addition, immediately prior the closing of this offering, the existing shareholders will contribute all of their shares in Twin Bridges to us in exchange for 3,874,690 of our common shares. We refer to these transactions in this prospectus as the "restructuring." The existing shareholders ultimately will receive a total of 10,247,115 of our common shares in exchange for and in the same proportion as they own their interests in CRM (including its subsidiary, CRM CA), Eimar and Twin Bridges.

We expect the restructuring to be tax free to CRM, CRM CA, Eimar, CRM USA Holdings, Twin Bridges and us.

After completion of the restructuring and this offering, the existing shareholders will own 6,607,115 of our voting common shares, representing approximately 41.3% of the total voting power of our shares then outstanding as a result of the implementation of certain voting restrictions contained in our bye-laws (or 35.0% in the event that the over-allotment option is exercised in full).

In November 2005, CRM and Eimar distributed to the existing shareholders an aggregate of \$1,090,077 in respect of the previously undistributed earnings and profits of CRM, Eimar and Twin Bridges from their inception through October 31, 2005. These amounts were paid from the working capital of CRM and Eimar.

## [Table of Contents](#)

We refer to these distributions in this prospectus as the “Distributions.” We also will indemnify the existing shareholders for an amount intended to approximate the amount of U.S. federal income taxes, if any, that would be payable by them with respect to the combined net income, if any, for U.S. federal income tax purposes of CRM, Eimar and Twin Bridges for the period from November 1, 2005 through the consummation of the restructuring, computed, with respect to CRM and Eimar, on a cash basis as if such period were a taxable period. We believe that any such indemnification payments will be immaterial and will be paid from CRM’s working capital and not from the net proceeds of this offering.

### **Our Business Segments**

We operate two business segments: fee-based management services and reinsurance. Through CRM, CRM CA and Eimar, we provide management and other services to workers’ compensation self-insured groups in New York and California. Through Twin Bridges, we reinsure a portion of the excess coverage obtained by the self-insured groups that we manage. The revenues, net income and assets of each of our segments for the nine months ended September 30, 2005 and 2004 and the three years ended December 31, 2004 are set forth in the notes to our combined financial statements included elsewhere in this prospectus.

### **Our Fee-Based Management Services Business**

In 1999, we began our business in New York of forming, managing and operating workers’ compensation self-insured groups and presently manage eight groups in New York. We expanded our business to California in 2003 and presently manage six groups there. In the aggregate, the members of our groups are engaged in a broad range of businesses. While we expect to form additional managed groups, particularly in California, we intend to focus on the following industries:

*Healthcare* – We manage groups in New York and California that provide workers’ compensation insurance to nursing homes, hospitals and physician groups. We believe the New York group is one of the largest workers’ compensation self-insured groups in New York.

*Contractors* – We manage groups in New York and California that provide workers’ compensation insurance to artisan contractors, including carpenters, masons, plumbers, electricians and those in other skilled trades.

*Transportation* – We manage a group in New York that provides workers’ compensation insurance to companies engaged in highway-borne transportation, including local package delivery, bulk hauling of industrial commodities, milk hauling and for-hire limousine services.

*Wholesale/Retail* – We manage a group in New York that provides workers’ compensation insurance to companies engaged in local and regional retail grocery sales and entities involved primarily in the distribution of food products.

*Auto Dealers* – We manage a group in California that provides workers’ compensation insurance to new vehicle franchise auto dealerships.

*Banks* – During the nine months ended September 30, 2005, we formed a group in California that provides workers’ compensation insurance to banks.

*Wineries* – During the nine months ended September 30, 2005, we formed a group in California that provides workers’ compensation insurance to wineries.

We have formed other self-insured groups with smaller operations in New York to provide workers’ compensation insurance to the following industries:

real estate management, including janitorial, building maintenance and management services;

cemeteries;

public entities, including cities, towns, villages and school districts; and

manufacturing companies, which includes machine shops, injection molding and metal fabrication establishments.

We have also established a small group with operations in California, which provides workers' compensation insurance to injection and blow molding establishments.

We provide the groups with a broad range of services, including general management, underwriting, risk assessment, medical bill review and case management, general recordkeeping and regulatory compliance. We provide safety and loss control services to group members to help reduce workers' compensation risks and expenses. In New York, the fees we receive from all but one of our groups are based on a percentage of the manual workers' compensation rates set by the New York Workers' Compensation Board that are attributable to the members of the groups we manage, and our fees include claims management services. With respect to our groups in California and one of our groups in New York, our fees are based on a percentage of the premiums paid to the groups we manage by their members. Our groups in California pay the fees for claims management services directly to a third party administrator. In addition, we receive fees on a fee-for-service basis for medical bill review and case management services. We also receive commission income from: (1) U.S. admitted insurers for placing the excess coverages which the groups are required to obtain and (2) insurers for placing the required surety bonds for the groups we manage.

A significant amount of our existing business is dependent on a relatively small number of our managed groups. HITNY provided approximately 26% and 38% of our revenues from fee-based management services for the nine months ended September 30, 2005 and the year ended December 31, 2004, respectively. Two other groups, Elite Contractors Trust of New York and Transportation Industry Workers' Compensation Trust of New York, provided approximately 21% and 13%, respectively, of our revenues from fee-based management services for the nine months ended September 30, 2005 and approximately 22% and 14%, respectively, of our revenues from fee-based management services for the year ended December 31, 2004.

Effective October 1, 2004, we have agreed to a modification of our agreement with HITNY which reduced the amount of revenue we derive from our management of HITNY. HITNY was and continues to be our largest group. We do not expect such rate reduction to materially affect our revenues or net income from our New York groups because we anticipate such rate reduction to be offset by membership increases, recently approved manual rate increases as well as corresponding reductions in the fees paid to our managing general agents.

We also intend to explore offering our comprehensive range of management services on an integrated basis to individual entities, such as hospitals, nursing homes and manufacturers, that are large enough and have sufficient financial resources to self-insure against workers' compensation claims. These entities may not have the administrative structure to support a self-insurance program and may require a third party to administer the program for them. We believe that offering our management services to these entities requires the same underwriting and other evaluations as offering our management services to our self-insured groups. Furthermore, we do not believe that providing our management services on an integrated basis to an individual self-insured entity involves any different risks or uncertainties than are applicable to our existing management services business.

#### *Production of Business*

All of our group management business is generated by general agents and brokers, who receive a commission usually equal to a percentage of gross premiums the groups charge their members. These commissions are generally uniform based on the industry and group involved. As of September 30, 2005, we had relationships with approximately 160 general agents and brokers in New York and approximately 40 general agents and brokers in California. As of September 30, 2005, approximately 75% of the aggregate annualized premiums paid or attributable to the groups we manage was derived from members referred to our groups by approximately 20% of our general agents and brokers. We carefully screen the general agents and brokers with whom we do business. No general agent or broker produces more than 10% of the business underwritten by the groups that we manage based on our aggregate annualized premiums paid or attributable to the groups we manage. Our management and underwriting officers generally have excellent relationships

with these general agents and brokers and both value and place a strong emphasis on maintaining these relationships. We offer brokers and general agents competitive commissions for coverage placed by our groups and we provide training programs to brokers and general agents in order to educate them regarding the benefits of workers' compensation self-insured groups. We believe that these strong relationships enhance our ability to attract and retain members of our groups and provide us with an advantage over many of our competitors.

#### *Underwriting*

Our management services include a determination of the appropriate level of premium for each member of a group. Our underwriting department achieves this by adjusting base premium rates based on:

- the historical modification factor applicable to the member;
- the member's loss history for the past three years; and
- our loss control and risk assessment of the member.

By individually analyzing the appropriate premium for each member of a group, we distinguish ourselves from other self-insurance services that typically maintain common pricing among group members. Our underwriting department attempts to determine premiums that are sufficient to cover the expected losses and loss adjustment expenses and fixed costs of the groups we manage.

#### *Risk Assessment and Loss Control Services*

We have structured our risk assessment and loss control services to provide high level, customized service to the members of each group. Our services include on-site assessments of safety issues for all members, annual service plans, compliance reviews and safety score card and training programs to assess development. Our model focuses on employee training and behavior modification in an effort to minimize losses on a prospective basis. We believe that the industry practice involves inspection-based loss control on a reactive basis.

Unlike many of our competitors in the insurance industry, all risk assessment and loss control services are performed by our employees and no independent contractors are used. Nearly all of our loss control employees have met our minimum educational requirement of a bachelors degree or better, and each possesses one or more of three nationally recognized professional accreditations and has a minimum of five years of multi-line carrier loss control experience. We provide each group with a dedicated service consultant, which gives us greater control of the work product. We do not provide risk assessment and loss control services based on premium size, and we do not bill any members of a group separately for these services. Instead, we allocate our service resources based on need for improvement, not premium size. By targeting the accounts that need professional assistance the most, our loss control function improves the overall quality of the business by reducing the aggregate number of workers' compensation claims made by the members of our managed groups. The loss control personnel also address workplace safety issues by identifying and correcting the behavior or condition that resulted in a claim. Our risk assessment and loss control services are training-intensive and personal and seek to ensure accountability for workplace safety among all levels of the member's management structure.

#### *Claims Management and Group Reserving*

Our claims management services involve the administration and management of a claim from the time it is brought to our attention until the claim is finally settled. We perform these services for our New York groups, but do not perform claims services for our California groups because California law prohibits self-insured group managers from providing claims management services. We have established procedures to record reported insurance claims, regardless of size, in a claims database upon receipt of notice of the claim. We attempt to make contact with the injured worker, treating physician and employer within 24 hours after receiving a claim. This focus on timely reporting and follow up allows us to mitigate claims and loss adjustment expenses and identify potential fraud. We periodically update our database for any developments affecting a claim.



Our claims personnel divide claims into three categories: claims involving only medical expenses, claims involving medical expenses and up to an estimated 16 weeks of disability and claims involving medical expenses and longer periods of disability. The more serious claims are allocated to more senior employees who typically have a lighter case load. These teams investigate, evaluate and monitor the claims and each claim is reviewed at least once every 30 days. We employ a number of resolution adjusters whose sole job is to resolve these claims and obtain any approval required by the workers' compensation group board. As a potential insurance claim develops, the claims teams will draw on all available resources to manage and settle the claim.

As required by California law, our California groups retain an independent claims handling company. All of our California groups currently retain Matrix Absence Management, Inc., or Matrix, a subsidiary of Delphi Financial Group, Inc., to perform these services under a contract negotiated between Matrix and the group. However, we retain claims settlement authority, establish loss reserves and review the work performed by Matrix on a regular basis. With the agreement of each group, we also have required Matrix to utilize the same independent claims management software that we use.

We use our claims database as an electronic workflow management tool for loss adjustment, coverage issues and litigation and to provide each group and its board with claims and loss information and to establish claims reserves for each group. These reserves are reviewed each year in the course of the independent audit performed for each group. In addition, the New York groups are subject to review by the New York Workers' Compensation Board and the groups in California are subject to review by the California Department of Industrial Relations.

### *Medical Bill Review and Case Management*

In 2002, we expanded our fee-based management services to include medical bill review and case management services.

The services include:

*Medical Bill Review.* This service reviews medical bills, reconciles them to the appropriate state fee schedule and subsequently reduces them to the allowable amount of payment. We attempt to be competitive by providing superior turn-around time and a quality review process which produces relatively few errors.

*Independent Medical Examinations.* This service provides for the scheduling of independent medical examinations for verification of the medical diagnosis and treatment plan for injured workers. We believe that this service is very competitive because we have assembled a high-quality physician network to provide the members of our groups with objective medical opinions.

*Medical Case Management/ Utilization Review.* Through this service we supplement our claims management services by hiring registered nurses to coordinate communication among claims adjusters, treating physicians and injured workers.

Currently, nearly all of the income we receive for these services is attributable to our self-insured groups. We have recently hired a vice president of sales and marketing to help to sell these medical bill review and case management services to third parties. Our business strategy includes offering these services to large self-insured entities, insurance companies, self-insured groups and others that require these services. We have recently secured two new clients and have identified and are currently negotiating arrangements with additional prospects with which we have no pre-existing relationship.

### *Brokerage Services for the Groups*

Self-insured groups are required to purchase excess workers' compensation coverage above certain levels established by state law or regulation or by administrative determination. We act as a broker and place this excess insurance coverage and any required surety bonds for the groups for which we earn commissions. The



gross premiums for excess coverage for the groups we manage and our net reinsurance premiums for reinsuring a portion of this excess coverage have increased since Twin Bridges began business in December 2003. Gross premiums for excess coverage placed during any period is the aggregate amount of premiums for excess coverage insurance that the groups we manage will pay under the excess coverage policies written during that period. Our management regards the changes in these amounts as a meaningful indicator of our expected net reinsurance premiums and commission income in the future.

U.S. admitted insurers other than NY Marine & General pay commissions to CRM and CRM CA for any coverage placed with such U.S. admitted insurers equal to 10% of gross premiums. The coverage placed with these U.S. admitted insurers is generally for 'catastrophic coverage' for losses and loss adjustment expenses which exceed the per occurrence limits of the coverage provided by NY Marine & General. Currently, NY Marine & General pays commissions to CRM and CRM CA for any excess coverage placed with NY Marine & General equal to 20% of gross premiums.

We have recently executed a term sheet with NY Marine & General with respect to our reinsurance of the excess coverage which NY Marine & General provides to our groups. In connection with the term sheet, we have agreed to lower the commission paid to CRM and CRM CA for any excess coverage placed with NY Marine & General from 20% of gross premiums under our current agreement to 15%. The term sheet provides that NY Marine & General will offer full statutory excess coverage for losses and loss adjustment expenses in excess of the \$500,000 per occurrence liability retained by the groups upon renewal of their policies, obviating the need for our groups to purchase catastrophic coverage from other U.S. admitted insurers. Consequently, we believe that, although we have agreed to lower the percentage of gross premiums payable by NY Marine & General to CRM and CRM CA as commissions, our commission income will increase to the extent our groups elect to obtain all of their excess coverage from NY Marine & General. These arrangements with NY Marine & General are subject to the execution of a definitive agreement.

## **Our Reinsurance Business**

The groups we manage purchase excess workers' compensation coverage from U.S. admitted insurers to cover claims that exceed a minimum level established by state law or regulation or by administrative determination. Typically, our managed groups purchase excess coverage for losses and loss adjustment expenses in excess of \$500,000 per occurrence. This "excess coverage" purchased by the groups provides them with coverage for losses in excess of the \$500,000 per occurrence liability typically retained by the groups up to a per occurrence limit of \$500,000. Our managed groups also currently purchase what is called "catastrophic coverage" for losses and loss adjustment expenses in excess of \$1,000,000 per occurrence. The catastrophic coverage purchased by our managed groups is not subject to a per occurrence limit. In addition, all but three of our groups also purchase coverage to insure against the risk that a large number of claims will occur and result in losses that are each less than \$500,000 and that the aggregate result of such losses could exhaust their resources. This "frequency coverage" is triggered in the event that the aggregate amount of losses and loss adjustment expenses during the coverage period exceeds a range from 90% to approximately 160% of the premiums paid to the groups by their members except for two smaller groups, for which the coverage is triggered when the aggregate amount of losses and loss adjustment expenses during the coverage period exceeds a percentage of the group's aggregate payroll. If the frequency coverage is triggered, the insurer pays the next \$2,000,000 of losses and related loss adjustment expenses of the group during the coverage period. A lower amount of coverage is provided for one of the two smaller groups. NY Marine & General currently provides the excess coverage for 13 of our 14 groups and the frequency coverage insurance for 11 of our 14 groups. Under our current reinsurance agreement with NY Marine & General, we reinsure 50% of all of the coverage it provides and receive 50% of the premiums (or our assumed premium) paid to it by these groups. We allow NY Marine & General a ceding commission of 28% of our assumed premium to cover its acquisition, general and administrative expenses, a further 2% for stop-loss coverage and 1% to cover the U.S. federal excise tax, or a total of 31% of our assumed premium. The stop loss coverage limits our losses under this reinsurance agreement to 181.16% of our assumed premium, net of the ceding commission and the cost of the stop-loss coverage and the U.S. federal excise tax. Our net reinsurance premiums are comprised of our assumed premiums, net of the 2% fee for the stop-loss coverage. The ceding commission of 28% of our

assumed premium and the 1% cost to cover the U.S. federal excise tax are recorded as part of policy acquisition costs. NY Marine & General in turn pays a 20% commission to CRM for any excess coverage placed with NY Marine & General by CRM or CRM CA. We are required to provide NY Marine & General with significant security to secure our reinsurance obligations, which security may consist of a bank-issued letter of credit, a reinsurance trust fund for the benefit of NY Marine & General or cash. The groups purchase the catastrophic coverage for losses above these levels from other insurers. The groups place this excess coverage on different dates during the year, generally on January 1st and April 1st.

Pursuant to our recently executed term sheet with NY Marine & General, we will reinsure 70% of the excess coverage provided to our groups by NY Marine & General in exchange for 70% of the premiums paid to NY Marine & General by our groups. We will allow NY Marine & General a ceding commission which we estimate will be 23.5% of our new assumed premiums to cover its acquisition, general and administrative expenses and additional amounts to cover U.S. federal excise tax and certain other costs which we estimate will be 2.45% of our new assumed premiums. NY Marine & General will in turn pay a commission equal to 15% of gross premiums to CRM and CRM CA for any excess coverage placed with NY Marine & General by CRM or CRM CA. We will also share in the cost of any reinsurance purchased by NY Marine & General from other carriers with respect to such coverage. These arrangements with NY Marine & General are subject to the execution of a definitive agreement. If these arrangements had been in effect as of January 1, 2005 for each of our groups for which NY Marine & General currently provides excess coverage, our net reinsurance premiums as a percentage of gross premiums for excess coverage would have been approximately 62% for the nine months ended September 30, 2005 compared to approximately 19% under our agreement with NY Marine and General in effect for that period.

The term sheet provides that NY Marine & General will offer full statutory excess coverage for losses and loss adjustment expenses in excess of the \$500,000 per occurrence liability retained by the groups. NY Marine & General will seek reinsurance from other insurers to cover NY Marine & General and us for 100% for losses and loss adjustment expenses in excess of \$5,000,000 per occurrence up to \$50,000,000 per occurrence as well as reinsurance of losses and loss adjustment expenses in excess of \$3,000,000 per occurrence up to a per occurrence limit of \$5,000,000, subject to an annual aggregate deductible of \$4,000,000. In the event that any of these reinsurers is unable to pay any losses or loss adjustment expenses or the reinsurance purchased is insufficient, we will be obligated to cover 70% of such amounts. NY Marine & General will also offer frequency coverage to our groups on terms that will be negotiated prior to the execution of a definitive agreement. NY Marine & General will offer this expanded coverage to our groups upon renewal of their excess coverage policies. The next renewal date for excess coverage policies held by our groups is January 1, 2006.

To the extent that the aggregate loss ratio of the excess coverage of our groups by NY Marine & General exceeds 70%, we will be required to cover all losses and loss adjustment expenses of such groups in excess of the \$500,000 per occurrence liability that they typically retain, net of losses and loss adjustment expenses covered by other reinsurers and certain other adjustments, that are in excess of 70% of the aggregate gross premiums received by NY Marine & General from our groups, net of premiums paid to other reinsurers. In such an event, we will not be entitled to an increased portion of the premiums paid to NY Marine & General by such group. However, in the event that the aggregate loss ratio of the excess coverage of our groups by NY Marine & General is equal to or exceeds 90%, we will only be required to cover 70% of the losses and loss adjustment expenses of such groups, net of losses and loss adjustment expenses covered by other reinsurers and certain other adjustments, that are equal to or in excess of 90% of the aggregate gross premiums received by NY Marine & General from our groups, net of premiums paid to other reinsurers. For the purposes of the term sheet, the term "loss ratio" means the ratio of (i) the annual aggregate losses and loss adjustment expenses of all of our groups that obtain excess coverage from NY Marine & General in excess of the \$500,000 per occurrence liability that they typically retain, net of losses and loss adjustment expenses covered by other reinsurers and certain other adjustments to (ii) the annual aggregate gross premiums received by NY Marine & General from our groups, net of premiums paid to other reinsurers.

In addition to termination provisions that are similar to those contained in our current reinsurance agreement with NY Marine & General, any definitive reinsurance agreement will be cancelable by either

party upon 120 days prior written notice to be effective on any anniversary date of the agreement and is also cancelable upon five days' prior written notice by NY Marine & General if:

Twin Bridges agrees to reinsure workers' compensation insurance or reinsurance issued by any other insurer or reinsurer without NY Marine & General's prior written consent unless NY Marine & General had previously declined a proposal by Twin Bridges for NY Marine & General to insure or reinsure such business; or

Twin Bridges distributes more than ten percent of its retained earnings by way of dividends, intercompany transfers or related party loans since the date of its last audited financial statements.

In the event that Twin Bridges agrees to reinsure such insurance or reinsurance without NY Marine & General's prior written consent and NY Marine & General chooses to cancel our new reinsurance agreement as a result, we will be obligated to pay to NY Marine & General \$1,000,000 and we will continue to be obligated to share in the cost of any reinsurance purchased by NY Marine & General from other carriers with respect to such coverage for the remaining period of any reinsured excess coverage policies then in effect.

Under the term sheet, CRM Holdings will be required to guarantee Twin Bridges' performance of its obligations under any definitive reinsurance agreement with NY Marine & General, subject to regulatory approval, if required.

We cannot assure you that we will be able to execute a definitive agreement or, in the event that we are able to do so, renew such an agreement on favorable terms in the future. See "Risk Factors – Risks Related to Our Business – We depend on our reinsurance business for a substantial portion of our revenues and profits and we could be adversely affected if we are not able to maintain or increase this business" and "Risk Factors – Risks Related to Our Business – We presently depend on our relationship with a single provider of excess workers' compensation coverage for all of our reinsurance business and the termination of this relationship could adversely affect us."

If we provide our management services to individual self-insured entities, we will consider reinsuring a portion of the excess coverage these entities obtain. We would do so only after we conduct an underwriting evaluation of an entity on the same basis as we conduct underwriting evaluations for members of our self-insured groups.

Our Bermuda-based reinsurance operations are managed by Quest Management Services Limited, an independent Bermuda manager. Quest provides certain general and administrative services to Twin Bridges on an hourly time and expense fee basis.

#### *Reserves*

Twin Bridges, our reinsurance subsidiary, is required to establish reserves for losses and loss adjustment expenses under applicable insurance laws and regulations and U.S. generally accepted accounting principles. These reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and loss adjustment expenses for reinsured claims that have occurred at or before the balance sheet date, reported to us or incurred but not yet reported to us. Our policy is to establish these losses and loss adjustment reserves prudently after considering all information known to us as of the date they are recorded.

Loss reserves fall into two categories: case reserves for reported losses and loss adjustment expenses associated with a specific reported insured claim, and reserves for incurred-but-not-reported, or IBNR, losses and loss adjustment expenses. We have established these two categories of loss reserves as follows:

Case reserves – Following the receipt and analysis of a notice of claim, Twin Bridges establishes a case reserve for the estimated amount of its ultimate settlement and its estimated loss adjustment expenses. Twin Bridges establishes case reserves based upon the amount of claims reported and may subsequently supplement or reduce the reserves as our claims department deems necessary.

IBNR reserves – An independent actuary estimates and establishes reserves for loss amounts incurred but not yet reported, including expected development of reported claims. These IBNR reserves include

estimated loss adjustment expenses. The actuary calculates IBNR reserves by using generally accepted actuarial techniques, relying on the most recent information available, including pricing information, industry information and our historical losses and expenses and revises these reserves for losses and loss adjustment expenses as additional information becomes available and as claims are reported and paid.

The reserve for losses and loss adjustment expenses represents an estimate of the ultimate cost of all reported and unreported losses and loss adjustment expenses insured pursuant to reinsurance agreements associated with reported claims and claims incurred but not reported which are unpaid at the balance sheet date. The liability is estimated using actuarial studies of individual case-basis validations, statistical analyses and industry data. We believe that our aggregate liability for losses and loss adjustment expenses at year-end represent our best estimate, based upon available data, of the amounts necessary to settle the ultimate cost of expected losses and loss adjustment expenses. Twin Bridges has only been in existence since December 2003, has had limited loss experience and relatively small population of underlying risks, and therefore is exposed to an increased likelihood that actual results may not conform to our estimates. These estimates are also subject to the effects of trends in loss severity and frequency risks, fluctuations in inflation, prevailing economic, social and judicial trends, legislative changes and internal and third party claims handling procedures. There also may be a significant delay between the occurrence of the insured event and the time it is actually reported to us. Accordingly, the ultimate settlement of losses and related loss adjustment expenses may vary significantly from the estimates included in our financial statements.

Since we have very limited loss development experience, the independent external actuarial specialists that estimate our loss reserves and loss adjustment expenses combine several methods to calculate reserves for unpaid reported losses as well as losses incurred-but-not-reported, or IBNR, reserves. The actuarial methods employed include (i) the paid and incurred loss development method, (ii) the loss ratio method, and (iii) the Bornhuetter-Ferguson method. The Bornhuetter-Ferguson method is a generally accepted actuarial technique that produces expected loss ratios that are implied by actual loss experience and developments. The combination of these three methods has led to a range of estimated total reserves. We believe that the assumptions by the independent external actuarial specialists represent a realistic and appropriate basis for currently estimating our reserves for losses and loss adjustment expenses.

Reserve estimates and reserving methodologies are reviewed regularly, taking into account all currently known information and updated assumptions relating to unknown information. Reserves for losses and loss adjustment expenses established in prior periods are adjusted as claim experience develops and new information becomes available. Any such adjustments are included in income in the period in which they are made. Any adjustments to previously established reserves may significantly impact current period net income by reducing net income if previous period reserve estimates prove to be inadequate and are required to be increased or increasing net income if prior period reserves become overstated and are required to be reduced. We also review the estimate of losses and loss adjustment expenses provided to us by any U.S. admitted insurers with which we may have a reinsurance arrangement.

While we believe that we will be able to make a reasonable estimate of our ultimate losses, we may not be able to predict our ultimate claims experience as reliably as other companies that have had reinsurance operations for a substantial period of time, and we cannot assure you that our actual losses and loss adjustment expenses will not exceed our total reserves.

## **Investments**

Currently, our investment portfolio is comprised of short-term U.S. Treasury bills, cash and money market equivalents. Upon the completion of the offering, our board of directors will establish our investment policies and management will implement our investment strategy with the assistance of independent investment managers. We currently intend to retain KeyBank, Smith Barney Citigroup and Wachovia Securities LLC to act as our external investment managers. Our investment guidelines will specify minimum criteria on the overall credit quality, liquidity and risk-return characteristics of our investment portfolio and include limitations on the size of particular holdings, as well as restrictions on investments in different asset classes. The board of directors will monitor our overall investment returns and review compliance with our investment guidelines.

Our investment strategy seeks to preserve principal and maintain liquidity while trying to maximize total return through a high quality, diversified portfolio. Investment decision making will be guided primarily by the nature and timing of our expected losses and loss adjustment expenses payouts, management's forecast of our cash flows and the possibility that we will have unexpected cash demands, for example, to satisfy claims due to catastrophic losses. We expect our investment portfolio will consist primarily of highly rated and liquid fixed income securities.

If we do not structure our investment portfolio so that it is appropriately matched with any of our insurance and reinsurance liabilities, we may be forced to liquidate investments prior to maturity at a significant loss to cover such liabilities. Investment losses could significantly decrease our asset base, which will adversely affect our ability to conduct business.

### **Possible Insurance Products**

We intend to explore increasing our fee-based management services business by developing and offering certain non-workers' compensation property and casualty insurance products to carefully selected members of the groups we manage. Initially, we intend to place this insurance with unaffiliated U.S. admitted insurers and receive brokerage commissions from this placement. We will carefully select the members of our groups to which we offer these additional insurance products by analyzing the workers' compensation loss experiences of these members as well as other relevant factors. We believe that our ability to offer these additional insurance products to members of our groups will enable us to compete more effectively with commercial insurers that provide property and casualty insurance products together with workers' compensation insurance as a comprehensive package.

The experience of our management team includes significant expertise in underwriting and marketing these additional insurance products, and we believe that there is a demand for these products by members of our groups. If we develop and offer these additional insurance products, Twin Bridges may consider reinsuring a portion of the risk assumed by the U.S. admitted insurers that underwrite the products.

Our assessment of these insurance products is in the early stages, and there can be no assurance that we will successfully develop or market any of these insurance products or that Twin Bridges will be offered the opportunity to reinsure any of the risks of the U.S. admitted insurers that may provide this insurance. Nevertheless, we anticipate that we will need to devote management time and working capital resources to complete our assessment of these opportunities and to implement the strategy, if any, that we adopt. Furthermore, in the event we develop and offer these insurance products, and Twin Bridges reinsures a portion of the resulting risk, Twin Bridges will be subject to potential additional losses and loss adjustment expenses.

### **Competition**

We and the groups we manage compete with many companies in the workers' compensation insurance business. These competitors include:

the state funds in New York and California;

specialty, regional and major insurers in New York, such as American International Group, Inc., Chubb Group of Insurance Companies, Zurich Financial Services, Utica National Insurance Group, Greater New York Mutual Insurance Company, Travelers Insurance Group Holdings Inc., Liberty Mutual Insurance Company and Hartford Financial Services Group Inc, and in California, such as Employers Direct Insurance Company, Redwood Fire & Casualty Insurance Co., Republic Companies Group, Inc., Redlands Insurance Co., St. Paul Travelers, Zenith National Insurance Corp, National Liability and Fire Insurance Company, Preferred Employers, SeaBright Insurance Company, CompWest Insurance Company, Employers Compensation Insurance Company of California, Everest Insurance Company, American International Group, Inc., Chubb Group of Insurance Companies, ICW Group and The Hartford Financial Services Group, Inc., and

groups managed by other group administrators, such as First Cardinal Corporation and New York Compensation Managers, Inc. in New York and Bickman Risk Services in California.

## [Table of Contents](#)

Many of the insurance companies listed above have more capital, name and brand recognition, marketing and management resources than we or the groups we manage have. Many of our competitors have offered, and may continue to offer, workers' compensation insurance combined with other insurance coverage. Some of our competitors offer workers' compensation insurance on a multi-state basis. Competition in our industry is very intense and from time to time results in a significant reduction in premiums for workers' compensation insurance, and we may be competitively disadvantaged because key group members may be obliged or inclined to purchase packaged products or multi-state workers' compensation coverage from our competitors in order to receive favorable rates for other types of liability coverage or because our competitors offer superior premium rates or policy terms. We cannot assure you that we will be able to implement our business strategy in a manner that will allow us to be competitive. Increased competition could reduce the ability of our groups to attract new members and retain existing members and would adversely impact the groups we manage and our business, financial condition and results of operations.

### **Ratings**

Ratings by independent agencies are an important factor in establishing the competitive position of commercial insurance and reinsurance companies. Rating organizations continually review the financial positions of insurers. Standard & Poors, or S&P, maintains a letter scale rating system ranging from "AAA" (Extremely Strong) to "R" (under regulatory supervision). A.M. Best maintains a letter scale rating system ranging from "A++" (Superior) to "F" (in liquidation). The objective of S&P and A.M. Best's ratings systems is to provide an opinion of an insurer's or reinsurer's financial strength and ability to meet ongoing obligations to its policyholders. Unlike commercial insurers and reinsurers, workers' compensation groups do not generally obtain ratings from S&P or A.M. Best. We do not believe that the small to mid-sized companies buying workers' compensation from self-insured groups, such as the ones we manage, give any material consideration to the lack of ratings of these groups. Rather they rely on the management and boards of directors of these groups, the excess coverage obtained by the groups and the joint and several liability of the members of the groups as security for their coverage. Twin Bridges has not been affected by its lack of a rating with respect to our current reinsurance arrangement with NY Marine & General, which is currently rated "A" by A.M. Best and is the insurer that currently provides excess coverage insurance to 13 of the 14 groups we manage, since we believe that NY Marine & General relies primarily on the security provided by Twin Bridges in the form of letters of credit. For similar reasons, we believe that Twin Bridges will be unaffected by its lack of a rating with respect to our new agreement with NY Marine & General.

### **Employees**

As of November 30, 2005, we employed approximately 158 full-time employees and 8 part-time employees. The number of employees in each of our subsidiaries as of November 30, 2005 was as follows:

CRM	118
CRM CA	18
Eimar	30

We have the following number of employees performing the following functions as of November 30, 2005:

	<u>Employees</u>
Administrative	49
Managers	13
Claims Management	43
Risk Assessment and Loss Control Services	11
Sales and Marketing	6
Underwriting	18
Medical Bill Review and Case Management	26
Total	<u>166</u>



## [Table of Contents](#)

We expect that we will continue to hire additional employees as we expand our business. We believe that our relations with our employees are good. None of our employees is subject to a collective bargaining agreement.

### **Properties**

Our U.S. operations are currently headquartered in Poughkeepsie, New York at one location, which contains approximately 8,000 square feet. The initial term of the lease for these premises expires around March, 2007, with an option to extend the lease term for two additional five-year terms. The annual lease payments for these offices are approximately \$155,000.

Eimar maintains office space in Poughkeepsie, New York. The offices consist of approximately 1,400 square feet and the term of the lease expires on December 31, 2005. The annual lease payments for these premises are approximately \$21,000. One of the lessors under this lease is Daniel G. Hickey, Sr., who is a director and one of our shareholders and is the father of Daniel G. Hickey, Jr., who is a Co-Chief Executive Officer and the Chairman of our Board of Directors. See "Certain Relationships and Related Transactions."

CRM currently leases office space in Hyde Park, New York, consisting of approximately 7,000 square feet with additional parking space. The lease expires on October 1, 2009. The annual lease payments for these premises are approximately \$120,000.

We have executed a lease for approximately 26,400 rentable square feet with parking space located in Poughkeepsie, New York for a building that is currently under construction. The term of the lease will commence March 1, 2007 or such later date on which the construction is substantially complete and the building is available for occupancy. The lease term is fifteen years with options to renew for two additional 5 year terms. Annual lease payments are \$924,000 in the first five years, \$1,016,400 in years five through ten, \$1,118,040 in years ten through fifteen, \$1,257,696 in the first renewal term and \$1,415,040 in the second. The lease also provides for an option to purchase the building. The option is exercisable 120 days prior to the anticipated occupancy of the building under the lease. The option price is approximately \$3,500,000 plus all documented out-of-pocket construction costs after May 1, 2005. If we fail to exercise this initial option, we have an additional option to purchase the building during the first two years of our lease for the fair market value of the property, which will not be less than \$3,500,000 plus the costs incurred by the landlord in developing and constructing the building.

