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

FORM 10-K/A
AMENDMENT NO. 1

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________ .

Commission file number 000-50041

USI Holdings Corporation
(Exact name of registrant as specified in its charter)

Delaware	**13-3771733**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

555 Pleasantville Road
Suite 160 South
Briarcliff Manor, New York 10510
(Address of principal executive offices, including zip code)

(914) 749-8500
(Registrant's telephone number, including area code)

Securities registered pursuant to 12(b) of the Act
None

Securities registered pursuant to section 12(g) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value $0.01 per share	Nasdaq National Market

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

The aggregate market value of the Registrant's voting common stock held by non-affiliates of the Registrant, computed by reference to the closing price of such stock on June 30, 2004, was approximately $585,326,307.

As of March 23, 2005, the number of outstanding shares of the Registrant's common stock, $.01 par value, was 56,055,329 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be filed for its 2005 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

On March 25, 2005, USI Holdings Corporation (the "Company") filed its Form 10-K for its fiscal year ended December 31, 2004. We are filing this Amendment No. 1 to our Annual Report on Form 10-K in response to comments by the Staff of the Securities and Exchange Commission in connection with its review of our registration statement on Form S-3 filed April 29, 2005 in connection with our acquisition of Summit Global Partners. In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by the Company's principal executive officer and principal financial officer are being filed as exhibits to this Form 10-K/A.

This Form 10-K/A speaks as of the original filing date and has not been updated to reflect events occurring subsequent to the original filing date. This Amendment No. 1 contains only the sections and exhibits to the Form 10-K which are being amended. Accordingly, the sections of and exhibits to the Form 10-K as originally filed which are not included herein are unchanged and continue in full force and effect as originally filed and should be read in conjunction with this Form 10-K/A.

The following is a list of the items of the annual report amended hereby (including a brief description of the change to each such item):

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

- Removal of all discussion of the non-GAAP financial measures EBITDA and EBITDA margin as performance measures

- Addition of fixed and variable rate interest projections and related disclosures to the Contractual Obligations table

USI HOLDINGS CORPORATION

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Forward-Looking Statements

This report contains forward-looking statements within the meaning of that term in the Private Securities Litigation Reform Act of 1995 found at Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Additional written or oral forward-looking statements may be made by us from time to time in filings with the Securities and Exchange Commission (the "SEC"), press releases, or otherwise (use of "we," "us" and "USI" and variations thereof refers to USI Holdings Corporation and consolidated subsidiaries). Statements contained in this report that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Act. Forward-looking statements may include, but are not limited to, discussions concerning revenues, expenses, earnings, cash flow, capital structure, financial losses, as well as market and industry conditions, premium rates, financial markets, interest rates, contingencies and matters relating to our operations and income taxes. In addition, when used in this report, the words "anticipates," "believes," "should," "estimates," "expects," "intends," "plans" and variations thereof and similar expressions are intended to identify forward-looking statements. Such forward-looking statements are based on available current market and industry material, experts' reports and opinions and long-term trends, as well as management's expectations concerning future events impacting us.

Forward-looking statements are not historical facts, but instead represent management's belief regarding future events, many of which, by their nature, are inherently uncertain and outside of our control. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Further information concerning us, including factors that potentially could materially affect our financial results, are contained in our filings with the SEC. Some factors include: our ability to meet our objective of growing cash earnings per share; our ability to meet our objective of growing revenues organically and expand our margins; successful acquisition consummation and integration; errors and omissions claims; resolution of regulatory issues and other legal claims, including those related to compensation arrangements with insurance companies, the actual cost of resolution of contingent liabilities and passage of new legislation subjecting us to regulation in jurisdictions where we operate; our ability to attract and retain key sales and management professionals; our level of indebtedness and debt service requirements; downward commercial property and casualty premium pressures; the competitive environment; future expenses for integration and margin improvement efforts; future losses on the disposition of non-core operations; and general economic conditions around the country. Our ability to grow has been largely attributable to acquisitions, which may or may not be available on acceptable terms in the future and which, if consummated, may or may not be advantageous to us. Accordingly, actual results may differ materially from those set forth in the forward-looking statements.

Readers are cautioned not to place undue reliance on any forward-looking statements contained in this report, which speaks only as of the date set forth on the signature page hereto. We undertake no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after such date or to reflect the occurrence of anticipated or unanticipated events.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and accompanying notes included in Part II-Item 8 of this report. Certain information contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are forward-looking statements that involve risks and uncertainties. See “Forward Looking Statements” included in this report. Our actual results may differ materially from the results discussed in the forward-looking statements because of various factors, including those discussed above and elsewhere herein.

Management Overview

Business

We are a distributor of insurance and financial products and services primarily to small and mid-sized business clients.

We generate revenues primarily from:

- commissions paid by insurance companies on the placement of property & casualty (P&C) and Employee Benefits insurance;
- fees paid directly by clients and other third-parties for employee benefit-related services (which we refer to as Health & Welfare when combined with Employee Benefits); and
- investment income.

Commissions on P&C, health, group life and group disability insurance are typically calculated as a percentage, ranging from approximately 3% to 20%, of the annual premium. These commissions generally recur at the same rate as long as the insurance is in force. Commissions earned from the placement of individual and corporate-owned life and individual disability insurance are calculated as a percentage of corresponding premiums over the duration or term of the underlying policies. Traditionally, most of the commission revenue on these life and individual products, as well as on other traditional voluntary benefit products, is recognized in the first year the insurance is placed, with the commissions paid in renewal years being relatively insignificant.

We also receive contingent commissions, which are incremental compensation for achieving specified loss experience and/or account retention and premium volume goals set by the insurance companies for the business we place with them. Contingent commissions are recorded on the earlier of receipt of cash or when we receive data from the insurance companies that allows us to reasonably determine the amount. Please refer to further discussion below under “Insurance Industry Investigations and Related Developments.*”* Fee-based revenues related to employee benefits services are generally billed and recorded as services are rendered and may vary with factors such as the client’s headcount or assets under management.

We have two operating segments—Insurance Brokerage and Specialized Benefits Services—and a third administrative segment—Corporate. In 2004, approximately 93.6% of our revenues were derived from our Insurance Brokerage segment. Within this segment, approximately 61.4% related to P&C insurance and 38.6% to Health and Welfare. Approximately 6.3% of our revenues in 2004 were derived from our Specialized Benefits Services segment from benefits enrollment and communication services and workplace marketing. All of Specialized Benefits Services revenue is considered Health & Welfare. Our Corporate segment accounted for less than 0.1% of our revenues in 2004.

The majority of our operating expenses relate to compensation and employee benefits, which amounted to approximately 58.3% of consolidated revenues in 2004. We refer to the balance of our operating expenses as other operating expenses, which includes selling-related expenses, rent, communication expenses and other items. Other operating expenses were approximately 24.6% of consolidated revenues in 2004.

Insurance Industry Investigations and Related Developments

Since October, 2004, the insurance industry has been under a significant level of scrutiny by various regulatory bodies, including state Attorneys General and the departments of insurance for various states, with respect to industry practices, including contingent compensation arrangements. We have received subpoenas from the Office of the Attorney General of the State of Connecticut, the Office of the Attorney General of New York and the Florida Attorney General’s Office requesting documents and seeking information as part of their industry-wide investigations relating to pricing and placement of insurance. We have also received an Investigative Demand from the Department of Justice of the State of North Carolina seeking similar information. While these investigations are continuing and the ultimate outcome cannot be predicted, the investigations center upon, among other items, allegations of bid rigging, tying arrangements and other fraudulent or unlawful business practices. We have cooperated fully with these requests and will continue to cooperate with regulators as they refine, prioritize and/or expand the areas of inquiry in their subpoenas and information requests. For example, in recent weeks, requests from the Office of the Attorney General of the State of New York have sought information regarding our New York benefits business, and our outside counsel is working with personnel in that business unit to respond to the requests.