CRM CA has executed leases for office space in Roseville and Irvine, California. The annual lease payments for these office spaces are approximately \$87,000 in the aggregate.

We believe that the premises under construction in Poughkeepsie facilities and our space in California are sufficient for our foreseeable needs.

### **Legal Proceedings**

In April, 2005, Cornerstone Program Management & Insurance Services, Inc., or Cornerstone, one of its affiliates and their principals sued CRM, CRM CA and Contractors Access Group of California, Inc., or CAP in the Superior Court of California, Orange County, Case No. 05CC04720. In May 2005, the plaintiffs dropped Cornerstone's affiliate as a plaintiff and CAP as a defendant. The amended complaint alleges that in November 2004, CRM wrongfully caused Cornerstone to be terminated as general agent for a workers' compensation self-insured group for California contractors, and wrongfully assumed Cornerstone's responsibilities under that program. Cornerstone also alleges that CRM had falsely accused Cornerstone and its principals of wrongfully diverting money and of other wrongful conduct. The amended complaint alleges six claims. The plaintiffs claim \$10.3 million in contract damages and additional damages in amounts not yet specified. CRM intends to defend the litigation vigorously and has asserted counterclaims against Cornerstone and others for breach of contract, fraud and intentional interference with economic advantage and alleging that Cornerstone had wrongfully used confidential information it had received from CRM to establish a workers' compensation self-insurance program for California automobile dealers. Trial has been scheduled for June 2006. The matter is being defended by CRM's general liability and directors and officers liability carriers.



## [Table of Contents](#)

CRM loaned Cornerstone and its principals \$468,782.82, to be used by them as working capital, of which \$371,758.55 remains outstanding. The borrowers failed to make timely installment payments due under the working capital loan commencing March 15, 2005 and CRM has declared the loan in default and immediately due and payable in full and brought an action against the borrowers for collection. On July 15, 2005, CRM sued to recover the debt in the federal court in the Central District of California. CRM is currently awaiting the defendants' answer to its amended complaint.

On December 29, 2004 H.F.C.A. Associates Corp. and 17 related companies, all of which were members or former members of the Healthcare Industry Trust of New York or HITNY, sued HITNY and CRM in the Supreme Court of the State of New York, Ulster County, Case No. 4133/04, alleging, among other things, that the defendants had improperly terminated their membership in HITNY and failed to process claims on their behalf. The plaintiffs also alleged that CRM had engaged in self dealing and had committed a breach of fiduciary duties owed to them in connection with the placement of reinsurance for the members of HITNY. The complaint asks for damages of \$1 million against both defendants, and a judgment that the plaintiffs did not owe HITNY the outstanding premium for which they had been invoiced.

HITNY answered the complaint, denying the plaintiffs' material allegations. HITNY alleged that the plaintiffs' membership had been properly terminated and asserted a counterclaim against the plaintiffs in the amount of \$107,000 for unpaid premium. HITNY also asserted a claim against CRM alleging generally that if the plaintiffs suffered any damages they were caused by CRM's actions or wrongdoing.

CRM answered the complaint, denying the plaintiffs' material allegations, including the allegations of self dealing and breach of fiduciary duty, and asserting a claim based on breach of contract and contribution against HITNY for whatever damages the plaintiffs may recover from CRM.

This litigation is in its early stages; preliminary discovery has commenced.

Other than the foregoing, we are not a party to any material litigation.

## REGULATION

### General

The business of insurance and reinsurance is regulated in most states of the United States and countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Our reinsurance business is subject to direct regulation in Bermuda, although this regulation is less pervasive than regulations applicable to primary insurers. The groups we manage in New York and California are subject to extensive financial regulation under applicable statutes in those jurisdictions.

### Bermuda Regulation

As a holding company, CRM Holdings is not subject to insurance regulations in Bermuda.

Twin Bridges is subject to regulation under the Insurance Act 1978 and its related regulations, or the Bermuda Insurance Act, which provides that no person may carry on any insurance business in or from or within Bermuda unless registered as an insurer under the Bermuda Insurance Act by the Bermuda Monetary Authority, which is the regulatory body responsible for the day-to-day supervision of insurers. Under the Bermuda Insurance Act, insurance business includes reinsurance business. The Bermuda Monetary Authority, in deciding whether to register a company as an insurer, has broad discretion to act as the Bermuda Monetary Authority thinks fit in the public interest. The Bermuda Monetary Authority is required by the Bermuda Insurance Act to determine whether the applicant is a fit and proper body to be engaged in the insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise. The registration of an applicant as an insurer is subject to its complying with the terms of its registration and such other conditions as the Bermuda Monetary Authority may impose from time to time. The Bermuda Monetary Authority issues four types of general business insurance licenses (Class 1, Class 2, Class 3 and Class 4). A Class 3 license allows a company to underwrite third party risks. Twin Bridges was registered under the Bermuda Insurance Act as a Class 3 insurer in December 2003.

A Bermuda insurance advisory committee appointed by the Bermuda Minister of Finance advises the Bermuda Monetary Authority on matters connected with the discharge of the Bermuda Monetary Authority's functions and sub-committees thereof supervise and review the law and practice of insurance in Bermuda, including reviews of accounting and administrative procedures.

The Bermuda Insurance Act imposes on Bermuda insurance companies solvency and liquidity standards and auditing and reporting requirements and grants to the Bermuda Monetary Authority powers to supervise, investigate and intervene in the affairs of insurance companies. Certain significant aspects of the Bermuda insurance regulatory framework are set forth below.

The Bermuda Monetary Authority has recently moved to a risk based approach when it comes to licensing and supervising insurance companies in Bermuda. We believe that the Bermuda Monetary Authority's new risk based approach will not have a material impact on Twin Bridges' operations. As part of the Bermuda Monetary Authority's risk based system, an assessment of the inherent risks within each particular class of insurer is utilized in the first instance to determine the limitations and specific requirements which may be imposed. Thereafter the Bermuda Monetary Authority keeps its analysis of relative risk within individual institutions under review on an ongoing basis, including through scrutiny of regular audited statutory financial statements, and, as appropriate, meeting with senior management during onsite visits. The initial meetings with senior management and any proposed onsite visit will primarily focus, upon companies that are licensed as Class 3 and Class 4 insurers. The Bermuda Monetary Authority has also recently adopted guidance notes, or the Bermuda Guidance Notes, in order to ensure those operating in Bermuda have a good understanding of the nature of the requirements of, and the Bermuda Monetary Authority's approach in implementing, the Bermuda Insurance Act.

### *Classification of Insurers*

The Bermuda Insurance Act distinguishes between insurers carrying on long-term business and insurers carrying on general business. There are four classifications of insurers carrying on general business; with

Class 4 insurers are subject to the strictest regulation. Twin Bridges is registered as a Class 3 insurer. We do not intend, at this time, to obtain a license for Twin Bridges to carry on long-term business. Long-term business includes life insurance and disability insurance with terms in excess of five years. General business broadly includes all types of insurance that is not long-term business.

#### ***Cancellation of Insurer's Registration***

An insurer's registration may be canceled by the Bermuda Monetary Authority on certain grounds specified in the Bermuda Insurance Act, including failure of the insurer to comply with its obligations under the Bermuda Insurance Act or if, in the opinion of the Bermuda Monetary Authority, the insurer has not been carrying on business in accordance with sound insurance principles.

#### ***Principal Representative***

An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. For the purpose of the Bermuda Insurance Act, the principal office of Twin Bridges is at our principal executive offices in Bermuda, and Twin Bridges' principal representative is Quest Management Services Limited. Without a reason acceptable to the Bermuda Monetary Authority, an insurer may not terminate the appointment of its principal representative, and the principal representative may not cease to act as such, unless 30 days' notice in writing to the Bermuda Monetary Authority is given of the intention to do so. It is the duty of the principal representative to notify the Bermuda Monetary Authority forthwith of his reaching the view that there is a likelihood of the insurer for which the principal representative acts becoming insolvent or that a reportable "event" has, to the principal representative's knowledge, occurred or is believed to have occurred, and within fourteen days of such notification, to make a report in writing to the Bermuda Monetary Authority setting out all the particulars of the case that are available to the principal representative. Examples of such a reportable "event" include failure by the insurer to comply substantially with a condition imposed upon the insurer by the Bermuda Monetary Authority relating to a solvency margin or liquidity or other ratio.

#### ***Independent Approved Auditor***

Every registered insurer must appoint an independent auditor approved by the Bermuda Monetary Authority which we refer to as an approved auditor who will annually audit and report on the statutory financial statements, solvency certificate and declaration of statutory ratios. The statutory financial statements and the statutory financial return of the insurer, in the case of Twin Bridges, will be required to be filed annually with the Bermuda Monetary Authority. The approved auditor of Twin Bridges may be the same person or firm which audits Twin Bridges' statutory financial statements and statutory financial returns and Twin Bridges' financial statements prepared in accordance with U.S. generally accepted accounting principles. Twin Bridges' approved auditor is currently PriceWaterhouseCoopers.

#### ***Loss Reserve Specialist***

As a registered Class 3 insurer, Twin Bridges will be required to submit annually an opinion of a loss reserve specialist, who must be approved by the Bermuda Monetary Authority, with its statutory financial return and statutory financial statement in respect of its loss and loss adjustment expense provisions. We have appointed Simon Lambert, FIA, MAA, as our qualified loss reserve specialist.

#### ***Statutory Financial Statements***

Twin Bridges is required to file with the Bermuda Monetary Authority statutory financial statements no later than four months after its financial year end (unless specifically extended). The Bermuda Insurance Act prescribes rules for the preparation and form of such statutory financial statements (which include, in statutory form, a balance sheet, an income statement, a statement of capital and surplus and notes thereto). The insurer is required to give detailed information and analyses regarding premiums, claims, reinsurance and investments. The statutory financial statements are not prepared in accordance with U.S. generally accepted accounting principles and are distinct from the financial statements prepared for presentation to the insurer's shareholders under the Companies Act, which financial statements will be prepared in accordance with U.S.

generally accepted accounting principles. Twin Bridges, as a general business insurer, is required to submit the annual statutory financial statements as part of the annual statutory financial return. The statutory financial statements and the statutory financial return are retained by the Bermuda Monetary Authority and do not form part of the public records.

***Annual Statutory Financial Return***

Twin Bridges is required to file with the Bermuda Monetary Authority a statutory financial return no later than four months after its financial year end (unless specifically extended). The statutory financial return for a Class 3 insurer includes, among other matters, a report of the approved auditor on the statutory financial statements of such insurer, the solvency certificates, the declaration of statutory ratios, the statutory financial statements and the opinion of the approved loss reserve specialist. The solvency certificates must be signed by the principal representative and at least two directors of the insurer who are required to certify, among other matters, whether the minimum solvency margin has been met and whether the insurer complied with the conditions attached to its certificate of registration. The approved auditor is required to state whether in its opinion it was reasonable for the directors to so certify. Where an insurer’s accounts have been audited for any purpose other than compliance with the Bermuda Insurance Act, a statement to that effect must be filed with the statutory financial return.

***Solvency Margin and Restrictions on Dividends and Distributions***

Under the Bermuda Insurance Act, the value of the general business assets of a Class 3 insurer must exceed the amount of its general business liabilities by an amount greater than the prescribed solvency margin. Twin Bridges is required, with respect to its general business, to maintain a minimum solvency margin equal to the greatest of:

- (A) \$1,000,000
- (B)

Net Premium Written (“NPW”)	Prescribed Amount
Up to \$6,000,000	20% of NPW
Greater than \$6,000,000	The aggregate of \$1,200,000 and 15% of the amount by which NPW exceeds \$6,000,000 in that year; and
- (C) 15% of the aggregate of the insurer’s loss expense provisions and other general business insurance reserves.

Generally, net premium written equals gross premium written after deduction of any premium ceded by the insurer for reinsurance.

Twin Bridges is prohibited from declaring or paying any dividends during any financial year if it is in breach of its solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, if it has failed to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, Twin Bridges will be prohibited, without the approval of the Bermuda Monetary Authority, from declaring or paying any dividends during the next financial year. Twin Bridges is prohibited, without the approval of the Bermuda Monetary Authority, from reducing by 15% or more its total statutory capital as set out in its previous year’s financial statements, and any application for such approval shall provide such information as the Bermuda Monetary Authority may require. In addition, if Twin Bridges at any time fails to meet its solvency margin, it will be required, within 30 days after becoming aware of such failure or having reason to believe that such failure has occurred, to file with the Bermuda Monetary Authority a written report containing certain information as outlined in the Bermuda Insurance Act.

Under the Companies Act, Twin Bridges may not declare or pay a dividend, or make a distribution from contributed surplus, if there are reasonable grounds for believing that it is, or would after the payment be,



unable to pay its liabilities as they become due, or if the realizable value of its assets would be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

### ***Minimum Liquidity Ratio***

The Bermuda Insurance Act provides a minimum liquidity ratio for general business insurers. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on mortgage loans on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding reinsurers. There are certain categories of assets which, unless specifically permitted by the Bermuda Monetary Authority, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities and letters of credit, guarantees and other instruments (by interpretation, those not specifically defined).

### ***Supervision, Investigation and Intervention***

The Bermuda Monetary Authority may appoint an inspector with extensive powers to investigate the affairs of an insurer if the Bermuda Monetary Authority believes that an investigation is required in the interest of the insurer's policyholders or persons who may become policyholders. In order to verify or supplement information otherwise provided to the Bermuda Monetary Authority, the Bermuda Monetary Authority may direct an insurer to produce documents or information relating to matters connected with the insurer's business.

If it appears to the Bermuda Monetary Authority that there is a risk of the insurer becoming insolvent, or that it is in breach of the Bermuda Insurance Act or any conditions imposed upon its registration, the Bermuda Monetary Authority may, among other things, direct the insurer:

- not to take on any new insurance business;
- not to vary any insurance contract if the effect would be to increase the insurer's liabilities;
- not to make certain investments;
- to realize certain investments;
- to maintain in, or transfer to the custody of, a specified bank, certain assets;
- not to declare or pay any dividends or other distributions or to restrict the making of such payments; and/or
- to limit its premium income.

### ***Disclosure of Information***

In addition to powers under the Bermuda Insurance Act to investigate the affairs of an insurer, the Bermuda Monetary Authority may require the insurer (or certain other persons) to produce certain information to it. Further, the Bermuda Monetary Authority has been given powers to assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations involving insurance and reinsurance companies in Bermuda but subject to restrictions. For example, the Bermuda Monetary Authority must be satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities of the foreign regulatory authority. Further, the Bermuda Monetary Authority must consider whether cooperation is in the public interest. The grounds for disclosure are limited and the Bermuda Insurance Act provides sanctions for breach of the statutory duty of confidentiality.

### ***Bermuda Guidance Notes***

The Insurance Amendment Act 2004, or the Amendment Act, authorized the Bermuda Monetary Authority to issue guidance notes, which we refer to as the Bermuda Guidance Notes, on the application of the Insurance Act in respect of the duties, requirements and standards to be complied with by persons registered under the Bermuda Insurance Act or otherwise regulated under it and the procedures and sound principles to be observed by such persons and by auditors, principal representatives and loss reserve specialists. In March 2005, the Bermuda Monetary Authority issued the Bermuda Guidance Notes through its web site at [www.bma.bm](http://www.bma.bm), which provides guidance on, among other things, the roles of the principal representative, approved auditor, and approved actuary and corporate governance for Bermuda insurers. The Bermuda Monetary Authority has stated that the Bermuda Guidance Notes should be understood as reflecting the minimum standard that the Bermuda Monetary Authority expects insurers such as Twin Bridges and other relevant parties to observe at all times. With respect to the regulatory changes brought about by the Amendment Act and which are referenced in the Bermuda Guidance Notes, parties must take immediate steps to ensure they are in compliance with the same. In relation to other matters contained in the Bermuda Guidance Notes, the Bermuda Monetary Authority encourages insurers and other relevant parties to come into compliance as soon as possible and, in any event, no later than 31st December 2005 or a later date as may be agreed with the Bermuda Monetary Authority in a particular case.

### ***Certain other Considerations***

Although CRM Holdings is incorporated in Bermuda, we are classified by the Bermuda Monetary Authority as a non-resident of Bermuda for exchange control purposes. As a result, we may engage in transactions in currencies other than Bermuda dollars and there are no restrictions on its ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to U.S. residents who are holders of its common shares.

Under Bermuda law, exempted companies are companies formed with the ability to conduct business outside Bermuda from a principal place of business in Bermuda. As “exempted” companies, neither we, nor our subsidiary Twin Bridges may, without the express authorization of the Bermuda legislature or under a license or consent granted by the Minister of Finance, participate in certain business transactions, including:

the acquisition or holding of land in Bermuda (except land held by way of lease or tenancy agreement which is required for its business and held for a term not exceeding 50 years, or which is used to provide accommodation or recreational facilities for its officers and employees and held with the consent of the Bermuda Minister of Finance, for a term not exceeding 21 years);

(subject to certain provisos) the taking of mortgages on land in Bermuda to secure an amount in excess of \$50,000 (or whereby any such mortgage shall together with any other principal sum or sums received by any other mortgage or mortgages held by such company from the same mortgagor or mortgagors exceed the sum of \$50,000);

to acquire any bonds, or debentures secured on any land in Bermuda, except bonds or debentures issued by the Government of Bermuda or a public authority of Bermuda; or

the carrying on of business of any kind or type for which it is not licensed in Bermuda, except in certain limited circumstances such as doing business with another exempted undertaking in furtherance of CRM Holdings’ or Twin Bridges’ business carried on outside Bermuda.

Twin Bridges is a licensed insurer in Bermuda, and it is expected that it will be able to carry on activities from Bermuda that are related to and in support of its insurance business in accordance with its license.

Shares may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003, and the Exchange Control Act 1972, and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the Bermuda Monetary Authority, pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the Bermuda Monetary

Authority has granted a general permission. The Bermuda Monetary Authority in its policy dated June 1, 2005 provides that where any equity securities, including our common shares, of a Bermuda company are listed on an appointed stock exchange, general permission is given for the issue and subsequent transfer of any securities of a company from and/or to a non-resident, for as long as any equities securities of such company remain so listed. The Nasdaq National Market is deemed to be an appointed stock exchange under Bermuda law. Notwithstanding the above general permission, the Bermuda Monetary Authority has granted CRM Holdings permission to, subject to the common shares in CRM Holdings being listed on an appointed stock exchange, issue, grant, create, sale and transfer any of CRM Holdings' shares, stock, bonds, notes (other than promissory notes), debentures, debenture stock, units under a unit trust scheme, shares in an oil royalty, options, warrants, coupons, rights and depository receipts, or collectively the Securities, to and among persons who are either resident or non-resident of Bermuda for exchange control purposes, whether or not the Securities are listed on an appointed stock exchange. The Bermuda Monetary Authority and the Registrar of Companies accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus.

Under Bermuda law, there are no restrictions on the degree of foreign ownership, and neither we nor our subsidiary Twin Bridges is currently subject to taxes computed on profits or income or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax or to any foreign exchange controls in Bermuda. See "Material Tax Considerations – Certain Bermuda Tax Considerations."

Under Bermuda law, non-Bermudians (other than spouses of Bermudians and permanent residents) may not engage in any gainful occupation in Bermuda without a work permit issued by the Bermuda Department of Immigration. Such work permits may be granted or extended upon showing that, after proper public advertisement, no Bermudian, or spouse of a Bermudian or individual holding a permanent resident certificate is available who meets the minimum standards for the advertised position. None of our executive officers is a Bermudian, and all such officers will be working in Bermuda under work permits. In April 2001, the Bermuda government announced a policy that places a six-year term limit on individuals with work permits, subject to certain exceptions for key employees. We expect to employ primarily non-Bermudians.

## **U.S. State and Federal Regulation**

### ***Credit for Reinsurance***

The self-insured groups we manage are required to purchase excess workers' compensation coverage from a U.S. admitted insurer to cover claims that exceed a minimum level established by state law or regulation or by administrative determination. NY Marine & General and other insurers provide this coverage and we reinsure a portion of NY Marine & General's coverage, through our subsidiary Twin Bridges.

Admitted insurers, such as NY Marine & General, ordinarily will enter into a reinsurance agreement only if it can obtain credit for the reinsurance ceded on its statutory financial statements. In general, credit for reinsurance is allowed in the following circumstances:

if the reinsurer is licensed in the state in which the primary insurer is domiciled or, in some instances, in certain states in which the primary insurer is licensed;

if the reinsurer is an "accredited" or otherwise approved reinsurer in the state in which the primary insurer is domiciled or, in some instances, in certain states in which the primary insurer is licensed;

in some instances, if the reinsurer (a) is domiciled in a state that is deemed to have substantially similar credit for reinsurance standards as the state in which the primary insurer is domiciled and (b) meets financial requirements; or

if none of the above apply, to the extent that the reinsurance obligations of the reinsurer are secured appropriately, typically through the posting of a letter of credit for the benefit of the primary insurer or the deposit of assets into a trust fund established for the benefit of the primary insurer.

Because Twin Bridges is not licensed, accredited or otherwise approved by or domiciled in any state in the United States, a U.S. admitted insurer, such as NY Marine & General, is generally only willing to cede



business to us if we provide adequate security to allow it to take credit on its balance sheet for the reinsurance it purchases. We are only able to provide adequate security, typically through the posting of a letter of credit or deposit of assets into a security fund for the benefit of the U.S. admitted insurer, if we have in place a letter of credit facility or are otherwise able to provide necessary security. We currently have a facility with KeyBank National Association and informal arrangements with KeyBank and Smith Barney Citigroup, and through these arrangements we provide NY Marine & General with letters of credit as security for our aggregate liability under our reinsurance agreement with NY Marine & General. If we fail to maintain an adequate letter of credit facility on terms acceptable to us and are unable to otherwise provide the necessary security, insurance companies, such as NY Marine & General, may be unwilling to reinsure with us.

### ***Operations of Twin Bridges***

Twin Bridges is not licensed or admitted to do business in the United States. The insurance laws of each state of the United States and of many other countries regulate or prohibit the sale of insurance and reinsurance within their jurisdictions by non-domestic insurers and reinsurers that are not admitted to do business within such jurisdictions. We do not intend to allow Twin Bridges to maintain an office or solicit, advertise, settle claims or conduct other insurance activities in any jurisdiction without a license, unless it can do so subject to an exemption from the licensing requirement or as an approved or accredited surplus lines insurer. We intend to operate Twin Bridges in compliance with the U.S. state and federal laws, however, it is possible that a U.S. regulatory agency may raise inquiries or challenges to this subsidiary's insurance and reinsurance activities in the future. If Twin Bridges fails to respond to such inquiries or challenges in a manner that satisfies the regulatory agency, they may take legal or administrative action against Twin Bridges. Such action may have a material adverse effect on our reputation, business and financial condition.

### ***Gramm Leach Bliley Act***

The Gramm Leach Bliley Act, or GLBA, which made fundamental changes in the regulation of the financial services industry in the United States was enacted on November 12, 1999. The GLBA permits the transformation of the already converging banking, insurance and securities industries by permitting mergers that combine commercial banks, insurers and securities firms under one holding company, a "financial holding company." Bank holding companies and other entities that qualify and elect to be treated as financial holding companies may engage in activities, and acquire companies engaged in activities, that are "financial" in nature or "incidental" or "complementary" to such financial activities. Such financial activities include acting as principal, agent or broker in the underwriting and sale of life, property, casualty and other forms of insurance and annuities.

Until the passage of the GLBA, the Glass-Steagall Act of 1933 had limited the ability of banks to engage in securities-related businesses, and the Bank Holding Company Act of 1956, as amended had restricted banks from being affiliated with insurers. With the passage of the GLBA, among other things, bank holding companies may acquire insurers, and insurance holding companies may acquire banks. The ability of banks to affiliate with insurers may materially and adversely affect our U.S. subsidiaries' business and financial condition by substantially increasing the number, size and financial strength of potential competitors.

### **New York and California Regulation**

The groups we manage are subject to state law and regulation by workers' compensation boards or similar authorities in New York and California, the states in which they operate. As part of our fee-based management services, we assist the groups we manage in complying with these laws and regulations. In addition, we become subject to these same laws and regulations arising from our activities in forming and marketing these self-insured groups.

Although such requirements vary from state to state, each self-insured group must generally meet certain minimum requirements.

For example, the members of a group must have and maintain a minimum aggregate net worth. In New York, with the exception of groups consisting of municipal corporations, each group must have and maintain a

minimum combined annual payroll of group members, excluding payroll attributable to out-of-state employees of the members and uncovered employees.

Regarding the composition of each group, in New York, homogeneity in the nature of the business activities of all members of a group must exist and each group must include employers that have been in business for a period of time which is acceptable to the chair of the New York State Workers' Compensation Board. In California, each group must be composed of employers in the same industry under the California workers' compensation statutes and regulations.

As we form new groups, we must submit a comprehensive application to the state regulatory agencies. These applications must include, among other things, a current payroll report for each member of the group and a description of the safety program, if any, proposed for the employer group. In New York, an actuarial feasibility study directed and certified by an independent qualified actuary and a report identifying the projected rate of contribution and assessments to be paid by each member for the first year of the group's operation, and the manner in which such contributions and assessments were calculated, are also required. In California, a feasibility study prepared by an independent risk management individual or firm is required.

In addition, in connection with the formation of a new self-insured group, each new group will be required to deposit with the applicable regulatory agency securities, surety bonds and/or irrevocable letters of credit which may be liquidated by the regulatory agency in the event that the group is unable to pay its liabilities.

After a group is formed, it is subject to a number of regulations with respect to its operations. Pursuant to these regulations, each group:

- must receive prior approval from the applicable state regulatory agency prior to admitting a new member;

- is required to purchase excess workers' compensation coverage to cover loss above levels established by the applicable state regulatory agency;

- must follow mandatory guidelines with respect to the investment of the funds collected by the group and must follow additional guidelines with respect to the use of the funds;

- is subject to periodic audit and review of the group's financial statements and contribution rates by the applicable regulatory agency; and

- must maintain assets in an amount which exceeds its liabilities.

In the event that a group is unable to maintain assets in an amount which exceeds its liabilities, the group may be limited in the amount of new members that it may add, may be required to assess its members in order to remedy such deficiency, deposit additional security with the applicable regulatory agency or, in certain circumstances, be dissolved.

Each group is also subject to periodic reporting and disclosure requirements and must file with the applicable regulatory agency audited financial statements, actuarial reports and payroll reports. In California, the self-insured groups are required to periodically submit audited or reviewed financial statements of their members.

Both we and the groups we manage in New York are subject to certain disclosure requirements and other regulations with respect to the solicitation of new members and the preparation of marketing material with respect to the groups.

We are licensed by the New York Workers' Compensation Board as a third party claims administrator in New York. Under California law, we are not permitted to manage the claims of the groups we manage in California. Therefore, our groups in California contract with an independent third party administrator to perform this task.

Some of the regulations described above are undergoing review and are subject to change in both New York and California. For information concerning possible changes in the regulations in New York and California, see "Risk Factors – The regulations applicable to workers' compensation self-insured groups are

undergoing review and are subject to change in both New York and California, and regulations applicable to insurance brokers are undergoing review, and we may be adversely affected by any changes in those laws.”

### **Legislative and Regulatory Proposals**

From time to time, various regulatory and legislative changes have been proposed in the insurance and reinsurance industry. These proposals have included the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers. Federal legislation is also being discussed that would require all states to adopt uniform standards relating to the regulation of products, licensing, rates and market conduct. We are unable to predict whether any of these or other proposed laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on our operations and financial condition.

**MANAGEMENT**

The following table sets forth certain information regarding our executive officers and directors.

Name	Age	Title
Daniel G. Hickey, Jr.(3)	38	Co-Chief Executive Officer and Chairman of the Board
Martin D. Rakoff(3)	41	Co-Chief Executive Officer and Deputy Chairman of the Board
Louis J. Viglotti, Esq.	49	General Counsel and Assistant Secretary
Chester J. Walczyk	50	Chief Operating Officer
James J. Scardino	52	Chief Financial Officer
David M. Birsner(1)	38	Director
Allan W. Fulkerson(3)	72	Director
Daniel G. Hickey, Sr.(1)	61	Director
Keith S. Hynes(2)	53	Director
Philip J. Magnarella(1)	68	Director
Salvatore A. Patafio(2)	61	Director
Louis Rosner, Esq.(2)	57	Director

- (1) Denotes Class I Director with term expiring in 2006.  
 (2) Denotes Class II Director with term expiring in 2007.  
 (3) Denotes Class III Director with term expiring in 2008.

Our bye-laws provide for a classified board comprised of three classes of three directors, with each class to serve a term of three years.

*Daniel G. Hickey, Jr. – Co-Chief Executive Officer and Chairman of the Board.* Mr. Hickey has served as our Co-Chief Executive Officer and Chairman of the Board since September 2005, and has served as President of CRM since its formation in 1999. He also has served as President of Eimar and CRM CA, since 2001 and 2003, respectively, and as Chairman of the Board of Twin Bridges since 2003. Mr. Hickey has more than 15 years of insurance industry experience. Mr. Hickey graduated from Northeastern University with a B.A. in Finance (with concentrations in insurance and investments). Daniel G. Hickey, Jr. is the son of Daniel G. Hickey, Sr., who is a director of the Company.

*Martin D. Rakoff – Co-Chief Executive Officer and Deputy Chairman of the Board.* Mr. Rakoff has served as our Co-Chief Executive Officer and Deputy Chairman of the Board since September 2005, and has served as Chief Executive Officer of CRM since its formation in 1999. He also has served as Chief Executive Officer of Eimar and CRM CA since 2000 and 2003, respectively, and as Deputy Chairman of the Board of Twin Bridges since 2003. He began his career in 1986, as a national administrator and has since developed significant experience working in claims administration. Mr. Rakoff graduated from Temple University with a B.A. in Journalism.

*Louis J. Viglotti, Esq. – General Counsel and Assistant Secretary.* Mr. Viglotti has served as our General Counsel and Assistant Secretary since September, 2005 and has served as General Counsel of CRM since 2001, and has served as General Counsel of Eimar and CRM CA since 2001 and 2003, respectively. Upon the closing of this offering, Mr. Viglotti will be the Secretary of CRM Holdings. He also has served as a Director of Twin Bridges since 2003. Mr. Viglotti has over 20 years of legal experience. Prior to 2001, he was a partner in the law firm of Vergilis, Stenger, Roberts, Pergament & Viglotti in Poughkeepsie, New York, and he continues to be associated with such firm as a contract attorney. Mr. Viglotti graduated from Marist College, with a B.A. in Pre-Law and holds a J.D. from Pace University School of Law.

*Chester J. Walczyk – Chief Operating Officer.* Mr. Walczyk has served as our Chief Operating Officer since September 2005 and has served as Vice President of Loss Control of CRM from 2000 to January 2003,

when he was promoted to Senior Vice President of Loss Control and Risk Management, which position he also held with regard to CRM CA from October 2003. In November 2004, he became Chief Operating Officer of CRM CA. In July 2005, he became Chief Operating Officer of CRM. Mr. Walczyk began his career in the industry in 1980 as a Loss Control Consultant. Mr. Walczyk holds the professional designation of Associate in Risk Management (ARM) and has significant experience in the areas of risk management, underwriting, product development and marketing, which he has used to develop and present training seminars throughout the country. Mr. Walczyk graduated from the State University of New York at Buffalo with a B.S. in Industrial Technology.

*James J. Scardino – Chief Financial Officer.* Mr. Scardino has served as our Chief Financial Officer since September 2005 and has served as Senior Vice President and Chief Financial Officer of CRM since August 2005. From 2003 to 2005, Mr. Scardino held the position of Senior Vice President, Finance with RSC Insurance Brokerage, Inc., where his responsibilities included financial management. From March 2000 until May 2003, Mr. Scardino was Executive Vice President of Allied American Insurance Agency, Inc., where he was responsible for program management. Mr. Scardino graduated from the University of California, Berkeley with a B.A. in Anthropology and holds an M.B.A. from the Amos Tuck School of Business at Dartmouth College.

*David M. Birsner – Director.* Mr. Birsner has served as a member of our board of directors since September 2005. Since 1996, Mr. Birsner has served as an insurance broker for and a member of the board of directors of Hickey-Finn and Company, Inc., where his responsibilities have involved insurance sales and service. Mr. Birsner graduated from Siena College with a B.A. in Marketing.

*Allan W. Fulkerson – Director.* Mr. Fulkerson has served as a member of our board of directors since November 2005. From 1994 through December 2004, Mr. Fulkerson has served as President and Director of Century Capital Management, Inc., an investment management firm specializing in both private and public equity investing in the financial services and risk management industries. In addition, he served as Chairman of Century Shares Trust from June 1976 to January 2004. His current directorships include: Argonaut Group, Inc; Asset Allocation and Management, LLC; HCC Insurance Holdings, Inc.; and Montpelier RE Holdings, Ltd. Previously-held directorships include: SCUUL, Ltd.; Tempest Reinsurance Co.; Terra Nova (Bermuda) Holdings, Inc.; and Wellington Underwriting plc. Mr. Fulkerson graduated from Williams College with a B.A. in American History and Literature.

*Daniel G. Hickey, Sr. – Director.* Mr. Hickey has served as a member of our board of directors since September 2005. He has also served as a member of the board of managers of each of CRM, Eimar and CRM CA since 1999, 2001 and 2003, respectively, and as a Director of Twin Bridges since 2003. Mr. Hickey has served as President of Hickey-Finn and Company, Inc., an insurance brokerage firm, since 1980, where his responsibilities have involved sales and management functions. Mr. Hickey graduated from Marist College with a B.A. in Psychology. Daniel G. Hickey, Sr. is the father of Daniel G. Hickey, Jr., who is our Co-Chief Executive Officer and Chairman of the Board.