In addition to the state Attorney General investigations described above, a number of state departments of insurance have begun inquiries into compensation practices of brokers, agents and insurers as they affect consumers in their respective states. We have received and responded, or are in the process of responding, to inquiries from insurance regulators in several states. Since these investigations and inquiries are ongoing, we cannot predict the effect that any investigation of any regulatory authority related to alleged anti-competitive practices in the insurance industry or to compensation arrangements, including contingent commissions between insurers and brokers, generally will have on the industry or our business.

On October 14, 2004, the New York Attorney General announced that its investigation into brokers' compensation practices had led to its filing a complaint against Marsh and McLennan Companies, Inc. and its subsidiary, Marsh, Inc. (collectively, "Marsh"), stating claims for, among other things, fraud and violations of New York State antitrust and securities laws. Marsh announced on October 15, 2004 that it was suspending its use of contingent commission agreements. Since then, three other large insurance brokerage companies, Willis Group, Aon Corporation and Arthur J. Gallagher & Co., each announced that they would discontinue contingent commission agreements and unwind such arrangements by the end of 2004. Three large insurers have announced that they would stop the use of such agreements as well. On January 30, 2005, Marsh entered into an agreement with the New York Attorney General and the New York Insurance Department in which Marsh agreed to pay $850 million into a fund to compensate Marsh's policyholder clients. In addition, Marsh announced that it had agreed to implement, among others, the following changes in its U.S. brokerage business: (1) Marsh has discontinued the practice of receiving contingent commissions; (2) Marsh will provide clients with a comprehensive disclosure of all forms of compensation received from insurers; (3) Marsh will adopt and implement written standards of conduct for the placement of insurance; (4) Marsh will provide to its clients all quotes and terms as received from insurers; and (5) Marsh will establish a compliance committee of the board of directors and appoint a chief compliance officer.

On March 4, 2005, Aon Corporation announced that it had reached a comprehensive agreement with five agencies in three states to settle investigations relating to contingent commissions and other business practices. Parties involved in the settlement included the Attorneys General of New York, Illinois and Connecticut as well as the insurance departments of New York and Illinois. Elements of the agreement included: (1) creation of a $190 million restitutionary fund for eligible Aon clients; (2) commitment to new business practices that include heightened disclosure of compensation and elimination of certain questionable practices; and (3) establishment of a compliance committee of the board of directors.

Following the allegations of bid rigging and price fixing in the lawsuit filed by the Office of the Attorney General of New York against Marsh, we retained outside counsel, Akin Gump Strauss Hauer & Feld, LLP ("Akin Gump"), to render legal advice in connection with an internal review of our operations. Since that time, Akin Gump has assisted us in responding to the subpoenas and inquiries described above. In connection with this internal review, Akin Gump has interviewed more than 90 of our employees, including corporate management, and is continuing its review of documents. We are continuing to review our business and expect that our review will not only address the area that the regulators are examining, but will also help us evaluate where we can make additional operational or business practice changes or improvements.

On October 28, 2004, we announced that recent developments in the insurance industry had caused management to conclude that contingent commission arrangements, as presently known within the industry, may ultimately not continue in their present form and that we intend to conduct our future affairs with that assumption in mind. Since our October 2004 announcement, we have received, and are continuing to receive, contingent commissions under our arrangements in place for 2004. Additionally, our carriers with whom we have historically had contingent arrangements have tendered, or based upon present information intend to tender, their 2005 contingent commission agreements in a form and structure generally consistent with our prior agreements. While we are not able to predict whether regulatory, market or other external forces will ultimately cause contingent commission arrangements to cease or be substantively restructured, we expect to receive contingent commissions for arrangements established in 2005. Our revenues and income from continuing operations before income taxes from contingent commissions were $19.0 million, $17.7 million and $14.7 million for 2004, 2003 and 2002, respectively.

Opticare Health Systems Litigation. We have been named as one of more than 30 insurance company and insurance brokerage defendants in an amended complaint filed in the United States District Court Southern District of New York in a putative class action lawsuit captioned *Opticare Health Systems, Inc. v. Marsh & McLennan Companies, Inc., et al* (Civil Action No. CV 06954 (DC)). The amended complaint focuses on the payment of contingent commissions by insurers to insurance brokers who sell their insurance and alleged "bid rigging" in the setting of insurance premium levels. The amended complaint purports to allege violations of numerous laws including the Racketeer Influenced and Corrupt Organizations (RICO) and federal restraint of trade statutes, state restraint of trade, unfair and deceptive practices statutes, breach of fiduciary duty and unjust enrichment. The amended complaint seeks class certification, treble damages for the alleged injury suffered by the putative plaintiff class and other damages. We are also a defendant in two recently-filed "copycat" or tag-along lawsuits in the United States District Court for the Northern District of Illinois: *Lewis v. Marsh & McLennan Companies, Inc., et al.,* 04 C 7847 and *Preuss v. Marsh & McLennan Companies, Inc., et al.,* 04 C 7853. Like the *Opticare* complaint, these complaints contain no particularized allegations of wrongdoing by us. In February 2005, the Judicial Panel on Multidistrict Litigation of the Federal Courts transferred these actions to the United States District Court for the District of New Jersey for coordinated or consolidated pretrial proceedings. We have been informed that the Company has also been named as a defendant in another "copy cat" class action lawsuit, captioned *Palm Tree Computers Systems, Inc et ano* v. *Ace, USA et al* and filed in the Circuit Court for the Eighteenth Judicial Circuit in and for Seminole County, Florida Civil Division, Class Representation, No. 05-CA-373-16-W, that this action has been removed to the United States District Court for the Middle District of Florida, Orlando Division, Case No. 6:05-CV-422-2ZKRS, and that a request has been made that it also be transferred to United States District Court for the District of New Jersey for coordinated or consolidated pretrial proceedings. We have not yet been served in this action. We intend to defend ourselves vigorously against the claims made in these actions.

For more discussion on our business please refer to Part I, Item 1, "Business," in this report.

Market

Property & Casualty

Approximately 57.5% of our consolidated revenues in 2004 related to P&C business.

Insurance premium pricing within the commercial P&C insurance industry has historically been cyclical, based on the underwriting capacity of the insurance industry and economic conditions. From 1987 through 1999, the commercial P&C insurance industry was generally in a "soft market," which is an insurance market characterized by a period of declining premium rates, which negatively affected commissions earned by insurance brokers. Years of underwriting losses for insurance companies, combined with the downward turn in the equity markets and interest rates, caused insurers to increase premium rates starting in mid- to late 2000, creating what we call a "hard market." A hard market is an insurance market characterized by a period of rising premium rates which, absent other changes, positively affects commissions earned by insurance brokers. Additionally, the insurance industry was affected by the events of September 11, 2001, resulting in the largest insurance loss in America's history, which accelerated increases in premium rates for particular lines of commercial P&C insurance. In response to rising premiums, some of our customers increased their deductibles and/or reduced their insurance coverage in order to reduce the impact of the premium increases. These trends negatively impacted our revenues. The hard market, for many lines of insurance, began to slow in the second half of 2002. In the second half of 2003, premiums in most P&C lines of insurance began to flatten or decrease, with some, such as property, by as much as 20%. In 2004, the soft market persisted, negatively affecting brokers' revenue. The competitive pricing dynamic is consistent throughout all account sizes and most geographic regions. We are not able to predict whether the soft market will continue; however, if it does, our P&C insurance brokerage revenues may continue to be negatively impacted.

Health & Welfare

Approximately 42.4% of our consolidated revenues in 2004 related to Health & Welfare business.