*Keith S. Hynes – Director.* Mr. Hynes has served as a member of our board of directors since November 2005. Mr. Hynes has served as Executive Vice President and Chief Financial Officer of Max Re Capital Ltd. since September 1999. Mr. Hynes has served as President of Grand Central Re since May 2001, and as a director of Max Europe Holdings and Max Insurance Europe since June 2003, a director of Max Re Diversified since October 2001, a director of Max Re Managers since January 2001 and a director of Max Re Europe since April 2000. From 1994 to 1999, Mr. Hynes held various senior management positions at Renaissance Re Holdings, Ltd. Prior to such time, Mr. Hynes held various positions at Hartford Steam Boiler Inspection and Insurance Co. From 1978 to 1983, he held various positions, including Assistant Vice President, at Aetna Life and Casualty Company. Mr. Hynes is a chartered financial analyst admitted to the CFA Institute and has served as a director of DaVinciRe Holdings Ltd. since 2001. Mr. Hynes graduated from the State University of New York at Albany with a B.S. in math and computer science and holds an M.B.A. in Finance and Accounting from the Amos Tuck School of Business at Dartmouth College.

## [Table of Contents](#)

*Philip J. Magnarella – Director.* Mr. Magnarella has served as a member of our board of directors since September 2005. Mr. Magnarella has significant experience working in various areas of education. From 1994 until 2004, Mr. Magnarella held various administrative and consulting positions with the Moore County Schools in Carthage North Carolina. From 2000 until 2004, Mr. Magnarella was also a program evaluator for Sandhills Community College and Hoke County Schools, both in North Carolina. Mr. Magnarella graduated from the State University College at Buffalo with a B.S. degree in Industrial Arts Education and holds an M.Ed from the State University New York at Buffalo in Counseling and Guidance, a CAS from the State University College, New Paltz, a N.Y. in Education Administration, and an Ed.D from Columbia University, New York, N.Y. in Education Administration.

*Salvatore A. Patafio – Director.* Mr. Patafio has served as a member of our board of directors since September 2005. Mr. Patafio has extensive experience in various aspects of human resources. Mr. Patafio has served as Human Resources Manager, Commercial Alliances at IBM Corporation since July 2004. From 2002 until 2004, Mr. Patafio held the position of Manager of Human Resources at Micron Technology. For more than five years prior to 2002, Mr. Patafio was a Human Resources Consultant at Dominion Semiconductor L.L.C. Mr. Patafio graduated from the University of Bridgeport with a B.S. in Industrial and Labor Relations.

*Louis Rosner, Esq. – Director.* Mr. Rosner has served as a member of our board of directors since September 2005. Mr. Rosner has been involved in the private practice of law, concentrating in employment, labor relations and related business matters, since 1981. Prior to such time he was a Board Attorney and Litigation Specialist with the National Labor Relations Board. Mr. Rosner graduated from Cornell University with a B.S. degree and holds a J.D. from Antioch School of Law.

### Executive Compensation

The following table sets forth certain information concerning the compensation of our co-chief executive officers and each of our other executive officers who earned over \$100,000 for the year ended December 31, 2004. These individuals are collectively referred to as the “Named Executive Officers”. The compensation set forth below reflects their compensation as executives of CRM.

Name and Principal Position	Year	Annual Compensation			Long Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards	Securities Underlying Options/SARs (#)	Payouts	All Other Compensation (\$)(1)
					Restricted Stock Awards(s) (\$)		LTIP Payouts (\$)	
Daniel G. Hickey, Jr. Co-chief Executive Officer	2004	250,000	692,383	–	–	–	–	10,750
Martin D. Rakoff Co-chief Executive Officer	2004	250,000	692,383	–	–	–	–	3,925
Louis J. Viglotti General Counsel	2004	250,000	–	–	–	–	–	4,016
Chester J. Walczyk Chief Operating Officer	2004	112,306	9,500	–	–	–	–	10,779

- (1) These amounts are composed of life insurance policies for the benefit of the officers, vehicle allowances, vehicle insurance and 401(k) matching contributions.

### Our Board of Directors and Corporate Action

Our bye-laws provide that the board of directors shall consist of not less than two nor more than twenty directors, as determined by the shareholders at an annual general meeting of the shareholders, divided into three approximately equal classes. Upon the closing of this offering, our board of directors will be comprised of three Class I directors whose initial term will expire at our 2006 annual shareholders’ meeting, three Class II directors whose initial term will expire at our 2007 annual shareholders’ meeting and three Class III directors whose initial term will expire at our 2008 annual shareholders’ meeting. After the initial

terms of these directors, the term of each class of directors elected shall be three years. Directors may only be removed prior to the expiration of such director's term at a special meeting of shareholders called for that purpose. The appointment or removal of a director requires the simple majority of votes cast, in person or by proxy, at the meeting at which the proposal is put forth.

## **Board Committees**

Our board of directors has established an audit committee, compensation committee and nominating and corporate governance committee comprised entirely of independent directors.

### ***Audit Committee***

The audit committee assists our board of directors in monitoring the integrity of our financial statements, the independent auditor's qualifications and independence, performance of our independent auditors and our compliance with legal and regulatory requirements. The audit committee's responsibilities also include appointing, reviewing, determining funding for and overseeing our independent auditors and their services. Further, the audit committee, to the extent it deems necessary or appropriate among other responsibilities, shall:

- review and discuss with appropriate members of our management and the independent auditors our audited financial statements, related accounting and auditing principles, practices and disclosures;

- review and discuss our audited annual and unaudited quarterly financial statements prior to the filing of such statements;

- establish procedures for the receipt, retention and treatment of complaints we receive regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding our financial statements or accounting policies;

- review reports from the independent auditors on all critical accounting policies and practices to be used for our financial statements and review the results of those audits; and

- monitor the adequacy of our operating and internal controls as reported by management and the independent or internal auditors.

Allan W. Fulkerson is the chairman of our audit committee, and the other members of our audit committee are Keith S. Hynes and Salvatore A. Patafio. We believe that each of these members qualifies as an independent director under the Nasdaq listing standards.

### ***Compensation Committee***

The compensation committee's responsibilities include:

- reviewing and approving corporate and individual goals and objectives relevant to the compensation of our Co-Chief Executive Officers and other executive officers;

- evaluating the performance of our Co-Chief Executive Officers and other executive officers in light of such corporate and individual goals and objectives and, based on that evaluation, together with the other independent directors if directed by the board of directors, determining the base salary and bonus of the Co-Chief Executive Officers and other executives officers;

- administering any management incentive plan, stock option plan or other similar plan we may adopt and approving all grants made pursuant to such plan; and

- making recommendations to our board of directors regarding director compensation and any equity-based compensation plans.

Salvatore A. Patafio is the chairman of our compensation committee, and the other member of our compensation committee is Philip J. Magnarella. We believe that each of these members qualifies as an independent director under the Nasdaq listing standards.



### ***Nominating and Corporate Governance Committee***

The nominating and corporate governance committee is responsible for assisting our board of directors by:

identifying individuals qualified to become directors for recommendation to our board of directors;

identifying and recommending for appointment to our board of directors, directors qualified to fill vacancies on any committee of our board of directors;

having sole authority to retain and terminate any consultant or search firm to identify director candidates and having sole authority to approve the consultant or search firm's fees and other retention terms;

developing and recommending to the board a set of corporate governance principles and code of business conduct and ethics applicable to us; and

exercising oversight of the evaluation of the board and management.

Philip J. Magnarella is the chairman of our nominating and corporate governance committee, and the other members of our nominating and corporate governance committee are Salvatore A. Patafio and Louis Rosner. We believe that each of these members qualifies as an independent director under the Nasdaq listing standards.

### **Non-Employee Director Compensation**

Each of our non-employee directors will receive annual compensation of \$50,000 in cash and \$25,000 in restricted common shares. Those directors who serve on our compensation committee or governance and nominating committee will receive an additional \$10,000 in cash for each committee on which such director serves, except that the chairperson of such committee will receive \$15,000 instead of \$10,000. Those directors who serve on our audit committee will receive an additional \$25,000 in cash, except that the chairperson of such committee will receive \$50,000 instead of \$25,000. The restricted common shares granted to our non-employee directors will vest over three years, at a rate of one-third each year. We will reimburse our non-employee directors for any out-of-pocket expenses incurred by them in connection with services provided in such capacity.

### **2005 Long-Term Incentive Plan**

Our 2005 Long-Term Incentive Plan, or 2005 Plan, was adopted by our board of directors in November 2005. Our 2005 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted shares, stock appreciation rights, performance awards, restricted share units, phantom shares and other share based awards to our employees, consultants and directors, and employees, consultants and directors of our subsidiaries and affiliates.

*Share Reserve.* A total of 1,500,000 common shares are authorized for issuance under the 2005 Plan. Of these shares, no more than 1,000,000 may be issued upon exercise of incentive stock options under the plan. Appropriate adjustments will be made to the number of authorized shares under our 2005 Plan and to the shares subject to outstanding awards in the event of any large, special and non-recurring dividend or other distribution, recapitalization, share split, share dividend or other change in our capital structure in order to account for the changed circumstances.

Shares subject to awards under the 2005 Plan which are canceled, forfeited, expired, settled in cash, settled by issuance of fewer shares than the number underlying the award or otherwise terminated, and shares surrendered to us as payment of exercise price, or withholding tax, will again become available for grants under the 2005 Plan to the extent not issued. Common shares granted to satisfy awards under the 2005 Plan may be authorized and unissued shares.

No more than 500,000 shares may be subject to the total awards granted under the 2005 Plan to any individual participant in a given calendar year.

*Administration of Awards.* Our compensation committee will administer our 2005 Plan. The committee will include the appropriate number of outside directors with the appropriate qualifications in the case of awards intended to satisfy the independence or other requirements of exceptions under Code Section 162(m) for performance-based compensation, Rule 16b-3 under the Exchange Act, or any applicable exchange or quotation system rules. Subject to certain limitations, including as set forth in any employment agreement, the committee has the power and discretionary authority to determine the terms and conditions of the awards, including the individuals who will receive awards, the term of awards, the exercise price, the number of shares subject to each award, the limitations or restrictions on vesting and exercisability of awards, the acceleration of vesting or the waiver of forfeiture or other restrictions on awards, the form of consideration payable on exercise, whether awards will be adjusted for dividend equivalents, and the timing of grants. The committee also has the power to modify, amend or adjust the terms and conditions of outstanding awards, under certain limited circumstances, to create other share based awards for issuance under the 2005 Plan, to arrange for financing by broker-dealers, to establish award exercise procedures (including “cashless exercise”) and to establish procedures for payment of withholding tax obligations with cash or shares. The committee anticipates making awards under our 2005 Plan at the closing of this offering of 86,214 restricted common shares to certain of our employees and additional restricted common shares having an aggregate value of \$50,000 to our non-employee directors, which shares will vest over three years at a rate of one-third of the grant each year. None of these shares is deemed outstanding under the laws of Bermuda until such shares vest.

*Stock options.* The committee may grant options that are intended to qualify as incentive stock options, or non-qualified options. The committee will determine the exercise price of options granted under our 2005 Plan, but except as required by law of a foreign jurisdiction or due to a merger, amalgamation or other corporate transaction, the exercise price of an option may not be less than 100% of fair market value of our common shares on the date the option is granted. For incentive stock options granted to any participant who owns at least 10% of the voting power of all classes of our outstanding shares prior to the application of our limitation on voting rights, the option award must not have a term longer than 5 years, and must have an exercise price that is at least 110% of fair market value of our common shares on the date of grant. No options may be granted for a term longer than 10 years.

*Automatic Non-Employee Director Awards.* Our 2005 Plan provides that all eligible non-employee directors will receive automatic nondiscretionary grants of restricted common shares under the plan. Upon the closing of this offering and annually thereafter on the date of the annual shareholders meeting, each non-employee director, subject to an annual evaluation overseen by the committee, will be automatically granted a restricted stock award with a fair market value of \$25,000, prorated for the period of time the director has served on the board in the case of grants made upon the closing of this offering. At its discretion, our board is authorized to add or substitute grants of other such awards under the 2005 Plan, including stock options and restricted share units. Our initial grant of restricted shares to our non-employee directors will be made upon the closing of this offering.

*Restricted Shares.* Restricted share awards are common shares that vest in accordance with restrictions that are determined by the committee. The committee has the discretion to determine the individuals who will receive a restricted share award, the number of shares granted, when the shares will be paid to the participant, whether the shares will be issued at the beginning or the end of a restricted period, and any other terms and conditions with respect to vesting, deferral, payment options and other award characteristics as it deems appropriate. Any award based solely on continued employment or the passage of time will generally vest ratably over a minimum three-year period, subject to certain exceptions for de minimis awards, death, disability or retirement. In the case of performance based awards, vesting will generally occur over a performance period of not less than one year. Generally, unless the committee decides otherwise, upon a participant’s termination of employment for any reason, restricted shares that have not vested are immediately forfeited to us.

*Restricted Share Units.* Restricted share unit awards may consist of grants of restricted shares, which may be payable in installments or on a deferred basis. The restricted share units will contain such terms and conditions, which may include performance goals or other criteria, as the committee deems appropriate, and may be payable in cash, common shares, or a combination of both.

*Stock Appreciation Rights.* Stock appreciation rights, or SARs, may be granted in conjunction with a related option, as tandem SARs, or separately as free standing SARs. SARs generally allow the participant to receive the appreciation on the fair market value of our common shares between the date of grant and the exercise date, for the number of our common shares with respect to which the SAR is being exercised or a cash payment equal in value to such common shares. Tandem SARs are generally exercisable based on certain terms and conditions of the underlying options. Free standing SARs are granted with a base price not less than 100% of the fair market value of our common shares on the date of grant and are subject to terms and conditions as determined by the committee. The committee may provide that SARs be payable in cash, in common shares, or a combination of both, and subject to any limitations or other conditions as it deems appropriate. SARs may be payable on a deferred basis only to the extent provided for in the participant's award agreement.

*Performance Awards.* Performance awards are awards that will result in a payment to a participant only if performance goals established by the committee are achieved or the awards otherwise vest. The committee will establish, in its discretion, performance goals, which will determine the value of awards, to be paid out to participants. The committee will also set the time periods during which the performance goals must be met. The performance goals may be based upon the achievement of certain financial, market, or strategic business goals, as listed in the 2005 Plan. The committee will determine whether payment for performance unit and performance share awards will be made in cash, common shares, or a combination of both.

*Phantom Shares.* A phantom share is a hypothetical share having a value based on one common share. The committee may impose any restrictions or conditions upon the vesting of phantom share awards and on the timing and method of delivery of consideration after the vesting of phantom share awards, as it deems appropriate. A phantom share award may be payable in cash, common shares, or a combination of both, and may provide for the payment of dividend equivalent amounts, as determined by the committee. An award agreement granting phantom shares may contain a maximum dollar amount payable under our 2005 Plan, as the committee so determines.

*Other Share Based Awards.* In addition, the committee may create other forms of awards in addition to the specific awards described in our 2005 Plan which may be granted alone or in tandem with other awards under this 2005 Plan. The committee has complete authority to determine the persons to whom and the time or times at which such other share based awards will be granted, the number of common shares, if any, to be granted, whether the value of the awards will be based on shares or cash, and any other terms and conditions.

*Effect of a Change in Control.* In the event of a reorganization constituting a merger, amalgamation, consolidation, liquidation, dissolution or sale of all or substantially all of our assets, or a change in control in our ownership as defined in our 2005 Plan, and unless otherwise provided in an award agreement or a written employment agreement between us and a plan participant, generally, our board of directors, in its discretion, will provide that the successor corporation will assume each award or replace it with a substitute award, or the awards will become exercisable or vested in whole or in part upon written notice, or the awards will be surrendered for a cash payment, or any combination of the foregoing will occur. Except as may be otherwise provided in any employment agreement or other agreement between us and a participant, if a participant in the 2005 Plan is entitled to receive payments that would qualify as excess "parachute payments" under Section 280G of the Code, those payments may be reduced so that the participant is not subject to the excise tax under Section 4999 of the Code if such a reduction would result in the participant's receiving a greater after-tax payment.

Under the 2005 Plan, and unless otherwise defined in an award agreement or a written employment agreement between us and a plan participant, a change in control generally means (i) a person or group becomes the beneficial owner of securities constituting 40% or more of our voting power, (ii) two-thirds of our current board of directors (including any successors approved by two-thirds of our board of directors) cease to constitute at least two-thirds of the board of directors, (iii) a merger, consolidation or amalgamation of our company occurs, unless after the event, 60% or more of the voting power of the combined company is beneficially owned by the same persons as immediately before the event, or (iv) our shareholders approve a

plan of complete liquidation or winding-up of the company, or the sale or disposition of all or substantially all of our assets.

*Additional Provisions.* Our 2005 Plan will automatically terminate in 2015 unless our board of directors elects to terminate it sooner. In addition, our board of directors has the right to amend, suspend or terminate the plan at any time provided that such action does not impair any award previously granted under the Plan. Amendments to the plan will be submitted for shareholder approval to the extent required by applicable law or if such amendments would have certain other specified results. Our board of directors is authorized to adopt special provisions for employees residing outside the United States to the extent the committee deems it advisable for compliance with foreign tax, securities and other laws.

## **Employment Agreements**

### ***General***

We have employment agreements with our Co-Chief Executive Officers, Daniel G. Hickey, Jr. and Martin D. Rakoff, and our General Counsel, Louis J. Viglotti, that will become effective upon the closing of this offering and will expire on the fifth anniversary of such date, unless terminated earlier. After the initial five-year term, the term of each agreement shall be automatically renewed for successive one-year terms, unless either party delivers notice to the other party of its intention not to renew the term of the agreement. However, if a change of control occurs during the term, the term shall not expire earlier than two years after the date of such change of control. Any non-renewal of either employment agreement by us prior to the executive's 62<sup>nd</sup> birthday shall be treated as a termination by us without cause, resulting in the severance payments described below. However, in the event that Messrs. Hickey, Rakoff or Viglotti are terminated for cause, they will not be entitled to a severance payment.

### ***Compensation and Severance Arrangements for Messrs. Hickey and Rakoff***

During the term, Messrs. Hickey and Rakoff will each serve as members of our Board. The agreements each provide for an annual base salary of not less than \$650,000, which will be reviewed by the compensation committee for increase no less than annually. Each of Messrs. Hickey and Rakoff will also be eligible to receive an annual incentive award with a target award opportunity of 100% of his current base salary and a maximum bonus opportunity of no less than 200% of such salary based on performance criteria as determined annually by our compensation committee. If the criteria established by the compensation committee are not met, then Messrs. Hickey and Rakoff could receive no bonus if so determined by the compensation committee. Each of Messrs. Hickey and Rakoff will further be eligible to receive an additional producer incentive bonus of 2.5% of our net income, provided that net income is not less than \$25,000,000. After the initial operating period in which net income reaches \$25,000,000, the compensation committee may adjust all factors used to determine the producer incentive bonus. In addition, Messrs. Hickey and Rakoff will be eligible to participate in our long-term incentive compensation programs, as determined by the compensation committee, provided that the total compensation package (including base salary, the annual incentive award, the producer incentive bonus and the long-term incentive compensation) is targeted at no less than the 75<sup>th</sup> percentile of an appropriate group of peer companies as determined by the compensation committee. Each executive also has the right to lease a private aircraft for business purposes provided that he determines that such travel is reasonable.

If we terminate the employment agreement of either Mr. Hickey or Mr. Rakoff without cause, as defined in the employment agreement, prior to the end of the term, or if either Mr. Hickey or Mr. Rakoff terminates his employment for good reason, as defined in the employment agreement, the executive will be entitled to receive: (i) his base salary up to the time of termination and the balance of any unpaid incentive award earned as of December 31 of the prior year; (ii) any *pro rata* unpaid annual incentive award and producer incentive bonus payable for the year in which termination occurs, assuming target performance would have been achieved; (iii) other and additional benefits then due or earned under our applicable plans and programs; (iv) the continuation of any welfare benefit programs for 36 months; and (v) the immediate vesting of stock options and performance awards and the right to exercise such awards within one year, the removal of all restrictions on restricted stock and deferred stock units and the vesting and settlement of any performance awards at target award levels. Such executive also will be entitled to receive severance pay equal to three times

the sum of (A) such executive's base salary immediately prior to the termination date and (B) the higher of (x) the annual incentive opportunity for the year in which the termination occurs assuming target performance would have been achieved and (y) the average annual incentive payment received over the prior two years and (C) the greatest producer incentive bonus received by such executive for any of the three operating periods immediately preceding the termination date. If we terminate the employment agreement of either Mr. Hickey or Mr. Rakoff for cause, or if either executive voluntarily terminates his employment, such executive will be entitled to any unpaid base salary up to the time of termination plus the balance of any unpaid incentive award earned as of December 31 of the prior year and other benefits then due or earned under our applicable plans and programs. Upon termination for cause, such executive's equity awards will be settled in accordance with the terms and conditions of the applicable grant agreements.

#### ***Compensation and Severance Arrangements for Mr. Viglotti***

Mr. Viglotti's employment agreement provides for an annual base salary of not less than \$300,000, which will be reviewed by the compensation committee for increase no less than annually. Mr. Viglotti will also be eligible to receive an annual incentive award with a target award opportunity of 50% of his current base salary and a maximum bonus opportunity of no less than 75% of such salary based on performance criteria as determined annually by our compensation committee. If the criteria established by the compensation committee are not met, then Mr. Viglotti could receive no bonus if so determined by the compensation committee. In addition, Mr. Viglotti will be eligible to participate in our long-term incentive compensation programs, as determined by the compensation committee.

If we terminate Mr. Viglotti's employment agreement without cause, as defined in the employment agreement, prior to the end of the term, or if Mr. Viglotti terminates his employment for good reason, as defined in the employment agreement, he will be entitled to receive: (i) his base salary up to the time of termination and the balance of any unpaid incentive award earned as of December 31 of the prior year; (ii) any *pro rata* unpaid annual incentive award payable for the year in which termination occurs, assuming target performance would have been achieved; (iii) other and additional benefits then due or earned under our applicable plans and programs; (iv) the continuation of any welfare benefit programs for 12 months; and (v) the immediate vesting of stock options and performance awards and the right to exercise such awards within one year, the removal of all restrictions on restricted stock and deferred stock units and the vesting and settlement of any performance awards at target award levels. Such executive also will be entitled to receive severance pay equal to the sum of (A) such executive's base salary immediately prior to the termination date and (B) the higher of (x) the annual incentive opportunity for the year in which the termination occurs assuming target performance would have been achieved and (y) the average annual incentive payment received over the prior two years. If we terminate the employment agreement of Mr. Viglotti for cause, or if he voluntarily terminates his employment, he will be entitled to any unpaid base salary up to the time of termination plus the balance of any unpaid incentive award earned as of December 31 of the prior year and other benefits then due or earned under our applicable plans and programs. Upon termination for cause, his equity awards will be settled in accordance with the terms and conditions of the applicable grant agreements.

#### ***Other General Terms***

If Messrs. Hickey, Rakoff or Viglotti become subject to excise taxes equal to or exceeding 20% of any severance payments which we are obligated to pay, we have agreed to make a gross-up payment for any excise taxes to which such executive may become subject, such that after payment by such executive of all taxes and interest and penalties with respect to such taxes imposed upon the gross-up payment, the executive retains an amount of the gross-up payment equal to the excise taxes.

Cause, good reason and change of control are defined as follows:

Cause includes: (i) willful breach of the confidentiality, litigation cooperation, nondisparagement, non-disclosure, non-competition or non-solicitation provisions of the employment agreement; (ii) conviction of, or plea of *nolo contendere* to, any felony that is materially and demonstrably injurious to our financial condition or reputation; (iii) willful gross neglect or misconduct in the performance of duties under the employment agreement that is demonstrably injurious to our financial condition or reputation; or (iv) misconduct resulting

in a restatement of our financial statements due to material noncompliance with the financial reporting requirements of the Sarbanes-Oxley Act of 2002.

Good reason includes: (i) a material adverse change to the executive in his positions, titles or offices, status, rank, nature of responsibilities, or authority within us and our subsidiaries, or his removal from or failure to re-elect him to or nominate him to any such positions or offices, including as a member of our Board in the case of Messrs. Hickey or Rakoff, after his delivery of written notice to (a) our Board, in the case of Mr. Hickey or Mr. Rakoff, or (b) either Co-Chief Executive Officer, in the case of Mr. Viglotti, and a 10-day cure period; (ii) an assignment of duties to the executive which are inconsistent with his status as (a) Co-Chief Executive Officer (or such higher ranked position), in the case of either Mr. Hickey or Mr. Rakoff or (b) General Counsel, in the case of Mr. Viglotti; (iii) a decrease in either annual base salary or target annual incentive award opportunity (a) 100% of base salary, in the case of either Mr. Hickey or Mr. Rakoff or (b) 50% of base salary, in the case of Mr. Viglotti; (iv) our failure to perform any material obligation under, or our breach of any material provision of, the employment agreement that remains uncured for 30 days; (v) any material increase in travel time required of the executive at our demand and without the consent of the executive, in the performance of his duties; (vi) the relocation of our corporate offices outside a 35-mile radius of our then corporate offices; (vii) any failure to secure the agreement of any successor corporation or other entity to us to fully assume our obligations under the employment agreement; and (viii) any material breach by us of this agreement.

A change of control occurs where:

A person or group acquires beneficial ownership, directly or indirectly, of our securities representing 20% or more of the combined voting power in the election of directors of our then-outstanding securities or of any successor to us;

During any period of two consecutive years, individuals constituting our Board and any new directors (other than directors designated by a person or group who has entered into an agreement with us to effect a change of control) whose election or nomination for election was approved by at least two-thirds of our Board who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved (but excluding any directors whose initial assumption of office results from an actual or threatened election contest or solicitation of proxies or consents not made on behalf of our Board) cease for any reason to constitute at least a majority of our Board;

Our shareholders approve any merger, amalgamation or consolidation or statutory share exchange as a result of which our common shares shall be changed, converted or exchanged (other than a merger or share exchange with one of our wholly-owned subsidiaries) or our liquidation or sale or disposition of 50% or more of our assets or earning power; or

Approval by our shareholders of any merger, amalgamation consolidation or statutory share exchange to which we are a party as a result of which the persons who were shareholders immediately prior to the effective date of such merger, amalgamation consolidation or statutory share exchange shall have beneficial ownership of less than 50% of the combined voting power in the election of directors of the surviving corporation following the effective date of such merger, amalgamation, consolidation or statutory share exchange.

During the term of the agreement plus an additional 12 months thereafter (except in the case of a termination of executive's employment by us without cause or by the executive for good reason or upon his retirement with respect to the executive's non-compete covenant), each of Messrs. Hickey, Rakoff and Viglotti has agreed not to engage in any business competitive with us or to induce our employees to terminate their employment or to solicit our customers. We agree to indemnify each officer under his respective employment agreement for certain liabilities incurred by reason of the fact of his service to us and to maintain a directors' and officers' liability insurance policy covering such officer.

We do not currently maintain key man life insurance policies with respect to any of our employees.

Messrs. Hickey, Jr. and Rakoff each received \$258,893 and Mr. Viglotti received \$51,779 from the Distributions.



**PRINCIPAL SHAREHOLDERS**

The following table sets forth the total number and percentage of our voting common shares beneficially owned on the date of this prospectus after giving effect to the restructuring and the closing of this offering by: (1) each person known to us to be the beneficial owner of more than 5% of any class of our outstanding voting shares; (2) each director; (3) each of our Named Executive Officers; and (4) all executive officers and directors as a group. Except as otherwise noted below, the address of each of the persons in the table is c/o CRM Holdings Ltd., P.O. Box HM 2062, Hamilton HM HX, Bermuda.

Beneficial Owner	Shares Beneficially Owned	
	Number(1)	Percent
Daniel G. Hickey, Sr.	1,803,690	11.7
Daniel G. Hickey, Jr.(2)	1,529,690	9.9
Martin D. Rakoff(3)	1,529,690	9.9
Louis J. Viglotti	390,738	2.5
Chester J. Walczyk	0	*
David M. Birsner	405,355	2.6
Allan W. Fulkerson	0	*
Keith S. Hynes	0	*
Philip J. Magnarella	0	*
Salvatore A. Patafio	0	*
Louis Rosner	0	*
Executive officers and directors as a group	5,659,163	36.6

- (1) Does not include the issuance of 86,214 restricted common shares to certain of our employees and additional restricted common shares having an aggregate value of \$50,000 to our non-employee directors upon the closing of this offering that will vest over three equal annual installments commencing one year after the closing of this offering. Such restricted common shares are not deemed to be outstanding under the laws of Bermuda until they vest.
- (2) Does not include 395,000 class B shares, which are non-voting shares, equal to 50.0% of the outstanding class B shares.
- (3) Does not include 395,000 class B shares, which are non-voting shares, equal to 50.0% of the outstanding class B shares.
- \* Less than 1%.



## SELLING SHAREHOLDERS

The table below sets forth the name of each selling shareholder and the number of common shares that each selling shareholder is offering pursuant to this prospectus after giving effect to the restructuring and the closing of this offering. Except as noted in “Management” and in “Certain Relationships and Related Transactions,” none of the selling shareholders has, or within the past three years has had, any material relationship with us or any of our predecessors or affiliates, except as officers and directors. Except as otherwise noted below, the address of each of the persons in the table is c/o CRM Holdings Ltd., P.O. Box HM 2062, Hamilton HM HX, Bermuda.

Beneficial ownership and percentage ownership are determined in accordance with the rules of the SEC. To our knowledge, except as indicated in the footnotes to the following table and subject to community property laws where applicable, the persons named in this table have sole voting and investment power with respect to all of our common shares shown as beneficially owned by them.

Name of Beneficial Owner	Shares Beneficially Owned Prior to this Offering		Shares Beneficially Owned After this Offering			
	Common Shares	Percentage of Class	Shares to be Sold Before Exercise of Underwriters’ Over-allotment Option	Percentage Before Exercise of Underwriters’ Over-allotment Option	Shares to be Sold Upon Full Exercise of Underwriters’ Over-allotment Option	Percentage After Full Exercise of Underwriters’ Over-allotment Option
Daniel G. Hickey, Sr.	2,433,690	23.8	630,000	11.1	0	11.1
Daniel G. Hickey, Jr.(1)	2,433,690	23.8	509,000	11.8	0	11.8
Martin D. Rakoff(2)	2,433,690	23.8	509,000	11.8	0	11.8
Louis J. Viglotti	486,738	4.8	96,000	2.4	0	2.4
Mark Bottini	486,738	4.8	249,750	1.5	236,988	0.0
Anthony Bottini, Jr.	486,738	4.8	249,750	1.5	236,988	0.0
Brian L. Bottini, Sr.	486,738	4.8	249,750	1.5	236,988	0.0
Dominick Diaferia	486,738	4.8	249,750	1.5	236,988	0.0
David M. Birsner	512,355	5.0	107,000	2.5	0	2.5

1. Includes 395,000 class B shares
2. Includes 395,000 class B shares

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

### **Restructuring**

Prior to the consummation of the restructuring, certain members of our management team, including Daniel G. Hickey, Jr., Martin D. Rakoff and Louis J. Viglotti, as well as the other persons listed in “Selling Shareholders” are the beneficial owners of CRM, CRM CA, Eimar and Twin Bridges. We sometimes refer to these owners in this prospectus as the “existing shareholders.”

Immediately prior to the closing of this offering, the existing shareholders will contribute all of their interests in CRM and Eimar to CRM USA Holdings, which will be our wholly owned subsidiary and will hold all of the outstanding interests in our U.S. subsidiaries. In exchange, the existing shareholders will receive shares issued by CRM USA Holdings. The existing shareholders will then contribute their CRM USA Holdings shares to us in exchange for 6,372,425 of our common shares. CRM will then distribute its interests in CRM CA to CRM USA Holdings. CRM, CRM CA and Eimar will elect to be taxed as corporations. In addition, immediately prior to the closing of this offering, the existing shareholders will contribute all of their shares in Twin Bridges to us in exchange for 3,874,690 of our common shares. The existing shareholders ultimately will receive a total of 10,247,115 of our common shares in exchange for and in the same proportion as they own their interests in CRM (including its subsidiary, CRM CA), Eimar and Twin Bridges.

We expect the restructuring to be tax free to CRM, CRM CA, Eimar, CRM USA Holdings, Twin Bridges and us.

After completion of the restructuring and this offering, the existing shareholders will own 6,607,115 of our voting common shares, representing approximately 41.3% of the total voting power of our shares as a result of the implementation of certain voting restrictions contained in our bye-laws (or 35.0% in the event that the over-allotment option is exercised in full).

In November 2005, CRM and Eimar distributed to the existing shareholders an aggregate of \$1,090,077 in respect of the previously undistributed earnings and profits of CRM, Eimar and Twin Bridges from their inception through October 31, 2005. These amounts were paid from the working capital of CRM and Eimar. We refer to these distributions in this prospectus as the “Distributions.” We also will indemnify the existing shareholders for an amount intended to approximate the amount of U.S. federal income taxes, if any, that would be payable by them with respect to the combined net income, if any, for U.S. federal income tax purposes of CRM, Eimar and Twin Bridges for the period from November 1, 2005 through the consummation of the restructuring, computed, with respect to CRM and Eimar, on a cash basis as if such period were a taxable period. We believe that any such indemnification payments will be immaterial and will be paid from CRM’s working capital and not from net proceeds of this offering.

Agency Captive, is a licensed insurance broker that is owned by the existing shareholders. It was originally formed to underwrite a business unrelated to the self-insured groups managed by CRM. Agency Captive currently holds the brokerage license that CRM and CRM CA use to place the excess coverage with U.S. admitted insurers and surety bonds, and receives the commission income which are then remitted in full to CRM or CRM CA, as applicable. The brokerage license is owned by Daniel G. Hickey, Jr., one of our Co-Chief Executive Officers and Chairman of the Board. CRM has applied to be licensed as an insurance broker by the State of New York Insurance Department and will apply to be licensed as such by the State of California Insurance Department so that commission income will be paid directly to CRM after the closing of this offering.