Premium rates in the health insurance industry have generally realized a consistent upward trend due to increasing health care delivery costs. From 2000 to 2003, however, the upward trend in health care insurance premiums was somewhat offset by the impact of the economic downturn and its resulting negative impact on business and employment levels at our customers. Additionally, reduced discretionary spending by our corporate clients has led to benefit cut-backs and lower expenditures on consulting and other fee-based services. Decreases in balances of assets invested within our clients' retirement benefit plans and on new investments into those plans, on which we are paid commissions, have negatively impacted our retirement services business. Our Health & Welfare business is most affected by employment levels and by the strength of the economy. Factors such as a tight labor market increase employers' spending on benefits; high employment increases the numbers of lives covered within the benefit plans that we broker; and a strong stock market increases both existing assets under management and new investments. In 2003, we saw the signs of an improving economy, although we did not see the benefits of sustained growing labor ranks or increased spending on benefits as employers continued to mitigate medical cost increases. The economy in 2004 was generally flat with the exception of positive growth in employment, which, in the second half of 2004, drove strong growth in our Health & Welfare revenues. Employers, however, are still struggling with double digit medical inflation, resulting in continued benefit reductions and cost-shifting to employees. This unfavorable dynamic for the benefits brokerage business has led to greater opportunity, however, in our workplace marketing business, which is aided by the trend to defined contribution health-care where employees direct their benefit dollars to purchase voluntary benefits a la carte. While we cannot predict whether the economy will improve or if employment and spending on employee benefits will increase, if they do, then our Health & Welfare revenue may be positively impacted.

Primary Financial Measures

The financial measures that we use to evaluate our performance are:

- Organic Revenue, which excludes the current period’s total revenues attributable to acquisitions and the prior period’s total revenues from divested businesses during the twelve months following acquisition or divestiture; and

- Cash earnings per share, which we define as income from continuing operations adjusted for expenses related to integration efforts, the margin improvement plan and other charges, plus amortization of intangible assets on a diluted per share basis.

You should not consider these financial measures as alternatives to other financial measures determined in accordance with accounting principles generally accepted in the United States of America, which we refer to as GAAP, or as alternatives to cash flows from operating activities, investing activities or financing activities, or as a measure of liquidity. In addition, please note that because not all companies calculate these financial measures similarly, the presentation of these measures in this report is not necessarily comparable to those of other companies.

Management’s Strategic Objectives

Our business strategy is to achieve at least 15% growth in cash earnings per share each year. As a means to accomplish this goal, we focus on generating organic growth in revenues, creating efficiencies in our operations and making disciplined and accretive acquisitions.

Organic Revenue Growth

We believe that internally generated growth is more valuable than acquired growth. Our strategy for achieving organic growth includes:

- client stewardship and retention best practices;
- consistent and aggressive sales management, including recruitment of new sales professionals;
- cross-selling across all of our major product categories within our business segments;
- new client origination; and
- maintaining a balanced mix of P&C and Health & Welfare revenues to mitigate the impact of fluctuations in market cycles.

We monitor and manage to a number of different operating statistics including, but not limited to, sales pipeline by producer, cross-selling within our 400 largest accounts, client retention rates and revenue mix by operating company. All of these metrics are tracked and reported monthly and form the basis of our agenda, among other items, for our monthly operations meetings with each of our business unit executive management teams.

Margin Improvement

Our profit margins are currently the lowest of our peers. We currently benchmark all expense categories and work with operating company management to develop and implement remediation plans for business units performing below our standards. We are focused on increasing margins by restructuring the mix of incentive versus guaranteed compensation, consolidating office space and back-office processes, standardizing our sales professionals’ compensation formula, implementing best practices in operations, leveraging our purchasing power and lowering the cost of our information technology through the consolidation of data centers. Additionally, we continue to capitalize on opportunities to leverage our corporate and other fixed costs across a greater revenue base by acquiring “fold-in” and other accretive businesses within our current geographic footprint.

In the fourth quarter of 2004, we announced that our Board of Directors had approved a margin improvement plan in order to reduce ongoing operating expenses. As a result of this action, we recorded expense of $12.4 million related to employee severance and related benefits for 28 employees of $3.4 million, facilities closures of $3.4 million, the modification of 34 sales professionals' agreements of $2.9 million and service contract termination fees of $2.7 million.

Acquisition Strategy

In most acquisitions, we issue a combination of cash, seller notes and common stock. We also frequently structure our acquisition agreements to include purchase price payments contingent upon reaching specified financial targets, commonly referred to as "earn-outs," which are paid in a combination of cash, seller notes and common stock and are treated as adjustments to purchase price when the contingency is resolved. Additionally, many of our acquisitions have provisions for reduced consideration based on the failure to meet certain financial targets. All acquisitions greater than $5 million in aggregate purchase price require approval of our Board of Directors and, if greater than $1.5 million in aggregate purchase price, also require that we give notice to our bank lenders. Please read Note 2—"Acquisitions" to our Consolidated Financial Statements included in Part II, Item 8 of this report for more information on acquisitions.

We centrally manage our acquisition pipeline from the point of initial contact through the process of integration within our operations. We only consider transactions that are accretive to our cash earnings per share, and sellers generally must take a portion of their purchase price in our common stock. All acquisitions are subject to a due diligence process, including an introduction to our culture and business strategy, the seller's commitment to both our sales and client service model and to a post-acquisition integration plan. Currently, we are looking to expand only within our current geographic footprint of operations to maximize efficiencies and continue to build-out the balanced revenue mix of P&C and Health & Welfare business.

In 2004, we completed two acquisitions of retail insurance brokers in our Insurance Brokerage segment and two acquisitions of workplace benefits companies in our Specialized Benefits Services segment. In the first full year of ownership, these acquisitions are expected to add in excess of $70.5 million in revenues and $4.5 million in net income in accordance with GAAP.

On April 1, 2004, we acquired Bertholon-Rowland Corporation, an Insurance Brokerage operation. The aggregate preliminary purchase price of approximately $44.6 million, consisting of cash of $31.0 million, shares of our common stock valued at $9.4 million and assumed liabilities of $4.2 million, was allocated primarily to goodwill and other intangible assets.

On May 1, 2004, we acquired Dodge, Warren & Peters Insurance Services, Inc., an Insurance Brokerage operation. The aggregate preliminary purchase price of approximately $38.6 million, consisting of cash of $16.6 million, shares of our common stock and restricted stock units valued at $15.3 million and assumed liabilities of $6.7 million, was allocated primarily to goodwill and other intangible assets.

On July 1, 2004, we acquired Future Planning Associates, Inc., a Specialized Benefits Services operation. The aggregate preliminary purchase price of approximately $30.6 million, consisting of cash of $19.7 million, shares of our common stock valued at $3.1 million and notes issued and net assumed liabilities of $7.8 million, was allocated primarily to goodwill and other intangible assets. We drew down an additional $20.0 million on our revolving credit facility to fund the cash portion of the purchase price.

On November 19, 2004, we acquired Benefit Partners of America, a Specialized Benefits Services operation. The aggregate preliminary purchase price of approximately $11.4 million, consisting of $10.4 million of cash, shares of common stock valued at $0.6 million and notes issued of $0.4 million, was allocated primarily to goodwill and other current assets.

In the first quarter of 2005, we acquired two insurance brokerage operations. Please read Note 20—"Subsequent Events" to our Consolidated Financial Statements included in Part II, Item 8 of this report for more information.

Quarterly Fluctuations

Our quarterly revenues and income from continuing operations may be volatile. This is attributable to the following:

- a significant percentage of commissions and fees in our Specialized Benefits Services segment is typically earned and recorded in the fourth quarter;
- the timing of certain life insurance, core benefits and enrollment sales with significant first year commissions; and
- the impact of variations or timing in recording contingent commissions in our Insurance Brokerage segment, primarily in the first and second quarters.