### **Relationship between Twin Bridges and our Managed Groups**

The groups we manage purchase excess workers’ compensation coverage from U.S. admitted insurers to cover claims that exceed a minimum level established by state law or regulation or by administrative

determination. Typically, our managed groups purchase excess coverage for losses and loss adjustment expenses in excess of \$500,000 per occurrence. This “excess coverage” purchased by the groups provides them with benefits for losses in excess of the \$500,000 per occurrence liability typically retained by the groups up to a per occurrence limit of \$500,000. Our managed groups also purchase what is called “catastrophic coverage” for losses and loss adjustment expenses in excess of \$1,000,000 per occurrence. The catastrophic coverage purchased by our managed groups is not subject to a per occurrence limit. In addition, all but three of our groups also purchase coverage to insure against the risk that a large number of claims will occur and result in losses that are each less than \$500,000 and that the aggregate result of such losses could exhaust their resources. This “frequency coverage” is triggered in the event that the aggregate amount of losses and loss adjustment expenses during the coverage period exceeds a range from 90% to approximately 160% of the premiums paid to the groups by their members except for two smaller groups, where the coverage is triggered when the aggregate amount of losses and loss adjustment expenses during a coverage period exceeds a percentage of the group’s aggregate payroll. If the frequency coverage is triggered, the insurer pays the next \$2,000,000 of losses and related loss adjustment expenses of the group during the coverage period. A lower amount of coverage is provided for one of the two smaller groups. To date, NY Marine & General has provided the excess coverage for 13 of our 14 groups and the frequency coverage insurance for 11 of our 14 groups. Under our reinsurance agreement with NY Marine & General, we reinsure 50% of all of the coverage it provides and receive 50% of the premiums, subject to certain liability limits and premium retentions by NY Marine & General for certain expenses and services. We therefore act as manager of the groups and reinsurance broker for the groups, while also reinsuring NY Marine & General for a portion of the excess coverage, through our subsidiary Twin Bridges, and therefore may be deemed to have a conflict of interest. In the event that we enter into similar reinsurance arrangements with other U.S. admitted insurers who provide excess coverage to our groups, we may be deemed to have a similar conflict of interest.

We have recently executed a term sheet with NY Marine & General with respect to our reinsurance of the excess coverage which NY Marine & General provides to our groups. In addition, the term sheet provides that NY Marine & General will offer full statutory excess coverage for losses and loss adjustment expenses in excess of the \$500,000 per occurrence liability typically retained by the groups upon renewal of their policies, subject to the purchase of reinsurance from other insurers for losses and loss adjustment expenses above certain thresholds. The next renewal date for excess coverage policies held by our groups is January 1, 2006. These arrangements with NY Marine & General are subject to the execution of a definitive agreement.

See “Risk Factors – We may be deemed to have a conflict of interest in concurrently managing groups and placing excess coverage for these groups with a U.S. admitted insurer that cedes a part of this excess coverage to Twin Bridges.” See also “Business – Our Reinsurance Business.”

## **Other Agreements**

We conduct business with Hickey-Finn and Company, Inc., or Hickey-Finn, an insurance broker whose owners include Daniel G. Hickey, Sr., one of our directors and an existing shareholder and the father of Daniel G. Hickey, Jr., our Co-Chief Executive Officer and Chairman of the Board. We pay broker commissions to Hickey-Finn for business placed with several of the self-insured groups that we manage. In addition, we lease office space and purchase various liability, property and casualty insurance coverage from Hickey-Finn. For the nine months ended September 30, 2005 and the years ended December 31, 2004, 2003 and 2002, we paid Hickey-Finn for its services and operating expenses \$212,729, \$269,093, \$302,341 and \$320,370, respectively. David M. Birsner, one of our directors and an existing shareholder, is also a director of Hickey-Finn.

Eimar maintains office space in Poughkeepsie, New York. The offices consist of approximately 1,400 square feet and the term of the lease expires on December 31, 2005. The annual lease payments for these premises are approximately \$21,000. One of the lessors under this lease is Daniel G. Hickey, Sr.

CRM has entered into a revolving credit facility with KeyBank, under which CRM is entitled to borrow up to \$5,000,000 until June 30, 2006. All of CRM's obligations under the facility are secured by a lien on substantially all of CRM's assets and, until October 2005, were also personally guaranteed by the existing shareholders, including (i) Daniel G. Hickey, Jr., our Co-Chief Executive Officer and Chairman of the Board, (ii) Martin D. Rakoff, our Co-Chief Executive Officer and Deputy Chairman of the Board, (iii) Daniel G. Hickey, Sr., one of our directors and the father of Daniel G. Hickey, Jr. (iv) Village Holdings, LLC, of which Louis D. Viglotti, our General Counsel and Assistant Secretary, is a member and (v) David M. Birsner, one of our directors. In addition, Twin Bridges has entered into a loan agreement with KeyBank under which Twin Bridges is entitled to draw letters of credit in the principal amount of up to \$6,500,000, which agreement expires on June 30, 2006, and had entered into a second letter of credit loan facility under which it was entitled to draw letters of credit in the principal amount of up to \$7,500,000, which agreement also expires on June 30, 2006. Borrowings under both letter of credit facilities had been guaranteed by the same existing shareholders mentioned above until October 2005.

In August 2004, we advanced to Martin D. Rakoff, our Co-Chief Executive Officer and Deputy Chairman of the Board, \$200,000 against his bonus earned and payable in December 2004. Mr. Rakoff paid us \$1,825 in interest with respect to such advance. The \$200,000 advance was later offset against the bonus earned and paid in December 2004.

Prior to the completion of this offering, our non-management existing shareholders have been entitled to distributions made by CRM in certain guaranteed amounts that were paid as part of selling, general and administrative expenses. Two of our non-management existing shareholders have been entitled to annual guaranteed payments of \$80,000, and one of our non-management existing shareholders has been entitled to annual guaranteed payments of \$20,000, in addition to any distributions that generally were made to all existing shareholders from net income. For the year ended December 31, 2004, Daniel G. Hickey, Sr., one of our directors and the father of Daniel G. Hickey, Jr., our Co-Chief Executive Officer and Chairman of the Board, and Village Holdings LLC, of which Louis J. Viglotti, our General Counsel and Assistant Secretary, is a member, each received guaranteed payments of \$80,000 from CRM. In addition, David M. Birsner, one of our Directors, received a guaranteed payment of \$20,000 from CRM for the year ended December 31, 2004. These guaranteed payments were made to the existing shareholders who were not employees to provide a minimum return on their investment. These guaranteed payments will cease upon the closing of this offering and similar arrangements will not be offered to any shareholders in the future.

Louis Rosner, one of our directors, has provided legal services to CRM from time to time. We do not intend to retain his legal services in the future.

## MATERIAL TAX CONSIDERATIONS

*The following summary of our taxation and the taxation of our shareholders is based upon current law and does not purport to be a comprehensive discussion of all the tax considerations that may be relevant to a decision to purchase shares. Legislative, judicial or administrative changes may be forthcoming that could affect this summary.*

The following legal discussion (including and subject to the matters and qualifications set forth in such summary) of the material tax considerations under (1) “Certain Bermuda Tax Considerations” is based upon the advice of Appleby Spurling Hunter, Bermuda legal counsel and (2) “Certain U.S. Federal Income Tax Considerations” is based upon the advice of Baker & McKenzie LLP. Each of these firms has reviewed the relevant portion of this discussion (as set forth above) and believes that such portion of the discussion constitutes, in all material respects, a fair and accurate summary of the relevant income tax considerations relating to CRM Holdings and its subsidiaries and the ownership of CRM Holdings shares by investors that are U.S. Persons (as defined below). The advice of such firms does not include any factual or accounting matters, determinations or conclusions such as insurance accounting determinations or determinations pertaining to related person insurance income, amounts and computations and amounts or components thereof (for example, amounts or computations of income or expense items or reserves entering into related person insurance income computations) or facts relating to the business, income, reserves or activities of CRM Holdings and its subsidiaries. The advice of these firms relies upon and is premised on the accuracy of factual statements and representations made by CRM Holdings concerning the business and properties, ownership, organization, source of income and manner of operation of CRM Holdings and its subsidiaries. The discussion is based upon current law. Legislative, judicial or administrative changes or interpretations may be forthcoming that could be retroactive and could affect the tax consequences to holders of shares. The tax treatment of a holder of shares, or of a person treated as a holder of shares for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending on the holder’s particular tax situation. Statements contained in this prospectus as to the beliefs, expectations and conditions of CRM Holdings and its subsidiaries as to the application of such tax laws or facts represent the view of management as to the application of such laws and do not represent the opinions of counsel.

***Prospective investors should consult their own tax advisors concerning the U.S. federal, state, local and non-U.S. tax consequences to them of owning shares.***

### **Certain Bermuda Tax Considerations**

Bermuda does not currently impose any income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax on us or our shareholders, other than shareholders ordinarily resident in Bermuda, if any. There is currently no Bermuda withholding or other tax on principal, interest or dividends paid to holders of the shares, other than holders ordinarily resident in Bermuda, if any. We cannot assure you that we or our shareholders will not be subject to any such tax in the future.

CRM Holdings and Twin Bridges have received written assurance dated September 15, 2005 and December 29, 2003, respectively, from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, that, if any legislation is enacted in Bermuda imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of that tax would not be applicable to CRM Holdings or Twin Bridges or to any of their respective operations, shares, debentures or obligations until March 28, 2016; provided, that the assurance is subject to the condition that it will not be construed to prevent the application of such tax to people ordinarily resident in Bermuda, or to prevent the application of any taxes payable by CRM Holdings or Twin Bridges in respect of real property or leasehold interests in Bermuda held by them. We cannot assure you that we will not be subject to any such tax after March 28, 2016.

### **Certain U.S. Federal Income Tax Considerations**

The following discussion is a summary of certain U.S. federal income tax considerations relating to CRM Holdings, Twin Bridges, and CRM USA Holdings and its subsidiaries, and the ownership of our shares by

investors who acquire such shares in the offering. As discussed further in this prospectus and based on our expected business, properties, ownership, organization, source of income and manner of operation, we believe that (1) no U.S. Person that owns shares in CRM Holdings directly or indirectly through foreign entities subsequent to the offering should be subject to treatment as a 10% U.S. Shareholder of a controlled foreign corporation, and (2) CRM Holdings should not be considered a passive foreign investment company for the year ended December 31, 2005. We have not sought and do not intend to seek an opinion of legal counsel as to whether or not we were a passive foreign investment company for the year ended December 31, 2005, or with respect to any other tax issues.

This summary is based upon the Internal Revenue Code, the Treasury Regulations promulgated under the Internal Revenue Code, rulings and other administrative pronouncements issued by the IRS, judicial decisions, and the tax treaty between the United States and Bermuda (the “Bermuda Treaty”) all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. No advance ruling has been or will be sought from the IRS regarding any matter discussed in this prospectus. This summary is for general information only, and does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular investor in light of such investor’s investment or tax circumstances, or to investors subject to special tax rules, such as shareholders who own directly, or indirectly through certain foreign entities or through the constructive ownership rules of the Internal Revenue Code, 10% or more of the voting power or value of CRM Holdings (or how those ownership rules may apply in certain circumstances), tax-exempt organizations, dealers in securities, banks, insurance companies, persons that hold shares that are a hedge or that are hedged against interest rate or insurance risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. This summary generally does not discuss federal taxes other than income tax or other U.S. taxes such as state or local income taxes. This summary assumes that an investor will acquire our shares in this offering and hold our shares as capital assets, which generally means as property held for investment. Prospective investors should consult their tax advisors concerning the consequences, in their particular circumstances, of the ownership of shares under U.S. federal, state, local and other tax laws.

For U.S. federal income tax purposes and purposes of the following discussion, a “U.S. Person” means (1) a citizen or resident of the United States for U.S. tax purposes, (2) a corporation, partnership or other entity taxable as a corporation or partnership created or organized in the United States or under the laws of the United States or of any of its political subdivisions, (3) an estate the income of which is subject to U.S. federal income tax without regard to its source or (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. Persons have the authority to control all substantial decisions of the trust, as well as certain electing trusts.

#### ***U.S. Taxation of CRM Holdings, Twin Bridges and CRM USA Holdings***

***U.S. Income and Branch Profits Tax.*** A foreign corporation deemed to be engaged in the conduct of a trade or business in the U.S. will generally be subject to U.S. federal income tax (at a current maximum rate of 35%), as well as a 30% branch profits tax in certain circumstances, on its income which is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under an applicable income tax treaty, as discussed below. Such tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a foreign corporation is entitled to deductions and credits only if it timely files a U.S. federal income tax return (which requirement may be waived if the foreign corporation establishes that it acted reasonably and in good faith in its failure to timely file such return). CRM Holdings and Twin Bridges intend to operate in such a manner that they will not be considered to be conducting a trade or business within the United States for purposes of U.S. federal income taxation. Whether a trade or business is being conducted in the United States is an inherently factual determination. Because the Internal Revenue Code, Treasury Regulations and court decisions fail to identify definitively activities that constitute being engaged in a trade or business in the United States, we cannot assure you that the IRS will not contend successfully that CRM Holdings and/or Twin Bridges are or will be engaged in a trade or business in the United States. CRM



Holdings and Twin Bridges intend to file protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that they are subject to U.S. federal income tax.

An insurance enterprise resident in Bermuda generally will be entitled to the benefits of the Bermuda Treaty if (1) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the United States or Bermuda or U.S. citizens and (2) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities to, persons who are neither residents of either the United States or Bermuda nor U.S. citizens. Twin Bridges expects to be entitled to the benefits of the Bermuda Treaty. Assuming Twin Bridges is entitled to the benefits under the Bermuda Treaty, it will not be subject to U.S. federal income tax on any insurance income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. Whether business is being conducted in the United States through a permanent establishment is an inherently factual determination. Twin Bridges intends to conduct its activities so as not to have a permanent establishment in the United States, although we cannot assure you that it will achieve this result.

Foreign corporations also are subject to U.S. withholding tax at a rate of 30% of the gross amount of certain “fixed or determinable annual or periodical gains, profits and income” derived from sources within the United States (such as dividends and certain interest on investments), to the extent such amounts are not effectively connected with the foreign corporation’s conduct of a trade or business in the United States. The tax rate is subject to reduction by applicable treaties. Dividends, if any, paid by CRM USA Holdings to CRM Holdings will be subject to U.S. withholding tax at a rate of 30%.

The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rate of tax applicable to premiums paid to Twin Bridges is 4% for insurance premiums and 1% for reinsurance premiums.

CRM USA Holdings, CRM, CRM CA and Eimar will be U.S. corporations prior to closing of this offering. Each of them will be subject to taxation in the United States on its worldwide income at regular corporate rates (of which the maximum rate is currently 35%).

*Personal Holding Companies.* CRM Holdings’ U.S. subsidiaries could be subject to additional U.S. tax on a portion of their income if any of them is considered to be a personal holding company for U.S. federal income tax purposes. A corporation generally will be classified as a personal holding company for U.S. federal income tax purposes in a given taxable year if (1) at any time during the last half of such taxable year, five or fewer individuals (without regard to their citizenship or residency) own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of the stock of the corporation by value and (2) at least 60% of the corporation’s adjusted ordinary gross income, as determined for U.S. federal income tax purposes, for such taxable year consists of “personal holding company income.” Personal holding company income includes, among other things, dividends, certain interest, certain royalties, annuities and, under certain circumstances, rents. The personal holding company rules contain an exception for foreign corporations.

If any of CRM Holdings’ subsidiaries were a personal holding company in a given taxable year, such corporation would be subject to personal holding company tax on its “undistributed personal holding company income” at a rate of 15%. For taxable years beginning after December 31, 2008, the personal holding company tax rate would be the highest marginal rate on ordinary income applicable to individuals, which is currently 35%.

Although CRM Holdings believes that none of its subsidiaries is a personal holding company, we cannot provide assurance that this will be the case because of factors including legal and factual uncertainties regarding the application of the constructive ownership rules, the makeup of CRM Holdings’ shareholder base, the gross income of CRM Holdings or any of its subsidiaries and other circumstances that could change the application of the personal holding company rules to CRM Holdings’ subsidiaries. In addition, if any of CRM Holdings’ subsidiaries were to become a personal holding company, we cannot be certain that the amount of personal holding company income would be immaterial.

*Anti-Inversion Legislation.* The American Jobs Creation Act of 2004 provides that, if a foreign corporation acquires substantially all of the assets of a U.S. corporation, and 80% or more of the stock of the



foreign corporation (excluding new stock issued in a public offering related to the acquisition) is owned by former shareholders of the U.S. corporation by reason of their ownership of the U.S. corporation, the foreign corporation will be considered a U.S. corporation for U.S. federal income tax purposes. The existing shareholders will contribute their interests in CRM and Eimar to CRM USA Holdings in return for common shares in CRM USA Holdings. The existing shareholders will then contribute their CRM USA Holdings shares to us in exchange for our common shares. CRM will then distribute its interests in CRM CA to CRM USA Holdings. In addition, immediately prior to the closing of this offering, the existing shareholders will contribute all of their shares in Twin Bridges to us in exchange for our common shares. Based on discussions with our professional advisors, we believe the existing shareholders will not obtain 80% or more of the stock of CRM Holdings (excluding the stock sold in this offering) by reason of their ownership of CRM and Eimar, (i.e., we believe that Twin Bridges is worth more than 20% of the combined value of CRM, CRM CA, Eimar and Twin Bridges). Accordingly, we do not expect to be adversely affected by the legislation. We cannot assure you that the IRS will agree with our conclusions. If the IRS successfully challenges our conclusions, we would be subject to United States federal income tax on our worldwide income at the rate applicable to U.S. corporations, which is currently 35%. This tax liability could have a material adverse effect on our business, financial condition and results of operations.

## ***U.S. Taxation of Holders of Shares***

### ***Shareholders Who Are U.S. Persons***

***Dividends.*** Subject to the discussion below relating to the potential application of the “controlled foreign corporation,” “related person insurance income,” and “passive foreign investment company” rules, distributions, if any, made with respect to common shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of CRM Holdings (as computed under U.S. tax principles). Certain dividends paid before 2009 to U.S. individuals, entities or trusts may be eligible for reduced rates of tax. We do not expect dividends paid by CRM Holdings to be eligible for the reduced rate of tax unless shares of CRM Holdings become readily tradable on an established securities market in the United States. Even in such case, dividends paid by CRM Holdings would not be eligible for the reduced rate of tax if CRM Holdings were to be a passive foreign investment company in the year in which the dividends are paid, or in the prior year, or if certain holding period and other requirements were not met by the shareholder receiving the dividend. Legislation was recently introduced in the U.S. Senate, which, if enacted, would provide that dividends received from CRM Holdings after the date of enactment would not be eligible for the reduced rate of tax. Dividends paid by CRM Holdings generally will be foreign source income for U.S. federal income tax purposes and will not be eligible for the dividends-received deduction allowed to U.S. corporations under the Internal Revenue Code. The amount of any distribution in excess of the current and accumulated earnings and profits of CRM Holdings will first be applied to reduce a holder’s tax basis in the shares, and any amount in excess of tax basis will be treated as gain from the sale or exchange of such holder’s shares.

***Classification of CRM Holdings or Twin Bridges as a Controlled Foreign Corporation.*** In general, a foreign corporation is considered a controlled foreign corporation if “10% U.S. Shareholders” own more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or the total value of all stock of such corporation. A 10% U.S. Shareholder is a U.S. Person who owns at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation. Each 10% U.S. Shareholder of a foreign corporation that is a controlled foreign corporation for an uninterrupted period of 30 days or more during a taxable year, and that owns shares in the controlled foreign corporation directly or indirectly through foreign entities on the last day of the foreign corporation’s taxable year on which it is a controlled foreign corporation must include in its gross income for U.S. federal income tax purposes its pro rata share (based on its actual direct and indirect, through foreign entities, ownership) of the controlled foreign corporation’s “subpart F income,” even if the subpart F income is not distributed. Subpart F income generally includes, among other things, investment income such as dividends, interest and capital gains, and income from insuring risks located outside the insurer’s country of incorporation. For purposes of taking into account subpart F insurance income, a controlled foreign corporation also includes a foreign corporation in

which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders on any day during the taxable year of such corporation, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance contracts generating subpart F income exceeds 75% of the gross amount of all premiums or other consideration in respect of all risks. It is expected that all of Twin Bridges' income will be considered subpart F insurance income. In addition, Twin Bridges may be considered a controlled foreign corporation under the related person insurance income rules discussed below.

For purposes of determining whether the more-than-50% (or more-than-25%, in the case of insurance income) and 10% ownership tests have been satisfied, and therefore whether a corporation is a controlled foreign corporation, shares owned includes shares owned directly, indirectly through foreign entities or shares considered as owned by application of certain constructive ownership rules. Pursuant to those constructive ownership rules:

- an individual is treated as owning stock owned by certain members of his or her family;
- a corporation is treated as owning stock owned by a 50% or greater shareholder;
- a partnership is treated as owning stock owned by its partners (regardless of their percentage ownership of the partnership); and
- stock owned by a partnership or a corporation is treated as owned proportionately by the owners of the entity (in the case of corporations, only if the shareholder owns 10% or more of the stock of the corporation).

Additional rules apply to trusts and estates. Operating rules apply to prevent reattribution of ownership in certain circumstances, as well as attribution that would cause stock to be treated as not owned by a U.S. person. **Because the attribution rules are complicated and depend on the particular facts relating to each investor, you are urged to consult your own tax advisors regarding the application of the rules to your ownership of our shares.**

Due to the anticipated dispersion of CRM Holdings' share ownership among holders and its bye-law provisions that impose limitations on the concentration of voting power of its voting shares and other factors, CRM Holdings believes that no U.S. Person that owns shares in CRM Holdings directly or indirectly through foreign entities should be subject to treatment as a 10% U.S. Shareholder of a controlled foreign corporation after the offering. These bye-law provisions are described in "Risk Factors – Risks Related to Our Shares Sold in this Offering" and "Description of Share Capital – Voting Adjustments." We cannot assure you, however, that the IRS will not challenge the effectiveness of these provisions for purposes of preventing controlled foreign corporation and 10% U.S. Shareholder status and that a court will not sustain such challenge.

#### *Related Person Insurance Income*

*Generally.* The controlled foreign corporation rules described above also apply (with certain modifications) to certain insurance companies that earn related person insurance income. For purposes of applying the controlled foreign corporation rules to foreign corporations that earn related person insurance income, a foreign corporation will be treated as a controlled foreign corporation if related person insurance income shareholders collectively own directly, indirectly through foreign entities or by application of the constructive ownership rules 25% or more of the stock of the corporation by vote or value. The term "related person insurance income shareholder" means any U.S. Person who owns, directly or indirectly through foreign entities, any amount (rather than stock possessing 10% or more of the total combined voting power) of the foreign corporation's stock.

Related person insurance income is defined as any "insurance income" attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a "related person insurance income shareholder" of the foreign corporation or a "related person" to such related person insurance income shareholder. In general, and subject to certain limitations, "insurance income" is income (including premium and investment income) attributable to the issuing of any insurance or reinsurance

contract which would be taxed under the provisions of the Internal Revenue Code relating to insurance companies if the income were the income of a domestic insurance company.

For purposes of the related person insurance income rules, “related person” means someone who controls or is controlled by the related person insurance income shareholder or someone who is controlled by the same person or persons that control the related person insurance income shareholder. “Control” is measured by either more than 50% in value or more than 50% in voting power of stock, applying constructive ownership principles. A corporation’s pension plan is ordinarily not a “related person” with respect to the corporation unless the pension plan owns, directly or indirectly through the application of constructive ownership rules, more than 50%, measured by vote or value, of the stock of the corporation. In the case of a partnership, trust or estate, control means the ownership, directly or indirectly, of more than 50 percent (by value) of the beneficial interests in such partnership, estate or trust.

If none of the exceptions described below applies, each U.S. Person who owns shares in CRM Holdings (and therefore, indirectly in Twin Bridges) on the last day of the tax year in which Twin Bridges is a controlled foreign corporation, will be required to include in its gross income for U.S. federal income tax purposes its share of related person insurance income of Twin Bridges for the U.S. Person’s taxable year that includes the end of Twin Bridges’ taxable year. This inclusion generally will be determined as if such related person insurance income were distributed proportionately only to such U.S. Persons holding shares at that date. The inclusion will be limited to the current-year earnings and profits of Twin Bridges reduced by the shareholder’s pro rata share, if any, of certain prior-year deficits in earnings and profits. Even if one or more of the exceptions to the related person insurance income rules applies, the general controlled foreign corporation rules described earlier may still apply to require 10% U.S. Shareholders to include in income their pro rata share of related person insurance income, among other things.

*Related Person Insurance Income Exceptions.* The special related person insurance income rules described above will not apply to Twin Bridges if (1) direct or indirect insureds and persons related to such insureds, whether or not U.S. Persons, own, at all times during Twin Bridges’ taxable year directly or indirectly, less than 20% of the voting power and less than 20% of the value of the stock of Twin Bridges (the “20% Ownership Exception”), (2) related person insurance income, determined on a gross basis, is less than 20% of Twin Bridges’ gross insurance income for the taxable year (the “20% Gross Income Exception”), (3) Twin Bridges elects to be taxed on its related person insurance income as if the related person insurance income were effectively connected with the conduct of a U.S. trade or business and to waive all treaty benefits with respect to related person insurance income and meets certain other requirements or (4) Twin Bridges elects to be treated as a U.S. corporation for U.S. tax purposes. Twin Bridges intends to monitor its share ownership in order to operate in a manner that is designed to ensure that it qualifies for either the first or second exception to the related person insurance income rules.

*Computation of Related Person Insurance Income.* In order to determine how much related person insurance income Twin Bridges has earned in each taxable year, CRM Holdings intends to obtain and rely upon information from Twin Bridges’ insureds and reinsureds to determine whether any of the insureds, reinsureds or other persons related to such insureds or reinsureds own shares of CRM Holdings and are U.S. Persons. CRM Holdings may not be able to determine whether any of the underlying insureds of the insurance companies to which Twin Bridges provides insurance or reinsurance are related person insurance income shareholders or related persons to such shareholders. Consequently, CRM Holdings may not be able to determine accurately the gross amount of related person insurance income earned by Twin Bridges in a given taxable year. For any taxable year in which Twin Bridges’ gross related person insurance income may be 20% or more of its gross insurance income for the year, CRM Holdings may also seek information from its shareholders to determine whether direct or indirect owners of CRM Holdings shares at the end of the year are U.S. Persons so that the related person insurance income may be determined and apportioned among such persons. To the extent CRM Holdings is unable to determine whether a direct or indirect owner of shares is a U.S. Person, CRM Holdings may assume that such owner is not a U.S. Person, thereby increasing the per share related person insurance income amount for all shareholders identified as U.S. Persons.

*Uncertainty as to Application of Related Person Insurance Income.* Regulations interpreting the related person insurance income provisions of the Internal Revenue Code exist only in proposed form. It is not certain whether these Regulations will be adopted in their proposed form or what changes might ultimately be made or whether any such changes, as well as any interpretation or application of the related person insurance income rules by the IRS, the courts or otherwise, might have retroactive effect. Accordingly, the meaning of the related person insurance income provisions and their application to Twin Bridges is uncertain. These provisions include the grant of authority to the U.S. Treasury to prescribe “such regulations as may be necessary to carry out the purposes of this subsection, including . . . regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise.” In addition we cannot assure you that the IRS will not challenge any determinations by Twin Bridges as to the amount, if any, of related person insurance income that should be includible in income or that the amounts of the related person insurance income inclusions will not be subject to adjustment based upon subsequent IRS examination. Prospective investors should consult their tax advisors as to the effects of these uncertainties.

*Apportionment of Related Person Insurance Income to U.S. Shareholders.* If Twin Bridges’ related person insurance income for a year equals or exceeds 20% of its gross insurance income and the 20% Ownership Exception does not apply then every related person insurance income shareholder who owns shares in CRM Holdings on the last day of the tax year on which Twin Bridges is a controlled foreign corporation will be required to include in gross income its share of Twin Bridges’ related person insurance income for the portion of the taxable year during which Twin Bridges was a controlled foreign corporation under the related person insurance income provisions, even if such related person insurance income shareholder did not own the shares throughout such period. A related person insurance income shareholder who owns shares of CRM Holdings during the taxable year of Twin Bridges during which it was a controlled foreign corporation, but not on the last day in such taxable year on which it is a controlled foreign corporation, will not be required to include in income, any related person insurance income, whether or not distributed.

#### *Basis Adjustments*

A U.S. shareholder’ s tax basis in its CRM Holdings shares will be increased by the amount of any subpart F income that the shareholder includes in income, including any related person insurance income included in income by a related person insurance income shareholder. Any distributions made by CRM Holdings out of previously taxed subpart F income, including related person insurance income will be exempt from further U.S. income tax in the hands of the U.S. shareholder. The U.S. shareholder’ s tax basis in its CRM Holdings shares will be reduced by the amount of any distributions that are excluded from income under this rule.

#### *Information Reporting*

Under certain circumstances, U.S. Persons owning stock in a foreign corporation are required to file IRS Form 5471 with their U.S. federal income tax returns. Generally, information reporting on IRS Form 5471 is required with respect to (1) a person who is treated as a related person insurance income shareholder, (2) a 10% U.S. Shareholder of a foreign corporation that is a controlled foreign corporation for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and who owned the stock on the last day of that year and (3) under certain circumstances, a U.S. Person who acquires stock in a foreign corporation, and as a result thereof owns 10% or more of the voting power or value of such foreign corporation, whether or not such foreign corporation is a controlled foreign corporation. For any taxable year in which CRM Holdings determines that gross related person insurance income constitutes 20% or more of Twin Bridges’ gross insurance income and the 20% Ownership Exception does not apply, CRM Holdings intends to mail to all U.S. Persons registered as holders of its shares IRS Form 5471, completed with information from CRM Holdings, for attachment to the U.S. federal income tax returns of such shareholders. A tax-exempt organization that is treated as a 10% U.S. Shareholder or a related person insurance income shareholder also must file IRS Form 5471 in the circumstances described above. Failure to file IRS Form 5471 may result in penalties.

### *Tax-Exempt Shareholders*

Tax-exempt entities will be required to treat certain subpart F insurance income, including related person insurance income, that is includible in income by the tax-exempt entity as unrelated business taxable income.

### *Dispositions of Shares*

Subject to the discussion below relating to the potential application of Internal Revenue Code section 1248 or the “passive foreign investment company” rules, any gain or loss realized by a U.S. Person on the sale or other disposition of shares in CRM Holdings will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized upon such sale or exchange and such person’s tax basis in the shares. Capital gains received by individuals from the disposition of shares held for more than one year are subject to tax at preferential rates; the use of capital losses is subject to limitations. Moreover, gain, if any, generally will be U.S. source gain and generally will constitute “passive income” for foreign tax credit limitation purposes.

Internal Revenue Code section 1248 provides that if a U.S. Person sells or exchanges stock in a foreign corporation and such person owned directly, indirectly through certain foreign entities or constructively 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a controlled foreign corporation, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of the controlled foreign corporation’s earnings and profits (determined under U.S. federal income tax principles) during the period that the shareholder held the shares and while the corporation was a controlled foreign corporation (with certain adjustments). A 10% U.S. Shareholder may in certain circumstances be required to report a disposition of shares of a controlled foreign corporation by attaching IRS Form 5471 to the U.S. federal income tax or information return that it would normally file for the taxable year in which the disposition occurs. Section 1248 also applies to the sale or exchange of shares in a foreign corporation if the foreign corporation would be treated as a controlled foreign corporation for related person insurance income purposes and would be taxed as an insurance company if it were a domestic corporation, regardless of whether the shareholder is a 10% U.S. Shareholder or whether related person insurance income constitutes 20% or more of the corporation’s gross insurance income or the 20% Ownership Exception applies. Existing Treasury Regulations do not address whether section 1248 would apply if a foreign corporation is not a controlled foreign corporation but the foreign corporation has a subsidiary that is a controlled foreign corporation or that would be taxed as an insurance company if it were a domestic corporation. Prospective investors should consult their tax advisors regarding the effects of these rules on a disposition of shares.

### *Passive Foreign Investment Companies*

In general, a foreign corporation will be a passive foreign investment company during a given year if (1) 75% or more of its gross income constitutes “passive income” or (2) 50% or more of its assets produce passive income or are held for the production of passive income. For these purposes, passive income generally includes interest, dividends, annuities and other investment income. The passive foreign investment company statutory provisions contain an express exception for income derived in the active conduct of an insurance business by a corporation that is predominantly engaged in an insurance business. This exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to capital in excess of the reasonable needs of the insurance business. CRM Holdings expects for purposes of the passive foreign investment company rules that Twin Bridges will be considered to be predominantly engaged in an insurance business and that it is unlikely to have capital in excess of the reasonable needs of its insurance business.

The passive foreign investment company statutory provisions also contain a look-through rule stating that, for purposes of determining whether a foreign corporation is a passive foreign investment company, such foreign corporation shall be treated as if it received “directly its proportionate share of the income ...” and as if it “held its proportionate share of the assets ...” of any other corporation in which it owns at least 25% by value of the shares. While no explicit guidance is provided by the statutory language, under this look-through rule, we believe

that CRM Holdings should be deemed to own the assets and to have received the income (characterized as non-passive income) of Twin Bridges directly for purposes of determining whether it qualifies for the insurance exception and, consequently, that CRM Holdings should not be treated as a passive foreign investment company for U.S. federal income tax purposes for the year ended December 31, 2005. This interpretation of the look-through rule is consistent with the legislative intention generally to exclude bona fide insurance companies from the application of the passive foreign investment company provision. No assurance can be given that the IRS would not challenge this position or that a court would not sustain such challenge. Prospective investors should consult their tax advisor as to the effects of the passive foreign investment company rules to them. We have not sought and do not intend to seek an opinion of legal counsel as to whether or not we were a passive foreign investment company for the year ended December 31, 2005. In addition, there can be no assurance that we will not become a passive foreign investment company in a later year.

If CRM Holdings were characterized as a passive foreign investment company during a given year, a U.S. Person owning shares would be subject to a penalty tax at the time of the sale of such shares at a gain (including gain deemed recognized if the shares are used as security for a loan), or upon receipt of an “excess distribution” with respect to its shares, unless such shareholder made a “qualified electing fund election” or “mark-to-market” election. In general, a shareholder receives an “excess distribution” if the amount of the distribution is more than 125% of the average distribution with respect to the shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). In general, the gain or excess distribution received in a year must be allocated ratably to each day that the U.S. Person held our shares. A U.S. Person must include amounts allocated to the year of receipt, as well as amounts allocated to taxable years prior to the first year in which we were a passive foreign investment company, in its gross income as ordinary income for that year. All amounts allocated to prior years of the U.S. Person during which we were a passive foreign investment company would be taxed at the highest tax rate for each such prior year applicable to ordinary income. The U.S. Person also would be liable for interest on the deferred tax liability for each such prior year calculated as if such liability had been due with respect to each such prior year.

#### *Other*

Except as discussed below with respect to backup withholding, dividends paid by CRM Holdings will not be subject to U.S. withholding tax.

#### *Shareholders Who Are Non-U.S. Persons*

Subject to certain exceptions, non-U.S. Persons will be subject to U.S. federal income tax (including potential branch profits tax in the case of shareholders that are corporations) on dividend distributions with respect to, and gain realized from the sale or exchange of, shares only if such dividends or gains are effectively connected with the conduct of a trade or business within the United States. Gain recognized by an individual non-U.S. Person will be subject to U.S. tax if the non-U.S. Person is present in the U.S. for 183 days or more in the taxable year of the sale and other conditions are met. Nonresident alien individuals will not be subject to U.S. estate tax with respect to the shares. Special rules may apply to certain former U.S. citizens and long-term residents.

#### *All Shareholders*

Information reporting to the IRS by paying agents and custodians located in the United States will be required with respect to payments of dividends on the shares to U.S. Persons. In addition, you may be subject to backup withholding with respect to dividends paid by CRM Holdings unless you (1) are a corporation, non-U.S. Person or come within certain other exempt categories and, when required, demonstrate this fact, or (2) provide a taxpayer identification number, certify that you have not lost exemption from backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax and may be credited against your regular U.S. federal income tax liability or otherwise you may be entitled to a refund for any such tax withheld.



## DESCRIPTION OF SHARE CAPITAL

The following description of the share capital of CRM Holdings summarizes select provisions of its Memorandum and Articles of Association and bye-laws.

### General

We have an authorized share capital of \$500,000,000 divided into 50,000,000,000 shares of par value \$0.01 per share. Our board of directors has designated 15,457,115 as common shares and 790,000 as class B shares. Upon the closing of this offering the issued and outstanding shares of the Company will be 15,457,115 common shares and 790,000 non-voting class B shares.

### Common Shares

In general, subject to the adjustments regarding voting set forth in “– Voting Adjustments” below, holders of our common shares have one vote for each common share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. Holders of our common shares are entitled to receive dividends as and if lawfully declared from time to time by our board of directors. Holders of our common shares have no preemptive, redemption, conversion or sinking fund rights. In the event of our liquidation, dissolution or winding-up, the holders of our common shares are entitled to share equally and ratably in our assets, if any remain after the payment of all our debts and liabilities and the liquidation preference of any outstanding preferred shares.

### Class B Shares

Holders of our class B shares have the same rights as the holders of our common shares, except that they have no general right to vote on any matters put before our shareholders. The holders of class B shares may exchange their class B shares into common shares at any time, provided that certain voting percentage limits are not breached and that adverse tax consequences do not result from such exchange to us, any subsidiary or any U.S. person as to which the common shares held by such shareholder constitute controlled shares (as defined below).

### Voting Adjustments

Our bye-laws generally provide that shareholders have one vote for each share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, pursuant to a mechanism specified in our bye-laws, the voting rights exercisable by a shareholder will be limited so that certain persons or groups are not deemed to hold more than 9.9% of the total voting power conferred by our shares. In addition, our board of directors retains certain discretion to make adjustments to the aggregate number of votes attaching to the shares of any shareholder that they consider fair and reasonable in all the circumstances to ensure that no person will hold more than 9.9% of the total voting power represented by our then outstanding shares. Our bye-laws provide generally that any shareholder owning, directly, indirectly or, in the case of any U.S. person, by attribution, more than 9.9% of our common shares will have the voting rights attached to such common shares reduced so that it may not exercise more than 9.9% of the total voting rights. The reduction in votes is generally to be applied proportionately among all shareholders who are members of the first shareholder’s control group. A control group means, with respect to any person, all shares directly owned by such person and all shares directly owned by each other shareholder any of whose shares are included in the controlled shares of such person. Controlled shares means all common shares that a person is deemed to own directly, indirectly (within the meaning of Section 958(a) of the Code) or, in the case of a U.S. person, constructively (within the meaning of Section 958(b) of the Code). A similar limitation is to be applied to shares held directly by members of a related group. A related group means a group of shareholders that are investment vehicles and are under common control and management. Any reduction in votes will generally be reallocated proportionately among members of the shareholder’s control group or related group, as the case may be. The amount of any reduction of votes that occurs by operation of the above limitations will generally be reallocated proportionately among all other of our shareholders who were not members of these groups so long as such reallocation does not cause any person to hold more than 9.9% of the total voting power of our shares.



For purposes of applying these provisions, shareholders will be entitled to direct that our board (i) treat them (and certain affiliates) as U.S. persons, and/or (ii) treat them (and certain related shareholders) as one person for purposes of determining a shareholder's control group.

Although the limitation on voting rights will apply to our existing shareholders who receive common shares pursuant to the restructuring that will occur immediately prior to the closing of this offering, the attribution rules with respect to a control group will not apply to Messrs. Daniel G. Hickey, Sr. and Daniel G. Hickey, Jr. Accordingly, the voting rights of each of Messrs. Hickey, Sr. and Hickey, Jr. will be limited to 9.9% on an individual basis and not on a joint and aggregate basis.

The amount of any reduction of votes that occurs by operation of the above limitations will generally be allocated proportionately among all other shareholders of the Company. Consequently, under these provisions, certain shareholders may have their voting rights limited to less than one vote per share, while other shareholders may have voting rights in excess of one vote per share. Moreover, these provisions could have the effect of reducing the voting power of certain shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership.

In addition, our board may adjust a shareholder's voting rights to the extent that the board reasonably determines in good faith that it is necessary to do so to avoid adverse tax consequences or materially adverse legal or regulatory treatment to us, any subsidiary or any shareholder or its affiliates. This adjustment may result in a shareholder having voting rights in excess of one vote per share. Therefore, a shareholder's voting rights might increase above 5% of the aggregate voting power of the outstanding common shares, thereby possibly resulting in the shareholder becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Exchange Act. In addition, the reallocation of your votes could result in your becoming subject to filing requirements under Section 16 of the Exchange Act. Our bye-laws also provide that shareholders will be notified of their voting interests prior to any vote to be taken by the shareholders.

We also have the authority under our bye-laws to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be reallocated pursuant to the bye-laws. If, after a reasonable cure period, a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to a request by us, we in our reasonable discretion, may reduce or eliminate the shareholder's voting rights.

## **Preferred Shares**

Pursuant to our bye-laws and Bermuda law, our board of directors by resolution may establish one or more series of preferred shares having a number of shares, designations, relative voting rights, dividend rates, conversion rights, liquidation and other rights, preferences, limitations and powers as may be fixed by the board of directors without any further shareholder approval. If our board of directors issues preferred shares conferring any voting rights, the limitations on the voting rights discussed above under "– Voting Adjustments" will apply to those preferred shares. Any rights, preferences, powers and limitations as may be established for preferred shares could also have the effect of discouraging an attempt to obtain control of us. The issuance of preferred shares could also adversely affect the voting power of the holders of our shares, deny such holders the receipt of a premium on their shares in the event of a tender or other offer for the shares and depress the market price of the shares. We have no current plans to issue any preferred shares.

## **Bye-laws**

Our bye-laws provide for our corporate governance, including the establishment of share rights, modification of those rights, issuance of share certificates, imposition of a lien over shares in respect of unpaid amounts on those shares, calls on shares which are not fully paid, forfeiture of shares, the transfer of shares, alterations of capital, the calling and conduct of general meetings, proxies, the appointment and removal of directors, conduct and power of directors, the payment of dividends, the appointment of an auditor and our winding-up.

### *Our Board of Directors and Corporate Action*

Our bye-laws provide that the board of directors shall consist of not less than two nor more than 20 directors, as determined by the shareholders at an annual general meeting of the shareholders, divided into three approximately equal classes. Upon the closing of this offering, our board of directors will be comprised of three Class I directors whose initial term will expire at our 2006 annual shareholders' meeting, three Class II directors whose initial term will expire at our 2007 annual shareholders' meeting and three Class III directors whose initial term will expire at our 2008 annual shareholders' meeting. After the initial terms of these directors, the term of each class of directors elected shall be three years. Directors may only be removed prior to the expiration of such director's term at a special meeting of shareholders called for that purpose. The appointment or removal of a director requires the simple majority of votes cast, in person or by proxy, at the general meeting at which the proposal is put forth.

A special general meeting of shareholders may be convened by our board of directors or our Chairman or Deputy Chairman. Pursuant to the Companies Act, a special general meeting of shareholders may also be convened at the request of shareholders holding at the date of the deposit of the request not less than 10% of our paid up voting share capital.

Generally, the affirmative vote of a majority of the directors present at any meeting at which a quorum is present shall be required to authorize corporate action. Corporate action may also be taken by a unanimous written resolution of the board of directors without a meeting. Unless otherwise fixed at a different number, a majority of the directors in office shall constitute a quorum, but in no event may a quorum consist of less than two directors.

### *Shareholder Action*

At any general meeting, four or more persons present in person or by proxy and representing more than 50% of our shareholders' aggregate voting power shall constitute a quorum for the transaction of business. In general, any action that we may take by resolution in a general meeting may, without a meeting, be taken by a resolution in writing signed by all of the shareholders entitled to attend such meeting and vote on the resolution. In general, any question proposed for the consideration of the shareholders at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the bye-laws.

### *Transfer Restrictions*

Our directors may decline to record the transfer of any common shares on our share register: if the shares have not been fully paid for, if the directors are not satisfied that all required regulatory approvals for such transfer have been obtained, if as a result of the transfer a shareholder would hold more than 9.9% of our common shares, or if the instrument of transfer is in favor of more than five persons jointly.

### *Tax Liability Resulting from Acts of Shareholders*

Our bye-laws provide certain protections against adverse tax consequences to us resulting from laws that apply to our shareholders. If a shareholder's death or non-payment of any tax or duty payable by the shareholder, or any other act or thing involving the shareholder, causes any adverse tax consequences to us, (i) the shareholder or its executor or administrator is required to indemnify us against any tax liability that we incur as a result, (ii) we will have a lien on any dividends or any other distributions payable to the shareholder by us to the extent of the tax liability, and (iii) if any amounts not covered by our lien on dividends and distributions are owed to us by the shareholder as a result of our tax liability, we have the right to refuse to register any transfer of the shareholder's shares.

### *Certain Subsidiaries*

CRM Holdings' bye-laws require that the boards of directors of CRM Holdings' non-U.S. subsidiaries be comprised of persons, a majority of whom are directors of CRM Holdings, who have been elected as director designees by the shareholders of CRM Holdings.

CRM Holdings' shareholders will elect director designees for each of our non-U.S. subsidiaries. Under CRM Holdings' bye-laws, CRM Holdings must vote shares it holds in its non-U.S. subsidiaries to elect the director designees as the directors of these non-U.S. subsidiaries. Accordingly, the only persons eligible to be elected as directors of CRM Holdings' non-U.S. subsidiaries are those persons who first have been elected by the shareholders of CRM Holdings (including new shareholders who buy common shares being offered by this prospectus) as director designees in accordance with our bye-laws (including after giving effect to any limitation on voting rights). The bye-law provisions addressing the removal of directors of CRM Holdings' non-U.S. subsidiaries also obligate CRM Holdings to vote shares it holds in these non-U.S. subsidiaries in favor of removal of any director designees in accordance with a resolution duly adopted by the shareholders of CRM Holdings.

#### *Amendment of Bye-laws*

Our bye-laws provide that the bye-laws may only be revoked or amended, upon approval by a resolution of our board of directors and by (a) a simple majority of votes cast by our shareholders or (b) by resolution of eighty-five percent (85%) of the total votes cast when the board proposes to repeal, alter or amend the indemnities set out in the bye-laws.

#### *Anti-Takeover Provisions*

Our bye-laws contain provisions that may entrench directors and make it more difficult for shareholders to replace directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control that a shareholder might consider favorable. For example, these provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our common shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging changes in management and takeover attempts in the future.

The anti-takeover provisions in our bye-laws that could have such an effect are:

election of our directors is staggered, meaning that the members of only one of three classes of our directors are elected each year;

the total voting power of any shareholder owning more than 9.9% of our common shares will be reduced to 9.9% of the total voting power of our common shares; and

our directors may, in their discretion, decline to record the transfer of any common shares on our share register if the shares have not been fully paid for, if the directors are not satisfied that all required regulatory approvals for such transfer have been obtained, if as a result of the transfer a shareholder would hold more than 9.9% of our common shares, or if the instrument of transfer is in favor of more than five persons jointly.

#### **Transfer Agent**

Our registrar and transfer agent for the shares is Computershare Investor Services, LLC. The address of the registrar and transfer agent is 250 Royall Street, Canton, MA 02021 and its telephone number is 781-575-2000.

## Differences in Corporate Law

You should be aware that the Companies Act, which applies to us, differs in certain material respects from laws generally applicable to United States corporations and their shareholders. In order to highlight these differences, set forth below is a summary of certain significant provisions of the Companies Act (including modifications adopted pursuant to our bye-laws) applicable to us which differ in certain respects from provisions of State of Delaware corporate law. Because the following statements are summaries, they do not address all aspects of Bermuda law that may be relevant to us and our shareholders.

### *Duties of Directors*

Under Bermuda law, at common law, members of a board of directors owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company, and to exercise their powers and fulfill the duties of their office honestly. This duty has the following essential elements:

- a duty to act in good faith in the best interests of the company;
- a duty not to make a personal profit from opportunities that arise from the office of director;
- a duty to avoid conflicts of interest;
- a duty to exercise powers for the purpose for which such powers were intended;
- the Companies Act imposes a duty on directors and officers of a Bermuda company;
- to act honestly and in good faith with a view to the best interests of the company; and
- to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

In addition, the Companies Act imposes various duties on officers of a company with respect to certain matters of management and administration of the company.

The Companies Act provides that in any proceedings for negligence, default, breach of duty or breach of trust against any officer, if it appears to a court that such officer is or may be liable in respect of the negligence, default, breach of duty or breach of trust, but that he has acted honestly and reasonably, and that, having regard to all the circumstances of the case, including those connected with his appointment, he ought fairly to be excused for the negligence, default, breach of duty or breach of trust, that court may relieve him, either wholly or partly, from any liability on such terms as the court may think fit. This provision has been interpreted to apply only to actions brought by or on behalf of the company against such officers. Our bye-laws, however, provide that shareholders waive all claims or rights of action that they might have, individually or in our right against any director or officer for any act or failure to act in the performance of such director's or officer's duties, except this waiver does not extend to any claims or rights of action that would render the waiver void pursuant to the Companies Act, that arise out of fraud or dishonesty on the part of such director or officer or with respect to the recovery of any gain, personal profit or advantage to which the officer or director is not legally entitled. Presently the Companies Act restrictions in relation to this waiver refer solely to fraud or dishonesty on behalf of our directors and officers. Accordingly, our bye-laws contain restrictions that are consistent with the Companies Act, and provide for additional restrictions with respect to such waiver.

Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its stockholders. The duty of care requires that directors act in an informed and deliberate manner, and inform themselves, prior to making a business decision, of all relevant material information reasonably available to them. The duty of care also requires that directors exercise care in overseeing and investigating the conduct of corporate employees. The duty of loyalty may be summarized as the duty to act in good faith, not out of self-interest, and in a manner which the director reasonably believes to be in the best interests of the stockholders. A party challenging the propriety of a decision of a board of directors bears the burden of rebutting the applicability of the presumptions afforded to directors by the "business judgment rule." If the presumption is not rebutted, the

business judgment rule attaches to protect the directors and their decisions. Where, however, the presumption is rebutted, the directors bear the burden of demonstrating the fairness of the relevant transaction. Notwithstanding the foregoing, Delaware courts subject directors' conduct to enhanced scrutiny in respect of defensive actions taken in response to a threat to corporate control and approval of a transaction resulting in a sale of control of the corporation.

### ***Interested Directors***

Under Bermuda law and our bye-laws, any transaction entered into by us in which a director has an interest is not voidable by us nor can such director be accountable to us for any benefit realized pursuant to such transaction provided the nature of the interest is disclosed at the first opportunity at a meeting of directors, or in writing to the directors. In addition, our bye-laws allow a director to be taken into account in determining whether a quorum is present and to vote on a transaction in which he has an interest, but the resolution will fail unless it is approved by a majority of the disinterested directors voting on the resolution. Under Delaware law, such transaction would not be voidable if (1) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed or are known to the stockholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon or (3) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, such interested director could be held liable for a transaction in which such director derived an improper personal benefit.

### ***Voting Rights and Quorum Requirements***

Under Bermuda law, the voting rights of our shareholders are regulated by our bye-laws and, in certain circumstances, the Companies Act. Under our bye-laws, at any general meeting, four or more persons present in person or by proxy and representing more than 50% of our shareholders' aggregate voting power shall constitute a quorum for the transaction of business. In general, any action that we may take by resolution in a general meeting may, without a meeting, be taken by a resolution in writing signed by all of the shareholders entitled to attend such meeting and vote on the resolution. In general, any question proposed for the consideration of the shareholders at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the bye-laws.

Any individual who is a shareholder and who is present at a meeting may vote in person, as may any corporate shareholder which is present by a duly authorized representative. Our bye-laws also permit votes by proxy, provided the instrument appointing the proxy, together with evidence of its due execution, is satisfactory to our board of directors.

In order to avoid adverse tax consequences to us and our shareholders, our bye-laws provide generally that any shareholder owning, directly, indirectly or, in the case of any U.S. Person by attribution, more than 9.9% of our common shares will have the voting rights attached to such common shares reduced so that it may not exercise more than 9.9% of the total voting rights. The reduction in votes is generally to be applied proportionately among all shareholders who are members of the first shareholder's "control group". A "control group" means, with respect to any person, all shares directly owned by such person and all shares directly owned by each other shareholder any of whose shares are included in the controlled shares of such person. "Controlled shares" means all common shares that a person is deemed to own directly, indirectly (within the meaning of Section 958 (a) of the Code), or, in the case of a U.S. person, constructively (within the meaning of Section 958 (b) of the Code). A similar limitation is to be applied to shares held directly by members of a "related group". A "related group" means a group of shareholders that are investment vehicles and are under common control and management. Any reduction in votes is generally allocated proportionately among members of the shareholder's "control group" or "related group", as the case may be. The amount of any reduction of votes that occurs by operation of the above limitations will generally be reallocated proportionately among all of our other shareholders who were not members of these groups so long as such reallocation does not cause any person to become a 9.9% shareholder. Although the limitation on voting rights will apply to

our existing shareholders who receive common shares pursuant to the restructuring that will occur immediately prior to the closing of this offering, the attribution rules with respect to a control group will not apply to Messrs. Daniel G. Hickey, Sr. and Daniel G. Hickey, Jr. Accordingly, the voting rights of each of Messrs. Hickey, Sr. and Hickey, Jr. will be limited to 9.9% on an individual basis and not on a joint and aggregate basis.

Under these provisions, certain shareholders may have their voting rights limited to less than one vote per share, while other shareholders may have voting rights in excess of one vote per share. Moreover, these provisions could have the effect of reducing the votes of certain shareholders who would not otherwise be subject to the 9.9% limitation by virtue of their direct share ownership. Our bye-laws also provide that shareholders will be notified of their voting interests prior to any vote to be taken by the shareholders. See “– Voting Adjustments.”

### ***Dividends***

Bermuda law does not permit payment of dividends, or distributions out of contributed surplus, by a company if there are reasonable grounds for believing that the company, after the payment is made, would be unable to pay its liabilities as they become due, or the realizable value of the company's assets would be less, as a result of the payment, than the aggregate of its liabilities and its issued share capital and share premium accounts. The excess of the consideration paid on issue of shares over the aggregate par value of such shares must (except in certain limited circumstances) be credited to a share premium account. Share premium may be distributed in certain limited circumstances, for example to pay up for unissued shares which may be distributed to shareholders in proportion to their holdings, but is otherwise subject to limitation. In addition, our ability to pay dividends is subject to Bermuda and U.S. state insurance laws and regulatory constraints. See “Regulation – Bermuda Regulation – Solvency Margin and Restrictions on Dividends and Distributions.”

Under Delaware law, subject to any restrictions contained in the company's certificate of incorporation, a company may pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Delaware law also provides that dividends may not be paid out of net profits at any time when capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets. There will be restrictions on the payment of dividends to us by our insurance subsidiaries, which are described in more detail in “Regulation.”

### ***Amalgamations, Mergers and Similar Arrangements***

We may acquire the business of another Bermuda exempted company or a company incorporated outside Bermuda when conducting such business would benefit us and would be conducive to attaining our objectives contained within our memorandum of association. We may, with the approval of a majority of votes cast at a general meeting of our shareholders at which a quorum is present, amalgamate with another Bermuda company or with an entity incorporated outside Bermuda. In the case of an amalgamation, a shareholder may apply to a Bermuda court for a proper valuation of such shareholder's shares if such shareholder is not satisfied that fair value has been paid for such shares. The court ordinarily would not disapprove the transaction on that ground absent evidence of fraud or bad faith. Under Delaware law, a stockholder of a corporation participating in certain major corporate transactions may, under certain circumstances, be entitled to appraisal rights pursuant to which the stockholder may receive cash in the amount of the fair value of the shares held by that stockholder (as determined by a court) in lieu of the consideration that stockholder would otherwise receive in the transaction.

### ***Takeovers***

Bermuda law provides that where an offer is made for shares of a company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may by notice require the non-tendering shareholders to transfer their shares on the terms of the offer. Dissenting



shareholders may apply to the court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholders to show that the court should exercise its discretion to enjoin the required transfer, which the court will be unlikely to do unless there is evidence of fraud or bad faith or collusion between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders. Delaware law provides that a parent corporation, by resolution of its board of directors and without any shareholder vote, may merge with any subsidiary of which it owns at least 90% of the outstanding shares of each class of stock that is entitled to vote on the transaction. Upon any such merger, dissenting stockholders of the subsidiary would have appraisal rights.

### ***Shareholders' Suits***

The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders under legislation or judicial precedent in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence an action in our name to remedy a wrong done to us where the act complained of is alleged to be beyond our corporate power or is illegal or would result in the violation of our memorandum of association or bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of our shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys' fees incurred in connection with such action. In comparison, class actions and derivative actions generally are available to stockholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

### ***Approval of Corporate Matters by Written Consent***

Under Bermuda law, the Companies Act provides that shareholders or the board of directors may take action by written consent in lieu of a shareholder's meeting or a meeting of the board of directors, respectively, so long as the written consent is signed by all of the shareholders entitled to attend and vote at that meeting or the directors, respectively. Unless otherwise provided in a corporation's certificate of incorporation, Delaware law permits stockholders to take action by the consent in writing by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting of stockholders at which all shares entitled to vote thereon were present and voted. Under Delaware law, the board of directors may take action by written consent so long as the written consent is signed by all of the directors.

### ***Indemnification of Directors and Officers***

Under Bermuda law and our bye-laws, we indemnify our directors, officers or any other person appointed to a committee of the board of directors (and their respective heirs, executors or administrators) to the full extent permitted by law against all actions, costs, charges, liabilities, loss, damage or expense incurred or suffered by such person by reason of any act done, conceived in or omitted in the conduct of our business or in the discharge of his/her duties; provided that such indemnification shall not extend to any matter which would render it void pursuant to the Companies Act. Under our bye-laws, each of our shareholders agrees to waive any claim or right of action, other than those involving fraud or dishonesty, against us or any of our officers or directors.

Under Delaware law, a corporation may indemnify a director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (1) the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, if the director or officer had no reasonable cause to believe his conduct was unlawful.



### ***Inspection of Corporate Records***

Members of the general public have the right to inspect our public documents available at the office of the Registrar of Companies in Bermuda and our registered office in Bermuda, which will include our memorandum of association (including its objects and powers) and any alteration to our memorandum of association and documents relating to any increase or reduction of authorized capital. Our shareholders have the additional right to inspect our bye-laws, minutes of general meetings and financial statements, which must be presented to the annual general meeting of shareholders. The register of our shareholders is also open to inspection by shareholders without charge, and to members of the public for a fee. We are required to maintain our share register in Bermuda but may establish a branch register outside of Bermuda. We are required to keep at our registered office a register of our directors and officers which is open for inspection by members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records. Delaware law permits any stockholder to inspect or obtain copies of a corporation's stockholder list and its other books and records for any purpose reasonably related to such person's interest as a stockholder.

### ***Shareholder Proposals***

Under Bermuda law, the Companies Act provides that shareholders may, as set forth below and at their own expense (unless a company otherwise resolves), require a company to give notice of any resolution that the shareholders can properly propose at the next annual general meeting and/or to circulate a statement prepared by the requesting shareholders in respect of any matter referred to in a proposed resolution or any business to be conducted at a general meeting. The number of shareholders necessary for such a requisition is either that number of shareholders representing at least 5% of the total voting rights of all shareholders having a right to vote at the meeting to which the requisition relates or not less than 100 shareholders. Delaware law does not include a provision restricting the manner in which nominations for directors may be made by stockholders or the manner in which business may be brought before a meeting.

### ***Calling of Special Shareholders Meetings***

Under our bye-laws, a special general meeting may be called by the board of directors or by our Chairman of the Board or Deputy Chairman of the Board. Under Bermuda law, a special meeting may also be called by the shareholders when requisitioned by the holders of at least 10% of the paid up voting share capital of our company as provided by the Companies Act. Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or bye-laws to call a special meeting of stockholders.

### ***Staggered Board of Directors***

Bermuda laws does not contain statutory provisions specifically mandating staggered board of directors arrangements for a Bermuda exempted company. Such provisions, however, may validly be provided for in the bye-laws governing the affairs of such a company. Delaware law permits corporations to have a staggered board of directors.

### ***Amendment of Memorandum of Association***

Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders of which due notice has been given. An amendment to the memorandum of association that alters the company's business objects may require approval of the Bermuda Minister of Finance, who may grant or withhold approval at his or her discretion.

Under Bermuda law, the holders of an aggregate of not less than 20% in par value of a company's issued share capital have the right to apply to the Bermuda courts for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda court. An

application for an annulment of an amendment of the memorandum of association must be made within 21 days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of persons entitled to make the application by one or more of their designees as such holders may appoint in writing for such purpose. No application may be made by the shareholders voting in favor of the amendment.

Under Delaware law, amendment of the certificate of incorporation, which is the equivalent of a memorandum of association, of a company must be made by a resolution of the board of directors setting forth the amendment, declaring its advisability, and either calling a special meeting of the stockholders entitled to vote or directing that the amendment proposed be considered at the next annual meeting of the stockholders. Delaware law requires that, unless a different percentage is provided for in the certificate of incorporation, a majority of the outstanding shares entitled to vote thereon is required to approve the amendment of the certificate of incorporation at the stockholders meeting. If the amendment would alter the number of authorized shares or par value or otherwise adversely affect the rights or preference of any class of a company's stock, the holders of the outstanding shares of such affected class, regardless of whether such holders are entitled to vote by the certificate of incorporation, should be entitled to vote as a class upon the proposed amendment.

However, the number of authorized shares of any class may be increased or decreased, to the extent not falling below the number of shares then outstanding, by the affirmative vote of the holders of a majority of the stock entitled to vote, if so provided in the company's certificate of incorporation or any amendment that created such class or was adopted prior to the issuance of such class or that was authorized by the affirmative vote of the holders of a majority of such class or classes of stock.

#### ***Amendment of Bye-laws***

Our bye-laws provide that the bye-laws may only be revoked or amended upon approval by a resolution of our board of directors and by (a) a simple majority of votes cast by our shareholders or (b) by resolution of eighty-five percent (85%) of the total votes cast when the board proposes to repeal, alter or amend the indemnities set out in the bye-laws.

Under Delaware law, holders of a majority of the voting power of a corporation and if so provided in the certificate of incorporation the directors of the corporation, have the power to adopt, amend and repeal the bylaws of a corporation.

#### ***Enforcement of Judgments and Other Matters***

There is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a United States judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the U.S. court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules. A judgment debt from a U.S. court that is final and for a sum certain based on U.S. federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the U.S. court, and the issue of submission and jurisdiction is a matter of Bermuda (not United States) law.

In addition, and irrespective of jurisdictional issues, the Bermuda courts will not enforce a United States federal securities law that is either penal or contrary to the public policy of Bermuda. An action brought pursuant to a public or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the state in its sovereign capacity, may not be entertained by a Bermuda court to the extent they are contrary to Bermuda public policy. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, may not be available under Bermuda law or enforceable in a Bermuda court, to the extent they are contrary to Bermuda public policy. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violations of U.S. federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

**UNDERWRITING**

We and Sandler O' Neill & Partners, L.P. and KeyBanc Capital Markets, a division of McDonald Investments Inc., as representatives of the underwriters for this offering, have entered into an underwriting agreement with respect to the shares being offered. Subject to the terms and conditions of the underwriting agreement, each of the underwriters named below has agreed to purchase from us the respective number of common shares shown opposite its name below:

<b>Underwriters</b>	<b>Number of Shares</b>
Sandler O' Neill & Partners, L.P.	
KeyBanc Capital Markets a division of McDonald Investments Inc.	
<b>Total</b>	<b>8,850,000</b>

The underwriting agreement provides that the obligations of the underwriters are subject to approval of certain legal matters by their counsel and to certain other customary conditions. The obligations of the underwriters may also be terminated upon the occurrence of the events specified in the underwriting agreement. The underwriting agreement provides that the underwriters are obligated to purchase all of the common shares in this offering if any are purchased, other than those covered by the over-allotment option described below.

The selling shareholders have severally granted the underwriters an option to purchase up to 947,952 additional common shares at the initial price to the public, less the underwriting discounts and commissions, set forth on the cover page of this prospectus. This option is exercisable for a period of 30 days. The selling shareholders will be obligated to sell additional shares to the underwriters to the extent the option is exercised. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of common shares offered by this prospectus, if any.

The following table shows the per-share and total underwriting discounts and commissions that we and the selling shareholders will pay to each underwriter:

	<b>By us without Over-allotment</b>	<b>By us with Over-allotment</b>	<b>By Selling Shareholders without Over-allotment</b>	<b>By Selling Shareholders with Over-allotment</b>
<b>Per Share</b>				
<b>Total</b>				

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$3,900,000. These expenses are payable by us. We have agreed to reimburse each underwriter for certain actual out-of-pocket expenses incurred in connection with the offering, including certain fees and disbursements of underwriters' counsel in an amount not to exceed \$250,000.

The underwriters propose to offer the common shares directly to the public at the public offering price set forth on the cover page of this prospectus. The underwriters may offer the shares to securities dealers at the public offering price less a concession not in excess of \$ per share. The underwriters may allow, and the dealers may reallocate, a discount not in excess of \$ per share on sales to other brokers or dealers. If all of the shares are not sold at the initial price to the public, the underwriters may change the offering price and other selling terms.

The shares are being offered by the underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the underwriters and other conditions specified in the underwriting agreement. The underwriters reserve the right to withdraw, cancel or modify this offer and reject orders in whole or in part.

We, and our executive officers, directors and shareholders have agreed, for a period of 180 days after the date of this prospectus, not to sell, offer, agree to sell, contract to sell, hypothecate, pledge, grant any option to purchase, make any short sale, or otherwise dispose of or hedge, directly or indirectly, any of our common shares or securities convertible into, exchangeable or exercisable for any common shares or warrants or other rights to purchase common shares or similar securities without, in each case, the prior written consent of Sandler, O' Neill & Partners, L.P. These restrictions are expressly agreed to preclude us, and our executive officers, directors and principal shareholders from engaging in any hedging or other transaction or arrangement that is designed to, or which reasonably could be expected to, lead to or result in a sale, disposition or transfer, in whole or in part, of any of the economic consequences of ownership of our common shares, whether such transaction would be settled by delivery of common shares or other securities, in cash or otherwise. These restrictions are subject to limited exceptions, including the pledge of common shares, provided that the pledgee agrees in writing to the restrictions described above.

The 180-day restricted period described above is subject to extension such that, in the event that either (1) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or material event relating to us occurs or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, the "lock up" restrictions described above will, subject to limited exceptions, continue to apply until the expiration of the 18-day period beginning on the earnings release or the occurrence of the material news or material event.

Prior to this offering, there has been no established public trading market for our common shares. The initial public offering price was determined by negotiation between us and the underwriter. The principal factors that were considered in determining the initial public offering price were:

- our results of operations;
- expectations regarding our future results of operations, including financial estimates by securities analysts and investors;
- possible third-party claims against us;
- possible changes in law and regulations; and
- future sales of our common shares.

The factors described above were not assigned any particular weight. Rather, these factors, together with market valuations and the financial performance of other publicly companies in our industry, were considered as a totality in our negotiation with the underwriters over our initial public offering price.

We have applied to have our common shares listed for quotation on the Nasdaq National Market under the symbol CRMH.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids.

Stabilizing transactions permit bids to purchase common shares so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the common shares while the offering is in progress.

Over-allotment transactions involve sales by the underwriters of common shares in excess of the number of shares the underwriters are obligated to purchase. This creates a syndicate short position that may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that it may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of common shares in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared with the price at which they may purchase shares through exercise of the over-allotment option. If the underwriters sell more shares than could be covered by exercise of the over-allotment option and, therefore, have a naked short position, the position can be closed out only by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that after pricing there could be a downward pressure on the price of the shares in the open market that could adversely affect investors who purchase in this offering.

Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common shares originally sold by that syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common shares or preventing or retarding a decline in the market price of our common shares. As a result, the price of our common shares in the open market may be higher than it would otherwise be in the absence of these transactions. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common shares. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

We and the selling shareholders have agreed to indemnify the underwriters against specified liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect thereof.

At our request, the underwriters have reserved for sale, at the initial offering price, up to 300,000 of our common shares offered in this offering for certain of our business associates and related persons. The number of our common shares available for sale to the general public will be reduced to the extent such persons purchase such reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered in this prospectus.

Affiliates of the underwriters act as lenders to CRM and Twin Bridges under their credit facilities and letters of credit. Also, certain of the underwriters and their affiliates have, from time to time, provided, and may in the future provide, financial advisory, investment banking and general financing and banking services to us and our executive officers, for which they have received, and may receive, customary fees and expenses. Specifically, affiliates of KeyBanc Capital Markets have provided us with various lines of credit. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Sources of Cash." Our subsidiaries and one of our executives also have a number of deposit and investments accounts with affiliates of KeyBanc Capital Markets. One affiliate of KeyBanc Capital Markets has provided one of our executives with a residential mortgage.