Quarterly fluctuations in revenues and income from continuing operations make our performance less predictable than our peers who have less life insurance, core benefits and specialized benefits services revenues. The timing of certain aspects of our revenue stream, particularly in the Specialized Benefits Services segment, makes comparisons of any period of less than a full year difficult. We have implemented various strategies to reduce the impact of seasonal and uneven revenue streams, such as negotiating alternative commission schedules with insurance companies on products that have historically paid most commissions in the first policy year, diversification of our business model for enrollment business to generate more revenue in the first three quarters of the year and divesting significantly volatile non-core business. We continue to focus on strategies that will provide a more predictable revenue stream; however, we cannot predict if we will be successful in these efforts or if market or other changes will result in a similar or greater level of unpredictability.

Critical Accounting Estimates and Policies

Our consolidated financial statements are prepared in accordance with GAAP, which requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Some of our accounting policies require management's judgment to estimate values of assets, liabilities, revenues or expenses. In addition, it may require significant judgment to apply complex principles of accounting to certain transactions, such as acquisitions, to determine the most appropriate accounting treatment. We believe the following significant accounting estimates and policies are material to our financial condition or results of operations and/or are subject to a higher degree of subjectivity and/or complexity. We continually evaluate our estimates, which are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. If actual performance should differ from historical experience or if our assumptions were to change, it may materially impact our financial condition and results of operations.

Please read Note 1—"Nature of Operations and Summary of Significant Accounting Policies" to our Consolidated Financial Statements included in Part II, Item 8 of this report for a description of other significant accounting policies.

Revenue Recognition

Our revenues are derived from commissions, fees and investment income.

We record premiums and commissions receivable from clients, net of sub-broker commissions, premiums payable to insurance companies and the related commission income, on the later of the effective date of the policy or the billing date, net of an allowance for estimated policy cancellations. We record installment premiums and related commission income periodically as billed. Commissions earned from the placement of individual and corporate-owned life and individual disability insurance are calculated as a percentage of corresponding premiums over the duration or term of the underlying policies. Traditionally, the majority of the commission revenue on these life and individual products, as well as on other traditional voluntary benefit products, is recorded in the first year the insurance is placed, with the commission income recorded in renewal years being relatively insignificant.

We record commission income on premiums billed and collected directly by insurance companies ("direct bill") and contingent commissions when we receive data from the insurance companies that allow us to reasonably determine these amounts. We are able to reasonably determine these amounts when we receive payment, notification of the amount due from the insurance companies or the insurance policy detail from the insurance companies. We receive contingent commissions from insurance companies for achieving specified loss experience and/or account retention and premium volume goals set by the insurance companies for the business we place with them. Please refer to "Insurance Industry Investigations and Related Developments," above. We received revenues from contingent commissions of $19.0 million, $17.7 million and $14.7 million for the years ended December 31, 2004, 2003 and 2002, respectively.

We record fees for consulting and administrative services as billed over the period in which services are rendered.

We record fees and/or commissions related to benefit enrollment services when earned. We consider the earnings cycle complete when we have substantially completed our obligations under the service contract, we can reasonably estimate the revenue earned and when there is no significant collection risk. At the completion of an enrollment we record an estimate of first year fee and/or commission income less an estimate of policy cancellations. The allowance for policy cancellations on benefit enrollment services is established through a charge to revenue and receivables and was $2.3 million and $1.4 million at December 31, 2004 and 2003, respectively.

We maintain allowances for bad debts and estimated policy cancellations on our Insurance Brokerage business based on our premiums, commissions and fees receivable and historical cancellation trends. The policy cancellations component represents a reserve recorded in current liabilities for future reversals of commission revenue on insurance policies in force at year-end and is established through a charge to revenues, while the bad debt component is established through a charge to other operating expenses. The allowances are determined based on estimates and assumptions using historical data to project future experience, and, in the case of bad debts, a specific identification of questionable items. We periodically review the adequacy of the allowances and make adjustments as necessary. The allowance for bad debts on Insurance Brokerage business was $2.5 million and $2.0 million at December 31, 2004 and 2003, respectively. The balance of the allowance for estimated policy cancellations recorded in current liabilities on insurance brokerage business was $869 and zero at December 31, 2004 and 2003, respectively. Future additions to the allowances may be necessary based on changes in the trend of write-offs or cancellations which could increase due to changes in economic conditions and/or our clients' financial condition.