## SHARES ELIGIBLE FOR FUTURE SALE

### General

Prior to this offering, there has been no public market for our common shares. No prediction can be made as to the effect, if any, that sales of common shares or the availability of common shares for sale will have on the market price of our shares. The market price of our common shares could decline because of the sale of a large number of shares or the perception that such sales could occur. These factors could also make it more difficult for us to raise funds through future offerings of shares.

After this offering, 16,247,115 of our common shares will be outstanding. Of these common shares, the 8,850,000 common shares sold in this offering, or 9,797,952 common shares if the underwriters' over-allotment option is exercised in full, will be freely tradable without restriction under the Securities Act, except that any common shares held by our "affiliates" as defined in Rule 144 under the Securities Act may be sold only in compliance with the limitations described below. Our restricted securities generally may not be sold unless they are registered under the Securities Act or are sold pursuant to an exemption under the Securities Act, such as the exemption provided by Rule 144 under the Securities Act.

In connection with this offering, our existing officers, directors and existing shareholders, who will beneficially own a total of up to 7,397,115 common shares after this offering, have entered into lock-up agreements pursuant to which they have agreed not to sell any common shares for a period of 180 days after the date of this prospectus without the prior written consent of Sandler O' Neill & Partners, L.P., which may, in its sole discretion, at any time and without notice, waive any of the terms of these lock-up agreements. The underwriters presently have no intention to allow any common shares held by our existing officers, directors and existing shareholders to be sold prior to the expiration of the 180 day lock-up period. Following the lock-up period, these shares will not be eligible for sale in the public market without registration under the Securities Act unless such sale meets the conditions and restrictions of an exemption under the Securities Act such as Rule 144 as described below. To the extent the underwriters' over-allotment option is exercised in full, the number of shares subject to lock-up agreements will be reduced to 6,449,163, or 39.7% of our common shares outstanding following this offering.

The 180-day restricted period described above is subject to extension such that, in the event that either (1) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or material event relating to us occurs or (2) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, the "lock up" restrictions described above will, subject to limited exceptions, continue to apply until the expiration of the 18-day period beginning on the earnings release or the occurrence of the material news or material event.

In general, under Rule 144, as currently in effect, any person or persons whose shares are aggregated, including an affiliate of ours, who has beneficially owned restricted shares for a period of at least one year is entitled to sell, within any three month period, commencing 90 days after the date of this prospectus, a number of common shares that does not exceed the greater of:

1% of the then outstanding common shares; and

the average weekly trading volume in the common shares during the four calendar weeks immediately preceding the date on which the notice of such sale on Form 144 is filed with the SEC.

Sales under Rule 144 are subject to provisions relating to notice and manner of sale and the availability of current public information about us during the 90 days immediately preceding a sale. In addition, a person who is not an affiliate of ours during the 90 days preceding a sale and who has beneficially owned the common shares proposed to be sold for at least two years would be entitled to sell such shares under Rule 144(k) without regard to the volume limitation and other conditions described above.

## **LEGAL MATTERS**

We are being represented by Baker & McKenzie LLP, New York, New York in connection with this offering. The validity of the common shares and other legal matters in connection with this offering with respect to Bermuda law will be passed upon for us by Appleby Spurling Hunter, Bermuda. Certain legal matters will be passed upon for the underwriters by Kramer Levin Naftalis & Frankel LLP, New York, New York and, with respect to legal matters under Bermuda law, by Conyers Dill & Pearman, Bermuda.

## **EXPERTS**

The combined financial statements of Compensation Risk Managers, LLC and Affiliates for each of the years ended December 31, 2004, 2003 and 2002 and as of December 31, 2004 and 2003 and the balance sheet of CRM Holdings, Ltd. (in formation) as of September 7, 2005 included in this prospectus have been so included in reliance on the report of Johnson Lambert & Co., independent accountants, given on their authority as experts in auditing and accounting.

## **ENFORCEABILITY OF CIVIL LIABILITIES UNDER U.S. FEDERAL SECURITIES LAWS**

We are a Bermuda company and a substantial portion of our assets are or may be located in jurisdictions outside the United States. It may therefore be difficult for investors to effect service of process against us or to enforce against us judgments of U.S. courts predicated upon civil liability provisions of the U.S. federal securities laws.

There is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a United States judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the U.S. court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules. A judgment debt from a U.S. court that is final and for a sum certain based on U.S. federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the U.S. court, and the issue of submission and jurisdiction is a matter of Bermuda (not U.S.) law.

In addition, and irrespective of jurisdictional issues, the Bermuda courts will not enforce a U.S. federal securities law that is either penal or contrary to the public policy of Bermuda. An action brought pursuant to a public or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the state in its sovereign capacity, may not be entertained by a Bermuda court to the extent they are contrary to Bermuda public policy. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, may not be available under Bermuda law or enforceable in a Bermuda court, to the extent they are contrary to Bermuda public policy. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violations of U.S. federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.



## **WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the Securities and Exchange Commission, or SEC, a registration statement on Form S-1 under the Securities Act of 1933, as amended, with respect to the common shares that are being offered by this prospectus. This prospectus, which is a part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. Refer to the registration statement, exhibits and schedules for further information with respect to the common shares offered by this prospectus. Statements contained in this prospectus regarding the contents of any contract or other documents are only summaries. With respect to any contract or document filed as an exhibit to the registration statement, you should refer to the exhibit for a copy of the contract or document, and each statement in this prospectus regarding that contract or document is qualified by reference to the exhibit. The registration statement, including all exhibits, may be inspected without charge at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Our SEC filings also are available to the public from the SEC's website at [www.sec.gov](http://www.sec.gov).

### **Website Access to our Periodic SEC Reports**

The Internet address of our corporate website is [www.trustrm.com](http://www.trustrm.com). We intend to make our periodic SEC reports (on Forms 10-K and 10-Q) and current reports (on Form 8-K), as well as the beneficial ownership reports filed by our directors, officers and 10% shareholders (on Forms 3, 4 and 5) available free of charge through our website as soon as reasonably practicable after they are filed electronically with the SEC. We may from time to time provide important disclosures to investors by posting them in the investor relations section of our website, as allowed by SEC rules. The information on our website is not a part of this prospectus and will not be part of any of our periodic or current reports to the SEC.

## INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
<b>Compensation Risk Managers, LLC and Affiliates</b>	
<b>Interim Unaudited Combined Financial Statements:</b>	
Combined Balance Sheets as of September 30, 2005 and December 31, 2004	F-2
Combined Statements of Income for the nine months ended September 30, 2005 and 2004	F-3
Combined Statement of Changes in Shareholders' and Members' Equity for the nine months ended September 30, 2005 and 2004	F-4
Combined Statements of Cash Flows for the nine months ended September 30, 2005 and 2004	F-5
Notes to Interim Combined Financial Statements	F-6
<b>Annual Combined Financial Statements:</b>	
Report of Johnson Lambert & Co., Independent Registered Public Accounting Firm	F-13
Combined Balance Sheets as of December 31, 2004 and 2003	F-14
Combined Statements of Income for the years ended December 31, 2004, 2003 and 2002	F-15
Combined Statements of Changes in Shareholders' and Members' Equity for the years ended December 2004, 2003 and 2002	F-16
Combined Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002	F-17
Notes to Combined Financial Statements	F-18
<b>CRM Holdings Ltd. (in formation):</b>	
Report of Johnson Lambert & Co., Independent Registered Public Accounting Firm	F-29
Balance Sheet as of September 7, 2005	F-30
Note to Balance Sheet	F-30

# Compensation Risk Managers, LLC and Affiliates

## Unaudited Combined Balance Sheets

	September 30, 2005	December 31, 2004
<b>Assets</b>		
Cash and cash equivalents	\$ 634,087	\$ 1,584,083
Cash and cash equivalents, restricted	1,595,766	4,390,738
Investments, restricted		
Fixed maturity securities, available for sale, at fair value (amortized cost \$5,533,199)	5,533,211	—
Premiums receivable, net	2,947,914	3,758,139
Earned unbilled commissions and premiums	1,010,400	—
Accounts receivable	1,618,224	41,170
Deferred policy acquisition costs	918,614	1,413,500
Property and equipment, net	971,525	912,956
Loans receivable	412,810	431,606
Deferred initial public offering costs	1,334,027	—
Prepaid expenses and other assets	650,030	192,119
<b>Total assets</b>	<b>\$ 17,626,608</b>	<b>\$ 12,724,311</b>
<b>Liabilities and shareholders' and members' equity</b>		
Reserve for losses and loss adjustment expenses	\$ 4,965,387	\$ 2,696,000
Unearned reinsurance premiums	3,106,425	4,779,950
Unearned management fees	1,136,945	670,631
Unearned commission income	2,068,759	2,333,940
Borrowings under credit facilities	3,597,405	158,307
Fees payable to general agents and brokers	771,920	565,571
Accrued expenses	2,533,833	631,885
<b>Total liabilities</b>	<b>18,180,674</b>	<b>11,836,284</b>
Twin Bridges		
Common stock	120,000	120,000
Additional paid-in capital	880,000	880,000
Retained earnings	2,212,457	834,891
LLC members' deficit	(3,766,523)	(946,864)
<b>Total shareholders' and members' (deficit) equity</b>	<b>(554,066)</b>	<b>888,027</b>
<b>Total liabilities and shareholders' and members' equity</b>	<b>\$ 17,626,608</b>	<b>\$ 12,724,311</b>

See Notes to Combined Financial Statements.

**Compensation Risk Managers, LLC and Affiliates****Unaudited Combined Statements of Income  
Nine Months Ended September 30**

	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
Fee-based management services:		
Management fees	\$ 22,124,085	\$ 17,776,443
Commission income	<u>4,075,344</u>	<u>2,743,174</u>
	26,199,429	20,519,617
Net reinsurance premiums	5,295,237	3,565,567
Investment income, net of advisory fees	<u>115,471</u>	<u>30,015</u>
Total revenues	<u>31,610,137</u>	<u>24,115,199</u>
<b>Expenses</b>		
Losses and loss adjustment expenses	2,269,387	1,975,250
Fees paid to general agents and brokers	8,443,514	7,379,627
Policy acquisition costs	1,565,879	1,054,388
Selling, general and administrative expenses	13,970,318	9,802,971
Interest expense	<u>42,205</u>	<u>37,500</u>
Total expenses	<u>26,291,303</u>	<u>20,249,736</u>
Income before taxes	5,318,834	3,865,463
Provision for income taxes	<u>—</u>	<u>—</u>
<b>Net income</b>	<u>\$ 5,318,834</u>	<u>\$ 3,865,463</u>

*See Notes to Combined Financial Statements*

# **Compensation Risk Managers, LLC and Affiliates**

## **Unaudited Combined Statement of Changes in Shareholders' And Members' Equity Nine Months Ended September 30**

	Twin Bridges			LLC Members' Equity	Total Shareholders' and Members' Equity (Deficit)
	Common Stock	Paid -in Capital	Retained Earnings		
<b>Balance at January 1, 2004</b>	\$ 120,000	\$ 880,000	\$ (51,276 )	\$ (2,112,661)	\$ (1,163,937)
Net income for the period	–	–	423,887	3,441,576	3,865,463
Distributions to members	–	–	–	(2,860,192)	(2,860,192)
<b>Balance at September 30, 2004</b>	<u>\$ 120,000</u>	<u>\$ 880,000</u>	<u>\$ 372,611</u>	<u>\$ (1,531,277)</u>	<u>\$ (158,666 )</u>
<b>Balance at January 1, 2005</b>	\$ 120,000	\$ 880,000	\$ 834,891	\$ (946,864 )	\$ 888,027
Net income for the period	–	–	1,377,566	3,941,268	5,318,834
Distributions to members	–	–	–	(6,760,927)	(6,760,927)
<b>Balance at September 30, 2005</b>	<u>\$ 120,000</u>	<u>\$ 880,000</u>	<u>\$ 2,212,457</u>	<u>\$ (3,766,523)</u>	<u>\$ (554,066 )</u>

*See Notes to Combined Financial Statements.*

# Compensation Risk Managers, LLC and Affiliates

## Unaudited Combined Statements of Cash Flows

Nine Months Ended September 30

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 5,318,834	\$ 3,865,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	160,393	195,727
Changes in:		
Cash and cash equivalents, restricted	2,794,972	(2,270,758)
Premiums receivable, net	810,225	200,158
Earned unbilled commissions and premiums	(1,010,400)	–
Accounts receivable	(1,577,054)	(202,951 )
Deferred policy acquisition costs	494,886	184,988
Deferred initial public offering costs	(1,334,027)	–
Prepaid expenses and other assets	(457,911 )	(210,393 )
Reserve for losses and loss adjustment expenses	2,269,387	1,975,250
Unearned reinsurance premiums	(1,673,525)	(625,568 )
Unearned management fees	466,314	(169,044 )
Unearned commission income	(265,181 )	(313,892 )
Fees payable to general agents and brokers	206,349	(14,009 )
Accrued expenses	1,901,948	820,998
Net cash provided by operating activities	8,105,210	3,435,969
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed maturity securities, available for sale	(5,533,211)	–
Property and equipment	(218,962 )	(158,833 )
Loans receivable	18,796	(312,322 )
Net cash used in investing activities	(5,733,377)	(471,155 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings under credit facilities	3,439,098	(216,823 )
Distributions paid to LLC Members	(6,760,927)	(2,860,192)
Net cash used in financing activities	(3,321,829)	(3,077,015)
Net decrease in cash	(949,996 )	(112,201 )
Cash and cash equivalents		
Beginning	1,584,083	766,697
Ending	\$ 634,087	\$ 654,496
<b>Supplemental Cash Flow Disclosures</b>		
Income taxes paid	\$ –	\$ –
Interest paid	\$ 42,607	\$ 38,051

See Notes to Combined Financial Statements.

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Unaudited Combined Financial Statements**

**Note 1. Significant Accounting Policies**

**Principles of Consolidation**

These interim unaudited combined financial statements include the accounts of Compensation Risk Managers, LLC (“CRM”), Compensation Risk Managers of California, LLC (“CRM CA”), EIMAR, L.L.C. (“Eimar”) and Twin Bridges (Bermuda) Ltd. (“Twin Bridges” and collectively, “the Company”). These entities, in substance, have identical beneficial ownership and common management, and will be restructured into subsidiaries of a holding company to occur immediately prior to the completion of an initial public offering of CRM Holdings Ltd. Management believes that the presentation of combined historical financial statements most accurately captures the substance of the historical economic relationship of the entities.

These interim unaudited combined financial statements and notes have been prepared in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information and note disclosure required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results for the interim periods have been included. These interim unaudited combined financial statements and related notes should be read in conjunction with the Company’s audited combined financial statements and related notes. The Company’s results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

**Use of Estimates**

The preparation of interim unaudited combined financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Those estimates are inherently subject to change, and actual results may ultimately differ materially from those estimates.

**Recent Accounting Pronouncements**

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying interim unaudited combined financial statements.

**Note 2. Fixed-Maturity Securities**

Commencing July, 2005 the Company began investing in United States Treasury Obligations with maturities not greater than six months. The Company considers all fixed-maturity securities to be available-for-sale. The investments are reported at their estimated market value based on quoted market prices or dealer quotes. Related unrealized gains and losses, if any, are reported as accumulated other comprehensive income, in shareholders’ equity (deficit). Realized gains and losses are determined on the basis of specific identification. Interest income is recognized when earned.

**Note 3. Earned Unbilled Commissions and Premiums**

The premiums paid by the self-insured groups managed by CRM and CRM CA under their excess coverage policies are subject to periodic audit by the excess coverage carrier. As membership in such self-insured groups grow, the Company estimates the additional premiums generated by the excess coverage policies based on premiums charged to new members entering the groups, net of premiums lost due to member cancellations. The Company recognizes both commission income and net reinsurance premiums based upon these estimates. Upon completion of the excess coverage carrier’s audit, the Company adjusts its



**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Unaudited Combined Financial Statements – (Continued)**

estimated commission income and net reinsurance premium on the basis of the audit. Earned unbilled commissions and premiums represents the sum of the estimated earned, but unbilled, commission income and the estimated earned, but unbilled, net reinsurance premiums. The amounts recorded in this line item are reduced as the excess coverage carriers complete their periodic audits.

**Note 4. Deferred Policy Acquisition Costs**

Changes in deferred policy acquisition costs are as follows:

As of September 30,	2005	2004
Balance at beginning of period	\$ 1,413,500	\$ 823,515
Policy acquisition costs deferred:		
Ceding commissions	1,034,775	840,000
Other	36,218	29,400
	1,070,993	869,400
Amortization of policy acquisition costs	(1,565,879)	(1,054,388)
Net change	(494,886 )	(184,988 )
Balance at end of period	\$ 918,614	\$ 638,527

**Note 5. Loans Receivable**

The Company has extended credit through loan arrangements as follows:

	September 30, 2005	December 31, 2004
Working capital loan to a general agent and its principals in connection with a self-insured group managed by CRM CA, which consisted of monthly advances from November, 2003 through June 2004 totalling \$468,783, at which time monthly payments of \$14,261, including principal and interest at 6% over 36 months, commenced	\$ 371,759	\$ 396,379
Employee loans of varying amounts, with repayment terms extending to 2006 and bearing interest up to 6%	41,051	35,227
	\$ 412,810	\$ 431,606

Interest on loans receivable is recorded on the accrual basis except for loans in default. No interest is accrued on loans in default.

The general agent and its principals failed to make timely installment payments due under the working capital loan commencing March 15, 2005 and the Company has declared the loan in default and immediately due and payable in full and brought an action for collection. Management has assessed the likelihood of collecting the working capital loan and believes all amounts will ultimately be collected. Accordingly, no provision for uncollectible amounts has been recorded. See Note 7.

**Note 6. Deferred Initial Public Offering Costs**

Legal, accounting and related costs incurred in connection with the Company's anticipated initial public offering are capitalized as incurred, and will be offset against proceeds from the offering.

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Unaudited Combined Financial Statements – (Continued)**

**Note 7. Credit Facilities**

CRM entered into a revolving credit facility with KeyBank National Association, or KeyBank, under which CRM is entitled to borrow up to \$5 million. The facility expires on June 30, 2006. Borrowings under the facility may be used for general business purposes, including distributions to members. Loans under the facility are due on demand and any loan outstanding on June 30, 2006, if not sooner demanded. Interest on loans outstanding under the facility is payable monthly at a rate per annum equal to KeyBank's prime rate from time to time. All of CRM's obligations under the facility are secured by a lien on substantially all of CRM's assets and is guaranteed by CRM CA, Eimar and Compensation Risk Managers Agency Captive, LLC ("Agency Captive"), a licensed insurance broker that shares common ownership with the Company. The facility limits CRM's ability to purchase or sell assets otherwise than in the ordinary course of business, prohibits CRM from permitting any liens on its assets otherwise than in the ordinary course of business, prohibits CRM from permitting any liens on its assets, subject to customary exceptions, prohibits CRM from incurring debt for borrowed money, including leases, except for trade debt incurred in the normal course of business and indebtedness or leases for term loans, leases, vehicles or equipment of up to \$400,000, limits mergers and consolidations of CRM and prohibits investments and loans by CRM.

	September 30, 2005	December 31, 2004
Revolving credit facility	\$ 3,500,000	\$ –
Other secured borrowings	97,405	158,307
	<u>\$ 3,597,405</u>	<u>158,307</u>
Weighted average interest rates	<u>6.2%</u>	<u>4.4%</u>

Other secured borrowings consist of capital leases for equipment and automobiles.

Under Twin Bridges' contract with NY Marine & General, Twin Bridges is required to post security, which may be in the form of letters of credit issued by an acceptable bank, in order to secure any unpaid liabilities under the contract. Twin Bridges has entered into a letter of credit loan facility (the "Unsecured Letter of Credit Facility") with KeyBank under which Twin Bridges is entitled to draw letters of credit in the principal amount of up to \$4.5 million for which Twin Bridges pays a fee of 1.75% of the principal amount of each letter of credit drawn. The letter of credit loan facility terminates on June 30, 2006. The loan agreement contains covenants similar to the covenants in CRM's revolving credit facility with KeyBank described above. The borrowings outstanding under it have been guaranteed by CRM, CRM CA, Eimar and Agency Captive. In addition, Twin Bridges entered into a second letter of credit loan facility (the "Secured Letter of Credit Facility") under which Twin Bridges is entitled to draw letters of credit in the principal amount of up to \$7.5 million, for which Twin Bridges pays a fee of 1.50% of the principal amount of each letter of credit drawn. Any letter of credit issued under the Secured Letter of Credit Facility is secured by cash and cash equivalents held in a carrying value of equal amount and guaranteed by CRM, CRM CA, Eimar and Agency Captive. The Secured Letter of Credit Facility will expire on June 30, 2006. Twin Bridges also has informal arrangements with Smith Barney Citigroup pursuant to which Twin Bridges may obtain cash collateralized letters of credit. See Note 6.

The credit facilities collectively require CRM to maintain a minimum level of members' equity, which was waived at September 30, 2005.

**Note 6. Reinsurance Activity**

Pursuant to the reinsurance agreement with NY Marine & General, Twin Bridges reinsures 50% of liabilities arising from policies issued by NY Marine & General to self-insured groups managed by CRM and CRM CA. Under the agreement with NY Marine & General, Twin Bridges reinsures 50% of all the coverage

**Compensation Risk Managers, LLC and Affiliates****Notes to Unaudited Combined Financial Statements – (Continued)**

it provides and receives 50% of the premiums paid to NY Marine & General by these groups. Twin Bridges allows NY Marine & General a ceding commission of 28% of the premium assumed by Twin Bridges to cover its acquisition, general and administrative expenses, a further 2% for stop-loss coverage and 1% to cover the U.S. federal excise tax, or a total of 31% of the premium assumed by Twin Bridges. The stop loss coverage limits its losses under its reinsurance agreement to 181.16% of the premium assumed by Twin Bridges, net of the ceding commission, and the cost of the stop-loss coverage and the U.S. federal excise tax. NY Marine & General in turn pays a 20% commission to CRM for any excess coverage placed with NY Marine & General by CRM or CRM CA.

A summary of reinsurance premiums assumed consisted of the following:

<b>For the Nine Months Ended September 30,</b>	<b>2005</b>	<b>2004</b>
Premiums assumed	\$ 3,634,312	\$ 2,940,000
Change in unearned reinsurance premiums	1,660,925	625,567
Net reinsurance premiums	<u>\$ 5,295,237</u>	<u>\$ 3,565,567</u>

No losses have been reported through September 30, 2005. Accordingly, no case reserves have been recorded. Changes in Twin Bridges' liability for incurred but not reported losses and loss adjustment expenses ("LAE") were as follows:

<b>As of September 30,</b>	<b>2005</b>	<b>2004</b>
Liability at beginning of period	\$ 2,696,000	\$ 167,917
Incurred losses and LAE relating to:		
Current year	2,269,387	1,975,250
Prior years	–	–
Total incurred losses and LAE	<u>2,269,387</u>	<u>1,975,250</u>
Paid losses and LAE relating to:		
Current year	–	–
Prior years	–	–
Total paid losses and LAE	<u>–</u>	<u>–</u>
Liability at end of period	<u>\$ 4,965,387</u>	<u>\$ 2,143,167</u>

The reinsurance agreements require Twin Bridges to provide certain collateral to secure its obligations to NY Marine & General. Letters of credit in the aggregate principal amount of \$9,896,698 and \$4,610,938 at September 30, 2005 and 2004, respectively, were issued under the letter of credit facilities described in Note 5. Of these, letters of credit in the aggregate principal amounts of \$7,128,977 and \$3,270,758 at September 30, 2005 and 2004, respectively, were secured by investments, cash and cash equivalents held with a carrying value in those amounts pursuant to the Secured Letter of Credit Facility and informal arrangements with KeyBank and Smith Barney Citigroup. The remaining letters of credit outstanding on those dates were issued pursuant to the Unsecured Letter of Credit Facility.

**Note 9. Contingencies**

In April 2005, a former general agent for one of the self-insured groups in California managed by CRM commenced litigation against CRM and CRM CA alleging that CRM wrongfully caused the general agent to be terminated as the general agent for the group and wrongfully assumed the general agent's responsibilities to the group. The general agent also alleges that CRM had falsely accused the general agent and its principals of wrongfully diverting money and of other wrongful conduct. The general agent's complaint does not seek a

**Compensation Risk Managers, LLC and Affiliates**

**Notes to Unaudited Combined Financial Statements – (Continued)**

specific amount of damages. CRM intends to defend the litigation vigorously and has asserted counterclaims against the general agent for breach of contract, fraud and intentional interference with economic advantage and alleging that the general agent had wrongfully used confidential information it had received from CRM to establish a worker's compensation self-insurance program for California automobile dealers. CRM has been collecting from the self-insured group the portion of the fees that would have been paid to the general agent under the arrangements that existed prior to its termination as the general agent. These fees totaled \$323,150 as of September 30, 2005 and are being held by CRM pending the resolution of the disputes with the general agent. This amount is included in cash and cash equivalents, and a corresponding liability is included in accrued expenses, as of September 30, 2005 and this cash may be available to reduce the loan to the general agent described in Note 4.

On December 29, 2004 H.F.C.A. Associates Corp. and 17 related companies, all of which were members or former members of the Healthcare Industry Trust of New York, or HITNY, sued HITNY and CRM in the Supreme Court of the State of New York, Ulster County, alleging, among other things, that the defendants had improperly terminated their membership in HITNY and failed to process claims on their behalf. The plaintiffs also alleged that CRM had engaged in self dealing and had committed a breach of fiduciary duties owed to them in connection with the placement of reinsurance for the members of HITNY. The complaint asks for damages of \$1 million against both defendants and a judgment that the plaintiffs did not owe HITNY the outstanding premiums for which they had been invoiced. HITNY answered the complaint, denying the plaintiffs' material allegations. HITNY alleged that the plaintiffs' membership had been properly terminated and asserted a counterclaim against the plaintiffs in the amount of \$107,000 for unpaid premium. HITNY also asserted a claim against CRM alleging generally that if the plaintiffs suffered any damages they were caused by CRM's actions or wrongdoing. CRM answered the complaint, denying the plaintiffs' material allegations, including the allegations of self dealing and breach of fiduciary duty, and asserting a claim based on breach of contract and contribution against HITNY for whatever damages the plaintiffs may recover from CRM. This litigation is in its early stages; the parties have not yet exchanged any responses to discovery demands.

No amount has been accrued in these combined financial statements for either claim as the outcomes are uncertain and a liability cannot be determined.

**Note 10. Segment Information**

The Company has two reportable segments, fee-based management services and reinsurance. The determination of these two segments was based on the Company's methodology for monitoring the performance of the self-insured group business and reinsurance operations. The Company evaluates each segment based on management fees and commission income or reinsurance premiums earned, as applicable, including items of revenue and expense that are associated with, and directly related to, each segment. The Company has not developed a methodology to allocate non-direct items of expense between the segments. Accordingly, all non-direct expenses are recorded as part of the fee based management services segment.

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Unaudited Combined Financial Statements – (Continued)**

The following table sets forth the Company's revenues, expenses, income before taxes and assets by business segment and on a combined basis:

Nine Months Ended September 30,	2005	2004
<b>Fee Based Management Services Segment</b>		
<b>Revenues:</b>		
Management fees	\$ 22,124,085	\$ 17,776,443
Commissions	4,075,344	2,743,174
Interest income	24,898	22,062
Total revenues	<u>\$ 26,224,327</u>	<u>\$ 20,541,679</u>
<b>Expenses</b>		
Interest expense	42,205	37,500
Depreciation	160,393	195,727
Operating expenses	22,080,461	16,866,876
Total expenses	<u>22,283,059</u>	<u>17,100,103</u>
<b>Income before taxes</b>	<u>\$ 3,941,268</u>	<u>\$ 3,441,576</u>
<b>Total Assets</b>	<u>\$ 5,861,591</u>	<u>\$ 2,401,429</u>
<b>Reinsurance Segment</b>		
<b>Revenues:</b>		
Net reinsurance premiums	\$ 5,295,237	\$ 3,565,567
Interest income	90,573	7,953
Total revenues	5,385,810	3,573,520
<b>Expenses</b>		
Underwriting expenses(1)	4,008,244	3,149,633
<b>Income before taxes</b>	<u>\$ 1,377,566</u>	<u>\$ 423,887</u>
<b>Total Assets</b>	<u>\$ 11,765,017</u>	<u>\$ 5,943,100</u>
<b>Combined</b>		
Total Revenues	\$ 31,610,137	\$ 24,115,199
Total expenses	26,291,303	20,249,736
<b>Income before taxes</b>	<u>\$ 5,318,834</u>	<u>\$ 3,865,463</u>
<b>Total Assets</b>	<u>\$ 17,626,608</u>	<u>\$ 8,344,529</u>

1. Underwriting expenses include policy acquisition costs, professional fees and losses and loss adjustment expenses.

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Unaudited Combined Financial Statements – (Continued)**

**Note 11. Related Parties**

The Company conducts business with an insurance broker whose owners include an individual who is a shareholder and a director of Twin Bridges and a member of CRM, CRM CA and Eimar. The Company pays the broker fees for business placed with several of the self insurance groups managed by the Company. In addition, the Company leases office space and purchases various liability, property and casualty insurance coverage from the broker. The following table represents amounts paid to the broker for services rendered:

<b>Nine Months Ended September 30,</b>	<b>2005</b>	<b>2004</b>
Fees paid to general agents and brokers	\$ 174,556	\$ 176,956
Other operating expenses	38,173	33,969
	<u>\$ 212,729</u>	<u>\$ 210,925</u>

Agency Captive is a licensed insurance broker that shares common ownership with the Company. Agency Captive was originally formed to underwrite a business unrelated to the self-insured groups managed by CRM or CRM CA. Agency Captive currently holds the brokerage license that CRM and CRM CA use to place the excess coverage with U.S. admitted insurers and surety bonds on behalf of the self-insured groups they manage. Agency Captive receives the brokerage commissions which are then fully remitted to CRM or CRM CA, as applicable. The brokerage license is owned by Daniel G. Hickey, Jr., the Company's Co-Chief Executive Officer and Chairman of the Board and one of its principal shareholders and members. CRM will be applying to be licensed as an insurance broker by the State of New York and the State of California Insurance Departments so that brokerage commissions will be paid directly to CRM. The operations of Agency Captive have been excluded from the combined historical financial statements because Agency Captive and its run-off operations will not be a part of the restructuring described in Note 1.

Included in selling, general and administrative expenses are guaranteed payments and bonuses to the members of the limited liability companies totaling \$2,148,244 and \$1,469,131 for the nine month periods ended September 30, 2005 and 2004, respectively.

**Report of Independent Registered Public Accounting Firm**

To the Members of  
Compensation Risk Manager, LLC and Affiliates

We have audited the accompanying combined balance sheets of Compensation Risk Managers, LLC and Affiliates (the "Company") as of December 31, 2004 and 2003 and the related combined statements of income and comprehensive net income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Company's financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States.

/s/ JOHNSON LAMBERT & CO.

Reston, Virginia  
August 5, 2005



## Compensation Risk Managers, LLC and Affiliates

## Combined Balance Sheets

December 31

	2004	2003
<b>Assets</b>		
Cash and cash equivalents	\$ 1,584,083	\$ 766,697
Cash and cash equivalents, restricted	4,390,738	1,000,000
Premiums receivable, net	3,758,139	2,139,620
Deferred policy acquisition costs	1,413,500	823,515
Property and equipment, net	912,956	792,192
Loans receivable	431,606	172,667
Prepaid expenses and other assets	233,289	187,655
<b>Total assets</b>	<b>\$ 12,724,311</b>	<b>\$ 5,882,346</b>
<b>Liabilities and shareholders' and members' equity</b>		
Reserve for losses and loss adjustment expenses	\$ 2,696,000	\$ 167,917
Unearned reinsurance premiums	4,779,950	2,784,834
Unearned management fees	670,631	614,299
Unearned commission income	2,333,940	2,246,828
Fees payable to general agents and brokers	565,571	578,349
Accrued expenses	631,885	369,025
Borrowings under credit facilities	158,307	285,031
<b>Total liabilities</b>	<b>11,836,284</b>	<b>7,046,283</b>
Twin Bridges		
Common stock	120,000	120,000
Additional paid-in capital	880,000	880,000
Retained earnings (deficit)	834,891	(51,276 )
LLC members' deficit	(946,864 )	(2,112,661)
<b>Total shareholders' and members' equity (deficit)</b>	<b>888,027</b>	<b>(1,163,937)</b>
<b>Total liabilities and shareholders' and members' equity</b>	<b>\$ 12,724,311</b>	<b>\$ 5,882,346</b>

See Notes to Combined Financial Statements.

**Compensation Risk Managers, LLC and Affiliates**

**Combined Statements of Income  
Years Ended December 31**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Revenues</b>			
Fee-based management services:			
Management fees	\$ 23,510,174	\$ 17,889,315	\$ 15,084,733
Commission income	4,145,552	2,931,813	2,529,592
	<u>27,655,726</u>	<u>20,821,128</u>	<u>17,614,325</u>
Net reinsurance premiums	5,109,883	253,167	–
Investment income, net of advisory fees	54,477	15,789	36,999
Total revenues	<u>32,820,086</u>	<u>21,090,084</u>	<u>17,651,324</u>
<b>Expenses</b>			
Losses and loss adjustment expenses	2,528,083	167,917	–
Fees paid to general agents and brokers	9,507,546	7,829,685	7,650,629
Policy acquisition costs	1,511,065	74,865	–
Selling, general and administrative expenses	13,440,809	9,240,562	6,471,273
Interest expense	26,753	45,989	33,173
Total expenses	<u>27,014,256</u>	<u>17,359,018</u>	<u>14,155,075</u>
Income before taxes	5,805,830	3,731,066	3,496,249
Provision for income taxes	–	–	–
<b>Net income</b>	<u><u>\$ 5,805,830</u></u>	<u><u>\$ 3,731,066</u></u>	<u><u>\$ 3,496,249</u></u>

*See Notes to Combined Financial Statements.*

**Compensation Risk Managers, LLC and Affiliates**  
**Combined Statements of Changes in Shareholders' and Members' Equity**  
**Years Ended December 31**

	<b>Twin Bridges</b>			<b>LLC Members' Equity</b>	<b>Total Shareholders' and Members' Equity (Deficit)</b>
	<b>Common Stock</b>	<b>Paid-in Capital</b>	<b>Retained Earnings</b>		
<b>Balance at January 1, 2002</b>	\$ —	\$ —	\$ —	\$ 896,636	\$ 896,636
Net income				3,496,249	3,496,249
Distributions to members				(3,498,782)	(3,498,782)
<b>Balances at December 31, 2002</b>	—	—	—	894,103	894,103
Net income (loss)			(51,276)	3,782,342	3,731,066
Distributions to members				(6,789,106)	(6,789,106)
Issuance of common shares	120,000	880,000			1,000,000
<b>Balances at December 31, 2003</b>	120,000	880,000	(51,276)	(2,112,661)	(1,163,937)
Net income			886,167	4,919,663	5,805,830
Distributions to members				(3,753,866)	(3,753,866)
<b>Balances at December 31, 2004</b>	<u>\$ 120,000</u>	<u>\$ 880,000</u>	<u>\$ 834,891</u>	<u>\$ (946,864 )</u>	<u>\$ 888,027</u>

*See Notes to Combined Financial Statements.*

# Compensation Risk Managers, LLC and Affiliates

## Combined Statements of Cash Flows Years Ended December 31

	2004	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 5,805,830	\$ 3,731,066	\$ 3,496,249
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	189,474	179,336	108,035
Changes in:			
Cash and cash equivalents, restricted	3,390,738	(1,000,000)	–
Premiums receivable, net	(1,618,519)	(2,139,620)	388,146
Deferred policy acquisition costs	(589,985 )	(823,515 )	–
Prepaid expenses and other assets	(45,634 )	1,103,655	(1,228,708)
Reserve for losses and loss adjustment expenses	2,528,083	167,917	–
Unearned reinsurance premiums	1,995,116	2,784,834	–
Unearned management fees	56,332	(1,174,676)	1,447,682
Unearned commission income	87,112	84,211	1,018,217
Fees payable to general agents and brokers	(12,778 )	41,093	161,756
Accrued expenses	262,860	52,322	241,520
Net cash provided by operating activities	5,267,153	3,006,623	5,632,897
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Property and equipment	(310,238 )	(175,442 )	(694,813 )
Loans receivable	(258,939 )	(99,667 )	(73,000 )
Net cash used in investing activities	(569,177 )	(275,109 )	(767,813 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Borrowings under credit facilities	(126,724 )	(819,786 )	935,631
Issuance of common stock – Twin Bridges	–	1,000,000	–
Distributions paid to LLC Members	(3,753,866)	(6,789,106)	(3,498,782)
Net cash used in financing activities	(3,880,590)	(6,608,892)	(2,563,151)
Net increase (decrease) in cash	817,386	(3,877,378)	2,301,933
Cash and cash equivalents			
Beginning	766,697	4,644,075	2,342,142
Ending	\$ 1,584,083	\$ 766,697	\$ 4,644,075
<b>Supplemental Cash Flow Disclosures</b>			
Income taxes paid	\$ –	\$ –	\$ –
Interest paid	\$ 26,351	\$ 45,438	\$ 31,494

See Notes to Combined Financial Statements.

## **Compensation Risk Managers, LLC and Affiliates**

### **Notes to Combined Financial Statements**

#### **Note 1. Nature of Business and Significant Accounting Policies**

##### **Nature of Business**

These combined financial statements include the accounts of Compensation Risk Managers, LLC (“CRM”), Compensation Risk Managers of California, LLC (“CRM CA”), EIMAR, L.L.C. (“Eimar”) and Twin Bridges (Bermuda) Ltd. (“Twin Bridges”) (collectively, “the Company”). These entities, in substance, have identical beneficial ownership, as more fully described in Note 6, and common management and will be restructured into subsidiaries of a holding company to occur immediately prior to the completion of an initial public offering of common shares of CRM Holdings, Ltd. Management believes that the presentation of combined historical financial statements most accurately captures the substance of the historical economic relationship of the entities.

CRM and CRM CA provide management and other services to self insured workers’ compensation groups (“self-insured groups”) in the states of New York and California, respectively. Eimar provides medical bill review and case management services to the aforementioned self-insured groups and other clients. Twin Bridges is registered in Bermuda as a Class 3 insurer and is authorized to carry on business in the capacity of a reinsurer. Twin Bridges has entered into a reinsurance arrangement with New York Marine & General Insurance Company (“NY Marine & General”) which provides excess workers compensation and employers’ liability insurance coverage to self-insured groups managed by CRM and CRM CA.

##### **Basis of Accounting and Principles of Combination**

These combined financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. All significant inter-company transactions and balances have been eliminated in the combined financial statements.

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Those estimates are inherently subject to change, and actual results may ultimately differ materially from those estimates.

##### **Fee-Based Management Services**

Revenues from fee-based management services include management fees received from self-insured groups for management and other services. In New York, the fees the Company receives from all but one of the self-insured groups are based on a percentage of the manual workers’ compensation rates set by the New York State Workers Compensation Board that are attributable to the members of the self-insured groups and the Company’s fees include claims management services. With respect to the self-insured groups in California and one of the self-insured groups in New York, the Company’s fees are based on a percentage of the premiums paid to the self-insured groups by their members. The self-insured groups in California pay the fees for claims management services directly to a third party administrator. The portion of such fees that is equal to related fees paid to general agents and brokers is recorded as revenue when payable by the group, which is the same time that fees paid to general agents and brokers are recorded. The balance of such fees is earned ratably over the period to which they apply. The portion of the balance of the management fees that relate to the remaining period at the balance sheet date is recorded as unearned management fee revenues. Revenue from medical bill review and case management services is also included in management fees, and is recorded as revenue as the services are rendered.

The Company also receives commission income for excess coverage and surety bonds it places for these groups. Such commission income is earned ratably over the terms of the underlying insurance coverage and

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

surety bonds. The portion of commission income that relates to the remaining term of the underlying insurance coverage at the balance sheet date is recorded as unearned commission income revenues. Commission income revenues for the placement of excess coverage represented placements with 7, 7 and 9 U.S. admitted insurers for the years ended December 31, 2004, 2003 and 2002, respectively. Commission income from NY Marine & General represented 50%, 4% and 0% of such revenues for the years ended December 31, 2004, 2003 and 2002, respectively.

In determining revenue recognition policy, the Company has been guided by FASB Statement of Financial Accounting Concepts No. 5 and SAB 101 and relies on the fact that the management fee is contractually determined, that the fee is realizable, and that the contract term is firm. All management services are provided within each respective policy period. As a result, no reserves for further obligations are recorded. Contractually, upon the termination of a management services agreement, all obligations of the parties to each other are ended.

During the years ended December 31, 2004, 2003 and 2002, the Company provided management and other related services to 12, 9 and 8 self-insured groups, respectively. During the years ended December 31, 2004, 2003 and 2002, 93%, 100% and 100% of fee-based management services revenues were from self-insured groups located in New York. The balance of such revenues earned in the year ended December 31, 2004 was from groups located in California.

One self-insured group accounted for 38%, 47% and 48% of the Company's fee-based management services revenues for the years ended December 31, 2004, 2003 and 2002, respectively. For the year ended December 31, 2004, the three largest self-insured groups, all located in New York, accounted for 74% of total fee-based management services revenue. For the year ended December 31, 2003, the four largest self-insured groups, all located in New York, accounted for 94% of total fee-based management services revenues. For the year ended December 31, 2002, the three largest self-insured groups, all located in New York, accounted for 91% of total fee-based management services revenues.

**Reinsurance Premiums**

Management has evaluated its reinsurance arrangement with NY Marine & General and determined that insurance risk is transferred to Twin Bridges pursuant to this reinsurance agreement. Under Statement of Financial Accounting Standards ("SFAS") No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts, this reinsurance agreement has been determined to be a short duration prospective contract and accordingly, reinsurance premiums are earned ratably over the term of the underlying excess coverage policy. The portion of the reinsurance premiums that relate to the remaining term of the reinsurance policy at the balance sheet date is recorded as unearned reinsurance premiums. Such reinsurance premiums are subject to adjustment based upon modification to the premiums charged on the underlying excess coverage policy. Such adjustments are reflected in current operations when estimable.

**Cash and Cash Equivalents**

The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. At times, management maintains cash balances in excess of insured limits and believes they do not represent a significant credit risk to the Company. Certain cash and cash equivalent balances have been pledged as security under certain credit facilities, as more fully described in Note 5 and Note 7.

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

**Premiums Receivable**

Premiums receivable pursuant to reinsurance agreements are carried at face value less any allowance for doubtful accounts. At December 31, 2004, 2003 and 2002, no allowance was deemed necessary. No receivable balances were written off during the years ended December 31, 2004, 2003 and 2002.

**Policy Acquisition Costs**

Policy acquisition costs are comprised of ceding commissions and U.S. federal excise tax costs incurred pursuant to the Company's reinsurance agreement with NY Marine & General. These costs are deferred and amortized as the related reinsurance premiums are earned or recorded. The Company considers estimated investment income in determining the recoverability of these costs. The Company believes that these costs are fully recoverable at December 31, 2004 and 2003.

**Property and Equipment**

Property and equipment is stated at cost, less accumulated depreciation and amortization, and is depreciated using straight-line and other methods that approximate the straight-line method over the estimated useful lives of the assets.

**Reserve for Losses and Loss Adjustment Expenses**

The reserve for losses and loss adjustment expenses represents an estimate of the ultimate cost of all reported and unreported losses and loss adjustment expenses assumed pursuant to reinsurance agreements associated with reported claims and claims incurred but not reported which are unpaid at the balance sheet date. This liability is estimated using actuarial studies of individual case-basis valuations, statistical analyses and industry data. Management believes that its aggregate liability for losses and loss adjustment expenses at year-end represent its best estimate, based on available data, of the amounts necessary to settle the ultimate cost of expected losses and loss adjustment expenses. However, Twin Bridges has only been in existence since December 2003 and thus has limited loss experience, and due to the relatively small population of underlying risks, Twin Bridges is exposed to an increased likelihood that actual results may not conform to the Company's estimates. These estimates also are subject to the effects of trends in loss severity and frequency risks and other trends such as fluctuations in inflation, prevailing economic, social and judicial trends, legislative changes and internal and third party claims handling procedures. There also may be a significant delay between the occurrence of the insured event and the time it is actually reported to us. Accordingly, the ultimate settlement of losses and related loss adjustment expenses may vary significantly from the estimates included in the Company's financial statements. These estimates are reviewed regularly and are adjusted as experience develops or new information becomes known. Any such adjustments are included in income in the period in which they are made.

**Advertising Costs**

Advertising costs, including selling and marketing expenses, are expensed as incurred. Advertising costs totaling \$1,065,763, \$509,415 and \$289,408 were included in selling, general and administrative expenses for the years ended December 31, 2004, 2003 and 2002, respectively.

**Income Taxes**

CRM, CRM CA and Eimar have been organized as limited liability companies. The members of a limited liability company are taxed on their proportionate share of the company's taxable income. Therefore, no provision or liability for federal and state income taxes has been included in the financial statements.



**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

Twin Bridges has received an undertaking from the Bermuda Minister of Finance assuring it that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to Twin Bridges or any of its operations, shares, debentures or other obligations until March 28, 2016.

**Segment Reporting**

The Company manages its operations through two reportable segments, fee-based management services and reinsurance. Certain information about segment operations is addressed in Note 14.

**Recent Accounting Pronouncements**

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying combined financial statements.

**Note 2. Deferred Policy Acquisition Costs**

Changes in deferred policy acquisition costs are as follows:

As of December 31,	2004	2003
Balance at beginning of year	\$ 823,515	\$ –
Policy acquisition costs deferred:		
Ceding commissions	2,030,000	868,000
Other	71,050	30,380
	2,101,050	898,380
Amortization of policy acquisition costs	(1,511,065)	(74,865)
Net change	589,985	823,515
Balance at end of year	<u>\$ 1,413,500</u>	<u>\$ 823,515</u>

**Note 3. Property and Equipment**

Property and equipment is stated at cost and summarized as follows:

As of December 31,	2004	2003
Furniture & fixtures	\$ 504,158	\$ 316,994
Computer equipment	481,716	399,410
Automobiles	84,924	116,372
Leasehold improvements	281,593	281,593
	1,352,391	1,114,369
Less accumulated depreciation and amortization	(439,435 )	(322,177 )
	<u>\$ 912,956</u>	<u>\$ 792,192</u>

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

**Note 4. Loans Receivable**

The Company has extended credit through loan arrangements as follows:

As of December 31,	2004	2003
Working capital loan to a general agent and its principals in connection with a self-insured group managed by CRM, which consisted of monthly advances from November, 2003 through June, 2004 totalling \$468,783, at which time monthly payments of \$14,261 including principal and interest at 6% per annum over 36 months commenced	\$ 396,379	\$ 130,000
Employee loan with an initial principal of \$73,000, with repayment terms extending to 2006 and bearing interest at 6% per annum	35,227	42,667
	<u>\$ 431,606</u>	<u>\$ 172,667</u>

Interest on loans receivable is recorded on the accrual basis except for loans in default. No interest is accrued on loans in default.

Subsequent to December 31, 2004, the general agent and its principals failed to make timely installment payments due under the working capital loan and the Company has declared the loan in default and immediately due and payable in full and brought an action against the borrowers for collection. Management has assessed the likelihood of collecting the working capital loan and believes all amounts will ultimately be collected. Accordingly, no provision for uncollectible amounts has been recorded. See Note 11.

**Note 5. Credit Facilities**

CRM entered into a revolving credit facility with KeyBank National Association, or KeyBank, under which CRM was entitled to borrow up to \$3 million until June 30, 2005. The facility was subsequently amended in May 2005 to permit CRM to borrow up to \$5 million until December 31, 2005. Borrowings under the facility may be used for general business purposes, including distributions to members. Loans under the facility are due on demand and any loan outstanding on December 31, 2005, if not sooner demanded, shall be fully amortized in 12 equal monthly installments. Interest on the loans outstanding under the facility is payable monthly at a rate per annum equal to KeyBank's prime rate from time to time. All of CRM's obligations under the facility are secured by a lien on substantially all of CRM's assets and by the personal guarantees of CRM's shareholders. The facility limits CRM's ability to purchase or sell assets otherwise than in the ordinary course of business, prohibits CRM from permitting any liens on its assets, subject to customary exceptions, prohibits CRM from incurring debt for borrowed money, including leases, except for trade debt incurred in the normal course of business and indebtedness or leases for term loans, leases, vehicles or equipment of up to \$400,000, limits mergers and consolidations of CRM and prohibits investments and loans by CRM.

The weighted average interest rate on borrowings under this line of credit was 4.4%, 7.2% and 4.2% for the years ended December 31, 2004, 2003 and 2002 respectively.

Under Twin Bridges' contract with NY Marine & General, Twin Bridges is required to post security, which may be in the form of letters of credit issued by an acceptable bank, in order to secure any unpaid liabilities under the contract. Twin Bridges has entered into a letter of credit loan facility (the "Unsecured Letter of Credit Facility") with KeyBank under which Twin Bridges is entitled to draw letters of credit in the principal amount of up to \$3 million, for which Twin Bridges pays a fee of 1.50% of the principal amount of each letter of credit drawn. Any payments under the letters of credit must be repaid by Twin Bridges within 90 days. The Unsecured Letter of Credit Facility was subsequently extended until September 30, 2005. The loan agreement contains covenants similar to the covenants in CRM's revolving credit facility with KeyBank described above. The borrowings outstanding under it have been guaranteed by the shareholders of Twin

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

Bridges and by CRM, CRM CA, Eimar and Agency Captive. In addition, Twin Bridges entered into a second letter of credit loan facility (the "Secured Letter of Credit Facility") under which Twin Bridges was entitled to draw letters of credit in the principal amount of up to \$7.5 million, for which Twin Bridges paid a fee of 1.50% of the principal amount of each letter of credit drawn. Any payments under the letters of credit were required to be repaid by Twin Bridges within 90 days. Any letter of credit issued under the Secured Letter of Credit Facility was secured by cash and cash equivalents held in a carrying value in equal amount and guaranteed by the shareholders of Twin Bridges and by CRM, CRM CA, Eimar and Agency Captive. The Secured Letter of Credit Facility was amended on June 30, 2005 and extended to September 30, 2005. Twin Bridges also has informal arrangements with Smith Barney Citigroup pursuant to which Twin Bridges may obtain cash collateralized letters of credit. See Note 7.

Amounts outstanding under these facilities and the period end interest rates were as follows:

As of December 31,	2004	2003
Revolving credit facility	\$ –	\$ –
Other secured borrowings	158,307	285,031
	<u>158,307</u>	<u>285,031</u>

Other secured borrowing consists of capital leases for equipment and automobiles.

The credit facilities collectively require the Company to maintain a minimum level of members' equity, which was waived at December 31, 2004.

**Note 6. Shareholders' and Members' Equity**

As limited liability companies, CRM, CRM CA and Eimar do not have outstanding shares; rather, ownership is evidenced through membership agreements.

Twin Bridges was formed in 2003 and issued 120,000 commons shares for \$120,000 and also received \$880,000 as contributed surplus and not in respect of subscription for shares. The authorized share capital of Twin Bridges is 120,000 common shares of the par value \$1 each, of which 120,000 shares are issued and outstanding at December 31, 2004 and 2003.

The underlying shareholders and ownership interest of Twin Bridges are substantially equivalent to the members and ownership percentages of CRM and Eimar. CRM CA is a wholly-owned subsidiary of CRM.

**Note 7. Reinsurance Activity**

Pursuant to the reinsurance agreement with NY Marine & General, Twin Bridges reinsures 50% of liabilities arising from policies issued by NY Marine & General to self-insured groups managed by CRM and CRM CA. Under the agreement with NY Marine & General, Twin Bridges reinsures 50% of all the coverage it provides and receives 50% of the premiums paid to NY Marine & General by these groups. Twin Bridges allows NY Marine & General a ceding commission of 28% of the premium assumed by Twin Bridges to cover its acquisition, general and administrative expenses, a further 2% for stop-loss coverage and 1% to cover the U.S. federal excise tax, or a total of 31% of the premium assumed by Twin Bridges. The stop loss coverage limits its losses under its reinsurance agreement to 181.16% of the premium assumed by Twin Bridges, net of the ceding commission, and the cost of the stop-loss coverage and the U.S. federal excise tax. NY Marine & General in turn pays a 20% commission to CRM for any excess coverage placed with NY Marine & General by CRM or CRM CA, as described in Note 1.

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

A summary of reinsurance premiums assumed consisted of the following:

<b>Years Ended December 31,</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Premiums assumed	\$ 7,105,000	\$ 3,038,000	\$–
Change in unearned reinsurance premiums	(1,995,117)	(2,784,833)	–
Net reinsurance premiums	<u>\$ 5,109,883</u>	<u>\$ 253,167</u>	<u>\$–</u>

No losses have been reported through December 31, 2004. Accordingly, no case reserves have been recorded. Changes in Twin Bridges' liability for incurred but not reported losses and loss adjustment expenses ("LAE") were as follows:

<b>As of December 31,</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Liability at beginning of year	\$ 167,917	\$ –	\$–
Incurred losses and LAE relating to:			
Current year	2,528,083	167,917	–
Prior year	–	–	–
Total incurred losses and LAE	<u>2,528,083</u>	<u>167,917</u>	<u>–</u>
Paid losses and LAE relating to:			
Current year	–	–	–
Prior year	–	–	–
Total paid losses and LAE	<u>–</u>	<u>–</u>	<u>–</u>
Liability at end of year	<u>\$ 2,696,000</u>	<u>\$ 167,917</u>	<u>\$–</u>

The reinsurance agreements require Twin Bridges to provide certain collateral to secure its obligations to NY Marine & General. Letters of credit in the aggregate principal amount of \$6,143,347 and \$1,500,000 at December 31, 2004 and 2003, respectively, were issued under the letter of credit facilities described in Note 5. Of these letters of credit, letters of credit in the aggregate principal amount of \$4,398,342 and \$1,000,000 at December 31, 2004 and 2003, respectively, were secured by cash and cash equivalents held with a carrying value in those amounts pursuant to the Secured Letter of Credit Facility and informal arrangements with KeyBank and Smith Barney Citigroup. The balance of the letters of credit outstanding on those dates was issued pursuant to the Unsecured Letter of Credit Facility.

**Note 8. Lease Commitments**

The Company leases transportation vehicles, office space, and office equipment under various operating lease agreements. Total minimum future lease payments under these leases are approximately as follows:

<b>Years ending December 31,</b>	
2005	\$ 493,000
2006	333,000
2007	172,000
2008	128,000
2009	91,000
	<u>\$ 1,217,000</u>

Rent expense was approximately \$313,000, \$216,000 and \$156,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

**Note 9. Retirement Plan**

In 2001 the Company established a 401(k) profit sharing plan for employees meeting certain age and service requirements as defined by the plan. Eligible employees may contribute up to statutory limits. The Company makes matching contributions of 50% of an employee's annual contribution until the employee has contributed 3% of annual compensation. The Company may also make a discretionary annual profit sharing contribution to the plan. Employer matching contributions to the plan were approximately \$31,300, \$27,300 and \$17,300 for the years ended December 31, 2004, 2003 and 2002, respectively. No discretionary contributions were made for any of those years.

**Note 10. Related Parties**

The Company conducts business with an insurance broker whose owners include an individual who is a shareholder and a director of Twin Bridges, and a member of CRM, CRM CA and Eimar. The Company pays the broker fees for business placed with several of the self insurance groups managed by the Company. In addition, the Company leases office space and purchases various liability, property and casualty insurance coverage from the broker. The following table represents amounts paid to the broker for services rendered:

<b>Years Ended December 31,</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Fees paid to general agents and brokers	\$ 229,124	\$ 257,355	\$ 290,442
Other operating expenses	39,969	44,986	29,928
	<u>\$ 269,093</u>	<u>\$ 302,341</u>	<u>\$ 320,370</u>

Compensation Risk Managers Agency Captive, LLC, ("Agency Captive"), is a licensed insurance broker that shares common ownership with the Company. Agency Captive was originally formed to underwrite a business unrelated to the self-insured groups managed by CRM or CRM CA. Agency Captive currently holds the brokerage license that CRM and CRM CA use to place the excess coverage with U.S. admitted insurers and surety bonds on behalf of the self-insured groups they manage. Agency Captive receives the brokerage commissions which are then fully remitted to CRM or CRM CA, as applicable. The brokerage license is held by Daniel G. Hickey, Jr., the Company's Co-Chief Executive Officer and Chairman of the Board and one of its principal shareholders and members. CRM will be applying to be licensed as an insurance broker by the State of New York and the State of California Insurance Departments so that brokerage commissions will be paid directly to CRM. The operations of Agency Captive have been excluded from the combined historical financial statements because Agency Captive and its run-off operations will not be a part of the restructuring described in Note 1.

Included in selling, general and administrative expenses are guaranteed payments and bonuses to the members of the limited liability companies totaling \$2,271,786, \$1,775,792 and \$1,877,458 for the years ended December 31, 2004, 2003 and 2002, respectively.

**Note 11. Contingencies**

In April 2005, a former general agent for one of the self-insured groups in California managed by CRM commenced litigation against CRM and CRM CA alleging that CRM wrongfully caused the general agent to be terminated as the general agent for the group and wrongfully assumed the general agent's responsibilities to the group. The general agent also alleges that CRM had falsely accused the general agent and its principals of wrongfully diverting money and of other wrongful conduct. The general agent's complaint does not seek a specific amount of damages. CRM intends to defend the litigation vigorously and has asserted counterclaims against the general agent for breach of contract, fraud and intentional interference with economic advantage and alleging that the general agent had wrongfully used confidential information it had received from CRM to establish a workers' compensation self-insurance program for California automobile dealers. CRM has been

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

collecting from the self-insured group the portion of the fees that would have been paid to the general agent under the arrangements that existed prior to its termination as the general agent. These fees totaled \$268,008 as of June 30, 2005 and are being held by CRM pending the resolution of the disputes with the general agent. This amount is included in cash and cash equivalents, and a corresponding liability is included in accrued expenses, as of June 30, 2005 and this cash may be available to reduce the loan to the general agent described in Note 4.

On December 29, 2004 H.F.C.A. Associates Corp. and 17 related companies, all of which were members or former members of the Healthcare Industry Trust of New York, or HITNY, sued HITNY and CRM in the Supreme Court of the State of New York, Ulster County, alleging, among other things, that the defendants had improperly terminated their membership in HITNY and failed to process claims on their behalf. The plaintiffs also alleged that CRM had engaged in self dealing and had committed a breach of fiduciary duties owed to them in connection with the placement of reinsurance for the members of HITNY. The complaint asks for damages of \$1 million against both defendants and a judgment that the plaintiffs did not owe HITNY the outstanding premium for which they had been invoiced. HITNY answered the complaint, denying the plaintiffs' material allegations. HITNY alleged that the plaintiffs' membership had been properly terminated and asserted a counterclaim against the plaintiffs in the amount of \$107,000 for unpaid premium. HITNY also asserted a claim against CRM alleging generally that if the plaintiffs suffered any damages they were caused by CRM's actions or wrongdoing. CRM answered the complaint, denying the plaintiffs' material allegations, including the allegations of self dealing and breach of fiduciary duty, and asserting a claim based on breach of contract and contribution against HITNY for whatever damages the plaintiffs may recover from CRM. This litigation is in its early stages; the parties have not yet exchanged any responses to discovery demands.

No amount has been accrued in these combined financial statements for either claim as the outcomes are uncertain and a liability cannot be determined.

**Note 12. Fair Value of Financial Instruments**

Statement of Financial Accounting Standards ("SFAS") No. 107, Disclosures about Fair Value of Financial Instruments, requires companies to disclose the fair value information about their financial instruments. SFAS No. 107 excludes certain insurance related financial assets and liabilities and all non-financial instruments from its disclosure requirements.

Because of the short-term nature of cash and cash equivalents, premiums and other accounts receivable, and employee loans receivable, their carrying value approximates their estimated fair value. Any borrowings under credit facilities bear variable interest rates, thus their carrying value approximates their fair value. Due to the nature of the litigation with regard to the working capital loan receivable described in Note 4, it is not practicable to estimate its fair value.

**Note 13. Statutory Requirements**

Under The Insurance Act 1978 of Bermuda and related regulations (the "Act"), Twin Bridges is required to prepare Statutory Financial Statements and to file a Statutory Financial Return. The Act also requires Twin Bridges to meet certain minimum capital and surplus requirements. To satisfy these requirements, Twin Bridges was required to maintain a minimum level of statutory capital and surplus of \$1,821,450 at December 31, 2004. Because Twin Bridges made its first statutory filing for the 13 months ended December 31, 2004, no Statutory Financial Statements were filed for 2003.

Statutory capital and surplus as reported under the Act is different from shareholder's equity as determined in conformity with accounting principles generally accepted in the United States of America ("GAAP") due to certain items that are capitalized under GAAP but expensed under the Act.

**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

At December 31, 2004 and 2003, the reconciling items are as follows:

As of December 31,	2004	2003
Shareholders' equity, per GAAP	\$ 1,834,891	\$ 948,724
Reconciling items:		
Prepaid expenses	(4,885 )	–
Statutory capital and surplus, per The Act	<u>\$ 1,830,006</u>	<u>\$ 948,724</u>

The Twin Bridges is also required to maintain a minimum liquidity ratio, whereby the value of its relevant assets must be not less than 75% of its relevant liabilities. Twin Bridges met this test at December 31, 2004.

Under the Act, the value of the general business assets of a Class 3 insurer such as Twin Bridges must exceed the amount of its general business liabilities by an amount greater than the prescribed solvency margin. Twin Bridges is required, with respect to its general business, to maintain a minimum solvency margin equal to the greatest of:

(A) \$1,000,000		
(B) <u>Net Premium Written ("NPW")</u>	<u>Prescribed Amount</u>	
Up to \$6,000,000	20% of NPW	
Greater than \$6,000,000	The aggregate of \$1,200,000 and 15% of the amount by which NPW exceeds \$6,000,000 in that year; and	
(C) 15% of the aggregate of the insurer's loss expense provisions and other general business insurance reserves.		

Generally, net premium written equals gross premium written after deduction of any premium added by the insurer for reinsurance.

Twin Bridges is prohibited from declaring or paying any dividends during any financial year if it is in breach of its solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, if it has failed to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, Twin Bridges will be prohibited, without the approval of the Bermuda Monetary Authority, from declaring or paying any dividends during the next financial year. Twin Bridges is prohibited, without prior approval from the Bermuda Monetary Authority, from reducing by 15% or more its total statutory capital as set out in its previous year's financial statements. Additionally, under the Act, Twin Bridges may not declare or pay a dividend out of retained earnings, or make a distribution from contributed surplus, if there are reasonable grounds for believing that it is or would be unable to pay its liabilities as they become due, or the realizable value of its assets would be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

**Note 14. Segment Information**

The Company has two reportable segments, fee-based management services and reinsurance. The determination of these two segments was based on the Company's methodology for monitoring the performance of the self-insured group business and reinsurance operations. The Company evaluates each segment based on management fees and commission income or reinsurance premiums earned, as applicable, including items of revenue and expense that are associated with, and directly related to, each segment. The Company has not developed a methodology to allocate non-direct items of expense between the segments. Accordingly, all non-direct expenses are recorded as part of the fee based management services segment. Accounting policies of the segments are the same as those described in Note 1.



**Compensation Risk Managers, LLC and Affiliates**  
**Notes to Combined Financial Statements – (Continued)**

The following table sets forth the Company's revenues, expenses, income before taxes and total assets by business segment and on a combined basis:

	Years Ended December 31,		
	2004	2003	2002
<b>Fee Based Management Services Segment</b>			
<b>Revenues:</b>			
Management fees	\$ 23,510,174	\$ 17,889,315	\$ 15,084,733
Commission income	4,145,552	2,931,813	2,529,592
Interest income	32,807	15,701	36,999
Total revenues	<u>\$ 27,688,533</u>	<u>\$ 20,836,829</u>	<u>\$ 17,651,324</u>
<b>Expenses</b>			
Interest expense	26,753	45,989	33,173
Depreciation	189,474	179,336	108,035
Operating expenses	22,552,643	16,829,162	14,013,867
Total expenses	<u>22,768,870</u>	<u>17,054,487</u>	<u>14,155,075</u>
<b>Income before taxes</b>	<u>\$ 4,919,663</u>	<u>\$ 3,782,342</u>	<u>\$ 3,496,249</u>
<b>Total Assets</b>	<u>\$ 3,126,938</u>	<u>\$ 1,919,123</u>	<u>\$ 6,804,471</u>
<b>Reinsurance Segment</b>			
<b>Revenues:</b>			
Net reinsurance premiums	\$ 5,109,883	\$ 253,167	\$ –
Interest income	21,670	88	–
Total revenues	<u>5,131,553</u>	<u>253,255</u>	<u>–</u>
<b>Expenses</b>			
Underwriting expenses(1)	<u>4,245,386</u>	<u>304,531</u>	<u>–</u>
<b>Income (Loss) before taxes</b>	<u>\$ 886,167</u>	<u>\$ (51,276 )</u>	<u>\$ –</u>
<b>Total Assets</b>	<u>\$ 9,597,373</u>	<u>\$ 3,963,223</u>	<u>\$ –</u>
<b>Combined</b>			
Total revenues	\$ 32,820,086	\$ 21,090,084	\$ 17,651,324
Total expenses	<u>27,014,256</u>	<u>17,359,018</u>	<u>14,155,075</u>
<b>Income before taxes</b>	<u>\$ 5,805,830</u>	<u>\$ 3,731,066</u>	<u>\$ 3,496,249</u>
<b>Total Assets</b>	<u>\$ 12,724,311</u>	<u>\$ 5,882,346</u>	<u>\$ 6,804,471</u>

1. Underwriting expenses include policy acquisition costs, professional fees and losses and loss adjustment expenses.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of  
CRM Holdings, Ltd. (in formation)

We have audited the accompanying balance sheet of CRM Holdings, Ltd. (in formation) (the “Company”) as of September 7, 2005. These financial statements are the responsibility of the Company’s management. Our responsibility to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements, 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 Company’s financial statements present fairly, in all material respects, the financial position of the Company as of September 7, 2005 in conformity with accounting principles generally accepted in the United States.

/s/ JOHNSON LAMBERT & CO.

Reston, Virginia  
September 19, 2005, except for Note 2 as to which  
the date is November 4, 2005.

**CRM Holdings, Ltd. (In formation)****Balance Sheet  
September 7, 2005**

<b>Assets</b>	
Cash	\$ 12,000
Total Assets	<u>\$ 12,000</u>
<b>Shareholders' Equity</b>	
Shares, \$0.01 par value; 50,000,000,000 shares authorized; 1,200,000 common shares issued and outstanding	\$ 12,000
Total Shareholders' Equity	<u>\$ 12,000</u>

**Note to Balance Sheet****1. Organization and Purpose**

CRM Holdings, Ltd. ("CRM Holdings") was incorporated in Bermuda on September 7, 2005. In connection with its formation, CRM Holdings issued 1,200,000 common shares for \$12,000 to Reid Finance Limited, an affiliate of Appleby Spurling Hunter. The partners of Appleby Spurling Hunter are the ultimate beneficial owners of Reid Finance Limited. All the shares held by Reid Finance Limited will be purchased by CRM Holdings in connection with the restructuring of CRM Holdings. CRM Holdings will pay \$12,000 for the 1,200,000 common shares held by Reid Finance Limited. This amount is the same as the original subscription price paid by Reid Finance Limited. These 1,200,000 shares will be retired, and no longer outstanding. Accordingly, shareholders' equity will decrease by \$12,000. CRM Holdings' authorized share capital will not change as a result of the purchase.

CRM Holdings was formed in preparation for the restructuring of certain insurance and related companies and an initial public offering of its common shares. CRM Holdings will acquire all of the interests in Compensation Risk Managers, LLC ("CRM"), Compensation Risk Managers of California, LLC ("CRM CA"), EIMAR, L.L.C. ("Eimar"), and Twin Bridges (Bermuda) Ltd. ("Twin Bridges"). These entities, in substance, have identical beneficial ownership. The members of CRM and Eimar will contribute all of their interests in CRM and Eimar to CRM USA Holdings, Inc. ("CRM USA Holdings") which will be a wholly owned subsidiary of CRM Holdings and will hold all of the outstanding interests in the U.S. subsidiaries of CRM Holdings. In exchange, the members of CRM and Eimar will receive shares issued by CRM USA Holdings. The shareholders of CRM USA Holdings will then contribute their CRM USA Holdings shares to CRM Holdings in exchange for common shares of CRM Holdings. CRM will then distribute its interests in CRM CA to CRM USA Holdings. In addition, the shareholders will contribute all of their shares in Twin Bridges to CRM Holdings in exchange for common shares of CRM Holdings. References to our common shares in this paragraph include our non-voting class B shares to be issued as part of the restructuring. The restructuring transaction will be accounted for at historical cost of the combined entities because the restructuring transaction has been determined to lack substance.

Other than the receipt and deposit of its initial capital, CRM Holdings has not been active. Initial public offering costs incurred to date are the obligation of CRM. Upon completion of the offering, these costs will be transferred to CRM Holdings and recorded as a reduction of paid-in capital.

**Note 2. Subsequent Events**

On November 3, 2005, the board of directors adopted the following compensation plan and agreements:

A Long-Term Incentive Plan, which provides for the grant of incentive stock options, nonqualified stock options, restricted shares and other share based awards to employees, consultants and non-employee directors of the Company and its subsidiaries.

Employment agreements with Daniel G. Hickey, Jr., and Martin D. Rakoff, the Company' s Co-Chief Executive Officers, that will become effective with the closing of the Company' s initial public offering and expire on the fifth anniversary of such date. After the expiration of the initial term, the agreements are automatically renewable for one-year terms, and are cancelable under certain conditions by either party.

## 8,850,000 Common Shares



---

### PROSPECTUS

---

Sandler O' Neill & Partners, L.P.      KeyBanc Capital Markets  
December      , 2005

Until      , 2006, 25 days after the date of this prospectus, all dealers that buy, sell or trade our common shares, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to unsold allotments or subscriptions.

---

---

**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 13. Other Expenses of Issuance and Distribution.**

The expenses in connection with the registration of the common shares covered by this prospectus are set forth in the following table. All amounts except the registration and NASD filing fee are estimated:

Securities and Exchange Commission registration fee	16,775
NASD filing fee	16,667
Printing and engraving expenses	300,000
Accounting fees and expenses	393,729
Legal fees and expenses	2,708,575
Registrar and transfer agent fees	30,000
Miscellaneous	434,254
Total	<u>\$ 3,900,000</u>

All expenses in connection with the issuance and distribution of the securities being offered shall be borne by the registrant, other than underwriting discounts and selling commissions, if any.

**Item 14. Indemnification of Directors and Officers.**

The amended and restated bye-laws of the Registrant provide for the indemnification of the Registrant's officers and directors, members of a (duly constituted) committee and any resident representative (and their respective heirs, executors or administrators), each referred to as an "Indemnified Person," against all actions, costs, charges, liabilities, loss, damage or expense to the full extent permitted by Bermuda law, incurred or suffered by such party by reason of any act done, conceived in or omitted in the conduct of the Registrant's business or in the discharge of his/her duties; provided that such indemnification shall not extend to any matter which would render it void pursuant to the Companies Act 1981 (the "Companies Act") as in effect from time to time in Bermuda.

The Registrant's amended and restated bye-laws state that an Indemnified Person shall be indemnified out of the funds of the Registrant against all liabilities incurred by him or her by reason of any act done, conceived in or omitted in the conduct of the Registrant's business or in the discharge of his or her duties, in defending any proceedings, whether civil or criminal, in which judgment is given in his or her favor, or in which he or she is acquitted, or in connection with the application under the Companies Act in which relief is granted to him or her by the court.

In addition, each shareholder and the Registrant agree to waive any claim or right of action such shareholder or it may have at any time, whether individually or by or in the right of the Registrant against any Indemnified Person on account of any action taken by such person in the performance of his or her duties with or for the Registrant; provided that such waiver shall not apply to any claims or rights of action which would render it void pursuant to the Companies Act as in effect from time to time in Bermuda, and any claim or rights of action arising out of fraud or dishonesty on the part of such Indemnified Person or with respect to the recovery of any gain, personal profit or advantage to which such Indemnified Person is not legally entitled.

The Companies Act provides that a Bermuda company may indemnify its directors in respect of any loss arising or liability attaching to them as a result of any negligence, default, breach of duty or breach of trust of which they may be guilty. However, the Companies Act also provides that any provision, whether contained in the company's bye-laws or in a contract or arrangement between the company and the director, indemnifying a director against any liability which would attach to him in respect of his fraud or dishonesty will be void.

Under the Registrant's employment agreements with each of Daniel G. Hickey, Jr. and Martin D. Rakoff, the Co-Chief Executive Officers, if either of Messrs. Hickey or Rakoff is made or threatened to be made a party to any action, suit or proceeding by reason of his service to the Registrant, he shall be indemnified to the fullest extent allowed under the Registrant's organizational documents or Board resolutions or, if greater, the laws of the State of New York against all expenses and liabilities reasonably incurred in

connection therewith. Such indemnification shall survive the term of employment and shall inure to the benefit of the heirs, executors and administrators of each of Messrs. Hickey and Rakoff.

Reference is made to the form of Underwriting Agreement filed as Exhibit 1.1 hereto for provisions providing that the Underwriters are obligated, under certain circumstances, to indemnify the directors, certain officers and the controlling persons of the Registrant against certain liabilities under the U.S. Securities Act of 1933, as amended (the "Securities Act").

**Item 15. Recent Sales of Unregistered Securities.**

The Registrant was incorporated in Bermuda on September 7, 2005 under the laws of Bermuda. In connection with the formation, the Registrant issued 1,200,000 common shares, par value \$0.01 per share, for \$12,000 to Reid Finance Ltd., an affiliate of Appleby Spurling Hunter, pursuant to an exemption provided by Section 4(2) of the Securities Act. Immediately prior to the closing of this offering, the Registrant will issue 10,247,115 common shares and 790,000 class B shares, par value \$0.01 per share, to the Registrant's existing shareholders in exchange for their interests in Compensation Risk Managers, LLC, Compensation Risk Managers of California, LLC, EIMAR, L.L.C., and Twin Bridges (Bermuda) Ltd. to effect the formation of a holding company in order to change the domicile of the owner of these companies. As a result of this exchange, the present owners of the operating companies will, indirectly through the Registrant, own the operating companies in the precise same proportion as they now own the operating companies directly. The Registrant will have no assets or liabilities after the exchange, except for all of the interests in the operating companies. This exchange is exempt from the registration requirements of the Securities Act and also constitutes a private placement pursuant to Section 4(2) thereof.

**Item 16. Exhibits and Financial Statement Schedules.**

(a) Exhibits

Exhibit Number	Description
††††1.1	Form of Underwriting Agreement to be entered into by and between the Company and Sandler O' Neill & Partners, L.P. and KeyBank Capital Markets
††††2.1	Reorganization Agreement, by and among the Company, Compensation Risk Managers, LLC, Compensation Risk Managers of California, LLC, EIMAR, L.L.C., Twin Bridges, the individuals named therein and Village Holdings, LLC, dated December 7, 2005
†3 .1	Memorandum of Association of the Company
†3 .2	Bye-Laws of the Company
††††3.3	Amended and Restated Bye-Laws of the Company
††4 .1	Specimen Common Share Certificate
5 .1	Opinion of Appleby Spurling Hunter
†††10.1	Employment Agreement, between the Company and Daniel G. Hickey, Jr., dated November 3, 2005
†††10.2	Employment Agreement, between the Company and Martin D. Rakoff, dated November 3, 2005
†10 .3	Interest and Liabilities Contract to Workers' Compensation and Employer's Liability Proportional Reinsurance Agreement, between New York Marine & General Insurance Company and Twin Bridges (Bermuda) Limited, effective December 1, 2003
†10 .4	Lease Agreement between Oakwood Partners L.L.C. and Compensation Risk Managers, LLC, dated August 5, 2005
†10 .5	Loan Agreement, dated October 28, 2004, between Compensation Risk Managers, LLC and KeyBank National Association
†10 .6	Amended and Restated Loan Agreement, dated May 5, 2005, between Compensation Risk Managers, LLC and KeyBank National Association (amending and restating the Loan Agreement, between Compensation Risk Managers, LLC and KeyBank National Association, dated October 28, 2004)



## [Table of Contents](#)

<b>Exhibit Number</b>	<b>Description</b>
†10 .7	Loan Agreement, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association dated October 28, 2004 (\$3 million loan)
†10 .8	Loan Agreement, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association dated October 28, 2004 (\$7.5 million loan)
††10 .9	Amendment to Loan Agreement, dated June 30, 2005, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association (amending the Loan Agreement between Twin Bridges (Bermuda) Ltd. and KeyBank National Association, dated October 28, 2004)
††10 .10	Amended and Restated Loan Agreement, dated October 3, 2005, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association (amending and restating the Loan Agreement, dated October 28 and subsequently amended June 30, 2005)
††10 .11	Amended and Restated Loan Agreement, dated October 3, 2005, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association (amending and restating the Loan Agreement dated October 28, 2004)
††10 .12	Amended and Restated Loan Agreement, dated October 3, 2005, between Compensation Risk Managers, LLC and KeyBank National Association (amending and restating the Loan Agreement between Compensation Risk Managers, LLC and KeyBank National Association, dated October 28, 2004 and subsequently amended and restated May 5, 2005)
†††10.13	2005 Long-Term Incentive Plan
†††10.14	Tax Indemnification Agreement, by and among Compensation Risk Managers, LLC, Compensation Risk Managers of California, LLC, EIMAR, L.L.C., Twin Bridges (Bermuda) Ltd., the individuals named therein and Village Holdings, LLC, dated December 7, 2005
†††10.15	Employment Agreement, between the Company and Louis J. Viglotti, dated November 22, 2005
10 .16	Amendment to Loan Agreement, by and between Twin Bridges (Bermuda) Ltd. and KeyBank National Association dated December 14, 2005 (amending the Amended and Restated Loan Agreement dated October 3, 2005)
†††21 .1	List of subsidiaries of the Company
23 .1	Consent of Johnson Lambert & Co.
23 .2	Consent of Appleby Spurling Hunter (included in Exhibit 5.1)
††24 .1	Power of Attorney

† Previously filed on the Company's Registration Statement on Form S-1 (No. 333-128424) on September 19, 2005.

†† Previously filed on Amendment No. 1 to the Company's Registration Statement on Form S-1 (No. 333-128424) on November 8, 2005.

††† Previously filed on Amendment No. 2 to the Company's Registration Statement on Form S-1 (No. 333-128424) on November 28, 2005.

†††† Previously filed on the Company's Registration Statement on Form S-1 (No. 333-128424) on December 7, 2005.

### (b) Financial Statement Schedules for Compensation Risk Managers, LLC and Affiliates

Report of Independent Registered Public Accounting Firm on Financial Statement Schedules.

Schedule III – Supplementary insurance information.

Schedule IV – Reinsurance.

Schedule VI – Supplemental information concerning property-casualty insurance operations.

Financial Statement Schedules III, IV and VI for Compensation Risk Managers, LLC and its affiliates are included on II-4, II-5 and II-6, respectively. All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are omitted because they are not required, are not applicable or the information is included in the financial statements or notes thereto.

**Report of Independent Registered Public Accounting Firm on  
Financial Statement Schedules**

To the Members of  
Compensation Risk Managers, LLC and Affiliates

The audits referred to in our report dated August 5, 2005 include the related financial statement schedules as of December 31, 2004, and for each of the years in the three-year period ended December 31, 2004, included in this Registration Statement on Form S-1. These financial statement schedules are the responsibility of Compensation Risk Managers, LLC's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits. In our opinion, such financial statement schedules, when considered in relation to the combined financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ JOHNSON LAMBERT & CO.

Reston, Virginia  
August 5, 2005

**Compensation Risk Managers, LLC and Affiliates**  
**Schedule III - Supplementary Insurance Information**

	Deferred policy acquisition costs	Future policy benefits, losses and loss expenses	Unearned reinsurance premiums	Other policy claims and benefits payable	Net reinsurance premiums	Investment income, net of advisory fees	Losses and loss adjustment expenses	Amortization of policy acquisition costs	Other underwriting expenses	Pr v
2004	\$ 1,413,500	\$ 2,696,000	\$ 4,779,950	\$ –	\$ 5,109,883	\$ 21,670	\$ 2,528,083	\$ 1,511,065	\$ 206,238	\$
2003	823,515	167,917	2,784,834	–	253,167	88	167,917	74,865	61,749	

**Compensation Risk Managers, LLC and Affiliates**  
**Schedule IV – Reinsurance**

	<u>Direct amount</u>	<u>Ceded to other companies</u>	<u>Assumed from other companies</u>	<u>Net amount</u>	<u>Percentage of amount assumed to net</u>
Workers' Compensation Insurance:					
2004	\$ –	\$ –	\$ 5,109,883	\$ 5,109,883	100%
2003	–	–	253,167	253,167	100%

**Compensation Risk Managers, LLC and Affiliates**  
**Schedule VI - Supplemental Information Concerning Insurance Operations**

	Deferred policy acquisition costs	Reserve for losses and loss adjustment expenses	Discount reserves	Unearned reinsurance premiums	Net reinsurance premiums	Investment income, net of advisory fees	Current year	
2004	\$ 1,413,500	\$ 2,696,000	\$-	\$ 4,779,950	\$ 5,109,883	\$ 21,670	\$ 2,528,083	\$-
2003	823,515	167,917	-	2,784,834	253,167	88	167,917	-

**Item 17.    *Undertakings.***

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of the Registration Statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on this 16th day of December, 2005.

CRM Holdings, Ltd.

/s/ Daniel G. Hickey, Jr.

Daniel G. Hickey, Jr.  
*Co-Chief Executive Officer*

/s/ Martin D. Rakoff

Martin D. Rakoff  
*Co-Chief Executive Officer*

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Daniel G. Hickey, Jr. Daniel G. Hickey, Jr.	Co-Chief Executive Officer and Chairman of the Board	December 16, 2005
/s/ Martin D. Rakoff Martin D. Rakoff	Co-Chief Executive Officer and Deputy Chairman of the Board	December 16, 2005
/s/ James J. Scardino James J. Scardino	Chief Financial Officer	December 16, 2005
* Allan W. Fulkerson	Director	December 16, 2005
* Daniel G. Hickey, Sr.	Director	December 16, 2005
* David M. Birsner	Director	December 16, 2005
* Keith S. Hynes	Director	December 16, 2005
* Philip J. Magnarella	Director	December 16, 2005
* Louis Rosner	Director	December 16, 2005



[Table of Contents](#)

Signature	Title	Date
<div><div>*</div><div>Salvatore A. Patafio</div></div>	Director	December 16, 2005
<div><div>/s/ Daniel G. Hickey, Jr.</div><div>Daniel G. Hickey, Jr.</div></div>	Authorized Representative in the United States	December 16, 2005
<div><div>*By: /s/ Daniel G. Hickey, Jr.</div><div>Daniel G. Hickey, Jr.</div><div>Attorney-in-fact</div></div>		

## Exhibit Index

Exhibit Number	Description
††††1 .1	Form of Underwriting Agreement to be entered into by and between the Company and Sandler O' Neill & Partners, L.P. and KeyBank Capital Markets
††††2 .1	Reorganization Agreement, by and among the Company, Compensation Risk Managers, LLC, Compensation Risk Managers of California, LLC, EIMAR, L.L.C., Twin Bridges, the individuals named therein and Village Holdings, LLC, dated December 7, 2005
†3 .1	Memorandum of Association of the Company
†3 .2	Bye-Laws of the Company
††††3 .3	Amended and Restated Bye-Laws of the Company
††4 .1	Specimen Common Share Certificate
5 .1	Opinion of Appleby Spurling Hunter
†††10 .1	Employment Agreement, between the Company and Daniel G. Hickey, Jr., dated November 3, 2005
†††10 .2	Employment Agreement, between the Company and Martin D. Rakoff, dated November 3, 2005
†10 .3	Interest and Liabilities Contract to Workers' Compensation and Employer' s Liability Proportional Reinsurance Agreement, between New York Marine & General Insurance Company and Twin Bridges (Bermuda) Limited, effective December 1, 2003
†10 .4	Lease Agreement between Oakwood Partners L.L.C. and Compensation Risk Managers, LLC, dated August 5, 2005
†10 .5	Loan Agreement, dated October 28, 2004, between Compensation Risk Managers, LLC and KeyBank National Association
†10 .6	Amended and Restated Loan Agreement, dated May 5, 2005, between Compensation Risk Managers, LLC and KeyBank National Association (amending and restating the Loan Agreement, between Compensation Risk Managers, LLC and KeyBank National Association, dated October 28, 2004)
†10 .7	Loan Agreement, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association dated October 28, 2004 (\$3 million loan)
†10 .8	Loan Agreement, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association dated October 28, 2004 (\$7.5 million loan)
††10 .9	Amendment to Loan Agreement, dated June 30, 2005, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association (amending the Loan Agreement between Twin Bridges (Bermuda) Ltd. and KeyBank National Association, dated October 28, 2004)
††10 .10	Amended and Restated Loan Agreement, dated October 3, 2005, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association (amending and restating the Loan Agreement, dated October 28 and subsequently amended June 30, 2005)
††10 .11	Amended and Restated Loan Agreement, dated October 3, 2005, between Twin Bridges (Bermuda) Ltd. and KeyBank National Association (amending and restating the Loan Agreement dated October 28, 2004)
††10 .12	Amended and Restated Loan Agreement, dated October 3, 2005, between Compensation Risk Managers, LLC and KeyBank National Association (amending and restating the Loan Agreement between Compensation Risk Managers, LLC and KeyBank National Association, dated October 28, 2004 and subsequently amended and restated May 5, 2005)
††††10.13	2005 Long-Term Incentive Plan

## [Table of Contents](#)

<b>Exhibit Number</b>	<b>Description</b>
††††10.14	Tax Indemnification Agreement, by and among Compensation Risk Managers, LLC, Compensation Risk Managers of California, LLC, EIMAR, L.L.C., Twin Bridges (Bermuda) Ltd., the individuals named therein and Village Holdings, LLC, dated December 7, 2005
††††10.15	Employment Agreement, between the Company and Louis J. Viglotti, dated November 22, 2005
10 .16	Amendment to Loan Agreement, by and between Twin Bridges (Bermuda) Ltd. and KeyBank National Association dated December 14, 2005 (amending the Amended and Restated Loan Agreement dated October 3, 2005)
†††21 .1	List of subsidiaries of the Company
23 .1	Consent of Johnson Lambert & Co.
23 .2	Consent of Appleby Spurling Hunter (included in Exhibit 5.1)
††24 .1	Power of Attorney

† Previously filed on the Company' s Registration Statement on Form S-1 (No. 333-128424) on September 19, 2005.

†† Previously filed on Amendment No. 1 to the Company' s Registration Statement on Form S-1 (No. 333-128424) on November 8, 2005.

††† Previously filed on Amendment No. 2 to the Company' s Registration Statement on Form S-1 (No. 333-128424) on November 28, 2005.

†††† Previously filed on the Company' s Registration Statement on Form S-1 (No. 333-128424) on December 7, 2005.

E-MAIL:  
badderley@applebyglobal.com

DIRECT DIAL:  
TEL 441 298 3243  
FAX 441 298 3340

CRM HOLDINGS, LTD  
Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

YOUR REF:

APPLEBY REF:  
DBA/gc/130952.2

ATTENTION: DANIEL G. HICKEY, JR.  
CO-CHIEF EXECUTIVE OFFICER

15 December 2005

Dear Sirs

CRM HOLDINGS, LTD (THE "COMPANY") - REGISTRATION STATEMENT ON FORM S-1

We have acted as Bermuda counsel to the Company, and this opinion as to Bermuda law is addressed to you in connection with the filing by the Company with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act") of a Registration Statement on Form S-1, as amended (No. 333-128424) (the "Registration Statement") in relation to the public offering by the Company of up to 8,850,000 common shares of the Company, US\$0.01 par value per share (or up to 9,797,952 common shares if the underwriters' over-allotment option is exercised in full, pursuant to the Underwriting Agreement) (the "Shares").

For the purposes of this opinion we have examined and relied upon the documents listed, and in some cases defined, in the Schedule to this opinion (the "Documents").

Unless otherwise defined herein or in the Schedule to this opinion, terms defined in the Registration Statement have the same meanings when used in this opinion.

#### ASSUMPTIONS

In stating our opinion we have assumed:

- (a) the authenticity, accuracy and completeness of all Documents (including, without limitation, public records) submitted to us as originals and the

conformity to authentic original documents of all Documents submitted to us as certified, conformed, notarised, faxed or photostatic copies;

- (b) that each of the Documents which was received by electronic means is complete, intact and in conformity with the transmission as sent;
- (c) the genuineness of all signatures on the Documents;
- (d) the authority, capacity and power of each of the persons signing the Documents (other than the Company in respect of the Documents);
- (e) that any representation, warranty or statements of fact or law, other than as to Bermuda law, made in any of the Documents are true, accurate and complete;
- (f) that the records which were the subject of the Company Search were complete and accurate at the time of such search and disclosed all information which is material for the purposes of this opinion and such information has not since the date of the Company Search been materially altered;
- (g) that the records which were the subject of the Litigation Search were complete and accurate at the time of such search and disclosed all information which is material for the purposes of this opinion and such information has not since the date of the Litigation Search been materially altered;
- (h) that there are no provisions of the laws or regulations of any jurisdiction other than Bermuda which would be contravened by the issue of the Shares or which would have any implication in relation to the opinion expressed herein and that, in so far as any obligation, or action to be taken, as described in the Registration Statement is required to be performed or taken in any jurisdiction outside Bermuda, the performance of such obligation or the taking of such action will constitute a valid and binding obligation of each of the parties thereto under the laws of that jurisdiction and will not be illegal by virtue of the laws of that jurisdiction; and
- (i) that the Resolutions are in full force and effect, have not been rescinded, either in whole or in part, and accurately record (i) the resolutions passed by the

Board of Directors or Shareholders of the Company in meetings which were duly convened and at which duly constituted quorums were present and voting throughout, and (ii) that there is no matter affecting the authority of the Directors of the Company not disclosed by the Constitutional Documents, the Company Search, the Litigation Search, or the Resolutions, which would have any adverse implication in relation to the opinions expressed herein.

## OPINION

Based upon and subject to the foregoing and subject to the reservations set out below and to any matters not disclosed to us, we are of the opinion that:

- (1) The Company is an exempted company validly organised and existing and in good standing under the laws of Bermuda.
- (2) All necessary corporate action required to be taken by the Company in connection with the issue by the Company of the Shares pursuant to Bermuda law has been taken by or on behalf of the Company, and all necessary approvals of Governmental authorities in Bermuda have been duly obtained for the issue by the Company of the Shares.
- (3) When issued pursuant to the Resolutions and delivered against payment therefore in the circumstances referred to or summarised in the Registration Statement, the Shares will be validly issued, fully paid and non-assessable shares in the capital of the Company.
- (4) There are no taxes, duties or other charges payable to or chargeable by the Government of Bermuda, or any authority or agency thereof in respect of the issue of the Shares.

## RESERVATIONS

We have the following reservations:

- (a) We express no opinion as to any law other than Bermuda law and none of the opinions expressed herein relates to compliance with or matters governed by

Page 3

CRM Holdings, Ltd.  
15 December 2005

the laws of any jurisdiction except Bermuda. This opinion is limited to Bermuda law as applied by the courts of Bermuda at the date hereof.

- (b) In paragraph (1) above, the term "good standing" means only that the Company has received a Certificate of Compliance from the Registrar of Companies in Hamilton Bermuda which confirms that the Company has neither failed to make any filing with any Bermuda governmental authority nor to pay any Bermuda government fee or tax, which might make it liable to be struck off the Registrar of Companies and thereby cease to exist under the laws of Bermuda.
- (c) Any reference in this opinion to shares being "non-assessable" shall mean, in relation to fully paid shares of the Company and subject to any contrary provision in any agreement in writing between the Company and the holder of the shares, that no shareholder shall be bound by an alteration to the Memorandum of Association or Bye-laws of the Company after the date on which he became a shareholder, if and so far as the alteration requires him to take, or subscribe for additional shares, or in any way increases his liability to contribute to the share capital of, or otherwise to pay money to, the Company.
- (d) Searches of the Register of Companies at the office of the Registrar of Companies and of the Supreme Court Causes Book at the Registry of the Supreme Court are not conclusive and it should be noted that the Register of Companies and the Supreme Court Causes Book do not reveal:
- (i) details of matters which have been lodged for filing or registration which as a matter of best practice of the Registrar of Companies or the Registry of the Supreme Court would have or should have been disclosed on the public file, the Causes Book or the Judgment Book, as the case may be, but for whatever reason have not actually been filed or registered or are not disclosed or which, notwithstanding filing or registration, at the date and time the search is concluded are for whatever reason not disclosed or do not appear on the public file, the Causes Book or Judgment Book;
  - (ii) details of matters which should have been lodged for filing or registration at the Registrar of Companies or the Registry of the Supreme Court but have not been lodged for filing or registration at the date the search is concluded;
  - (iii) whether an application to the Supreme Court for a winding-up petition or for the appointment of a receiver or manager has been prepared but not yet been presented or has been presented but does not appear in the Causes Book at the date and time the search is concluded;

Page 4

CRM Holdings, Ltd.  
15 December 2005



- (iv) whether any arbitration or administrative proceedings are pending or whether any proceedings are threatened, or whether any arbitrator has been appointed; or
- (v) whether a receiver or manager has been appointed privately pursuant to the provisions of a debenture or other security, unless notice of the fact has been entered in the Register of Charges in accordance with the provisions of the Act.

Furthermore, in the absence of a statutorily defined system for the registration of charges created by companies incorporated outside Bermuda ("overseas companies") over their assets located in Bermuda, it is not possible to determine definitively from searches of the Register of Charges maintained by the Registrar of Companies in respect of such overseas companies what charges have been registered over any of their assets located in Bermuda or whether any one charge has priority over any other charge over such assets.

- (e) In order to issue this opinion we have carried out the Company Search as referred to in the Schedule to this opinion and have not enquired as to whether there has been any change since the date of such search.
- (f) In order to issue this opinion we have carried out the Litigation Search as referred to in the Schedule to this opinion and have not enquired as to whether there has been any change since the date of such search.

Page 5

CRM Holdings, Ltd.  
15 December 2005

- (g) Where an obligation is to be performed in a jurisdiction other than Bermuda, the courts of Bermuda may refuse to enforce it to the extent that such performance would be illegal under the laws of, or contrary to public policy of, such other jurisdiction.

#### DISCLOSURE

This opinion is addressed to you in connection with the filing by the Company of the Registration Statement with the United States Securities and Exchange Commission. We consent to the inclusion of this opinion as Exhibit 5.1 to the Registration Statement and to the references to us under the headings, "Material Tax Considerations" and "Legal Matters" in the Registration Statement. As Bermuda attorneys, however, we are not qualified to opine on matters of law of any jurisdiction other than Bermuda, accordingly we do not admit to being an expert within the meaning of the Securities Act.

Further, this opinion speaks as of its date and is strictly limited to the matters stated herein and we assume no obligation to review or update this

opinion if applicable law or the existing facts or circumstances should change.

This opinion is governed by and is to be construed in accordance with Bermuda law. It is given on the basis that it will not give rise to any legal proceedings with respect thereto in any jurisdiction other than Bermuda.

Yours faithfully

/s/ Appleby Spurling Hunter

APPLEBY SPURLING HUNTER

Page 6

CRM Holdings, Ltd.  
15 December 2005

#### SCHEDULE

1. The entries and filings shown in respect of the Company on the file of the Company maintained in the Register of Companies at the office of the Registrar of Companies in Hamilton, Bermuda, as revealed by a search on 15 December 2005 (the "Company Search").
2. The entries and filings shown in respect of the Company in the Supreme Court Causes Book maintained at the Registry of the Supreme Court in Hamilton, Bermuda, as revealed by a search on 15 December 2005 in respect of the Company (the "Litigation Search").
3. Certified copies of the Certificate of Incorporation, Memorandum of Association and Bye-Laws adopted 7 September 2005 of the Company (collectively referred to as the "Constitutional Documents").
4. A certified copy of the "Tax Assurance", dated 15 September 2005, issued by the Registrar of Companies for the Minister of Finance in relation to the Company.
5. Certified copies of (i) the Minutes of the Meeting of the Provisional Directors of the Company held on 7 September 2005 (ii) the Minutes of the Meetings of the Board of Directors of the Company held on 8 September 2005, 18 October 2005, 3 November 2005, 22 November 2005 and 7 December 2005, respectively; and (iii) the Statutory Meeting of the Company held on 7 September 2005 and the Minutes of the Special General Meeting of the Company held on 22 November 2005 (the "Resolutions").
6. A certified copy of the "Foreign Exchange Letter", for the Company, dated

7 September 2005.

7. A certified copy of the "Tax Assurance", for the Company dated 15 September 2005, issued by the Registrar of Companies for the Minister of Finance in relation to the Company.

Page 7

CRM Holdings, Ltd.  
15 December 2005

8. A copy of the letter of permission dated 13 September 2005 issued by the Bermuda Monetary Authority in relation to the Company.
9. A Certificate of Compliance, dated 7 December 2005 issued by the Ministry of Finance in respect of the Company.
10. A copy of the Registration Statement.
11. A draft of the Underwriting Agreement to be executed in December 2005, among the Company, Sandler O'Neill & Partners, L.P. as representatives of the several Underwriters named in Schedule 1 thereto (the "Underwriting Agreement").

Page 8

## AMENDMENT TO LOAN AGREEMENT

This Amendment dated as of the 14th day of December, 2005, by and between TWIN BRIDGES (BERMUDA) LTD., a Bermuda Company whose registered office is at Cannon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda ("Borrower") and KEYBANK NATIONAL ASSOCIATION, a national banking association with offices at 4910 Tiedeman Road, OH-01-51-0541, Brooklyn, Ohio 44144 ("Lender") to that certain Amended and Restated Loan Agreement dated October 3, 2005 between Borrower and Lender (the "Agreement").

## W I T N E S S E T H :

WHEREAS, pursuant to the Agreement, Lender made available to Borrower a line of credit in the maximum principal amount of \$4,500,000.00, the availability of said sum expiring on June 30, 2006, and

NOW, THEREFORE, in consideration of the mutual covenants herein contained, Borrower and Lender, incorporating the defined terms used in the Agreement, hereby amend the Agreement to read as follows:

"2.1. CREDIT FACILITY. The Lender hereby agrees to extend a Line of Credit to Borrower, subject to the terms and conditions of this Agreement in the principal amount of \$6,500,000.00, which will be used by the Borrower for the following purpose: To support standby Letters of Credit for operations/agreements with New York Marine and General Insurance Company ("NYMAGIC")."

"2.3." FEE. The Borrower will pay a fee equal to 1.50% per annum of the amount requested for each Standby Letter of Credit, calculated from the time issued until the current expiration date of the Letter.

Except as hereby amended, the Agreement shall remain in full force and effect.

THIS SPACE LEFT INTENTIONALLY BLANK.

IN WITNESS WHEREOF, Borrower and Lender have executed this Amendment as of the date first hereinabove set forth.

TWIN BRIDGES (BERMUDA) LTD.

KEYBANK NATIONAL ASSOCIATION

By: /s/ Nicholas M. Frost

-----

Name: Nicholas M. Frost

-----

Title: Director

-----

By: /s/ Kenyen Hennessey

-----

Name: Kenyen Hennessey

-----

Title: Vice President

-----



**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the reference to our firm under the caption “Experts” and to the use of our report dated August 5, 2005 relating to the combined financial statements and financial statement schedules of Compensation Risk Managers, LLC and Affiliates and to the use of our report dated September 19, 2005 (except with respect to Note 2 as to which the date is November 4, 2005) on the balance sheet of CRM Holdings, Ltd. in this Registration Statement on Form S-1.

/s/ JOHNSON LAMBERT & CO.

Reston, Virginia  
December 15, 2005





**BAKER & MCKENZIE**

**Baker & McKenzie LLP**

805 Third Avenue  
New York, New York 10022, USA

Tel: +1 212 751 5700  
Fax: +1 212 759 9133  
www.bakernet.com

**Asia**  
**Pacific**  
Bangkok  
Beijing  
Hanoi  
Ho Chi Minh City  
Hong Kong  
Jakarta  
Kuala Lumpur  
Manila  
Melbourne  
Shanghai  
Singapore  
Sydney  
Taipei  
Tokyo

**Europe &  
Middle East**

Almaty  
Amsterdam  
Antwerp  
Bahrain  
Baku  
Barcelona  
Berlin  
Bologna  
Brussels  
Budapest  
Cairo  
Düsseldorf  
Frankfurt / Main  
Geneva  
Kyiv  
London  
Madrid  
Milan  
Moscow  
Munich  
Paris  
Prague  
Riyadh  
Rome  
St. Petersburg  
Stockholm  
Vienna  
Warsaw  
Zurich

**North & South  
America**

Bogotá  
Brasília  
Buenos Aires  
Calgary  
Caracas  
Chicago  
Dallas  
Guadalajara  
Houston  
Juarez  
Mexico City  
Miami  
Monterrey  
New York  
Palo Alto  
Porto Alegre  
Rio de Janeiro  
San Diego  
San Francisco  
Santiago  
Sao Paulo  
Tijuana  
Toronto  
Valencia  
Washington, DC

December 16, 2005

**VIA EDGAR**

U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549

Ladies and Gentlemen:

**CRM Holdings, Ltd.**

**Amendment No. 5 to Registration Statement on Form S-1 (File No. 333-128424)**

Attached for filing on behalf of our client, CRM Holdings, Ltd., a Bermuda company, under the Securities Act of 1933, as amended, is Amendment No. 5 to the Registration Statement on Form S-1, including exhibits, for registration of its common shares.

Should you have any questions pertaining to this filing, please call the undersigned at (212) 891-3971.

Sincerely yours,

/s/ Roslyn Tom

Roslyn Tom

Baker & McKenzie is a member of Baker & McKenzie International, a Swiss Verein.