Goodwill, Other Intangible Assets and Other Long-Lived Assets Impairment

We assess the recoverability of our goodwill and other long-lived assets at least once a year or as required based on triggering events. A triggering event is a change in business circumstances that indicates that the carrying value of the assets may not be recoverable. The carrying value of goodwill is evaluated at the segment level using an analysis to determine the fair value of the segment using both market valuation data, such as recent transaction multiples and present value techniques. Reviews for triggering events are performed at the operating company level, one level below the segments, and require the use of management's judgment. Other long-lived assets are evaluated at the operating company level, one level below our segments, which is our determination of the lowest level of meaningful cash flows. Reviews for triggering events require the use of management's judgment. Upon identification of a triggering event, we perform further analysis using discounted cash flows or other market valuation data to determine if the carrying value of an asset is impaired. Both methods require substantial judgment. If, as a result of an impairment review, we find that the carrying value of an asset is in excess of the fair value, we would be required to take a charge against current earnings.

In December 2004, we announced that our Board of Directors had approved plans to sell three operations in our Insurance Brokerage and Specialized Benefits Services segments that either exhibit significant earnings volatility or do not fit with our core business strategy. As a result of this action, we recorded a $9.5 million pre-tax impairment charge on the goodwill and other intangible assets of one of these operations.

Future events could cause management to conclude that impairment of our goodwill or other intangible assets exists, which may have a material adverse effect on our financial position or results of operations.

Business Acquisitions and Purchase Price Allocations

All of our acquisitions have been accounted for using the purchase method, and the net assets and results of operations of the acquired companies were included in our financial statements on their respective acquisition dates. Frequently, acquisitions have provisions for a reduction in consideration if the acquired company does not meet targeted financial results. Additionally, the acquisitions frequently have provisions for contingent additional consideration if the acquired company achieves financial targets. Additional or reduced consideration related to acquisition contingency provisions is reflected as an adjustment to goodwill when the contingency is resolved.

We follow a consistent methodology based on an estimate of discounted future cash flows derived from acquired clients' lists and attrition rates to estimate the fair value of the expiration rights and other intangible assets at the date of acquisition. For acquisitions in excess of $5.0 million in purchase price, we obtain an independent appraisal of the fair value of intangible assets acquired. Expiration rights are amortized on a straight-line basis over their estimated lives of five to ten years (with ten years used in most cases), based on historical attrition that has generally been consistent year over year. Non-compete agreements and restrictive covenants are typically valued at their stated contractual amount and are amortized on a straight-line basis over the terms of the agreements, which range from four to seven years. Both the allocation of purchase price and estimation of useful lives require management's judgment. If historical fact patterns were to change, such as the rate of attrition of acquired client accounts, we may be required to allocate more purchase price to goodwill or accelerate the amortization of expiration rights, which may have a material impact on our financial position or results of operations. Goodwill is not subject to amortization.

Income Taxes

Determining the consolidated provision for income tax expense, deferred tax assets and liabilities and any related valuation allowance involves judgment. GAAP requires deferred tax assets and liabilities ("DTAs" and "DTLs," respectively) to be recognized for the estimated future tax effects attributed to temporary differences and carry-forwards based on provisions of the enacted tax law. The effects of future changes in tax laws or rates are not anticipated. Temporary differences are differences between the tax basis of an asset or liability and its reported amount in the financial statements. For example, we have a DTA because the tax bases of our accrued liabilities are smaller than their book bases. Similarly, we have a DTL because the book basis of our goodwill exceeds its tax basis. Carry-forwards primarily include items such as net operating losses ("NOLs"), which can be carried forward subject to certain limitations. A summary of the significant DTAs and DTLs relating to our temporary differences and carry-forwards is included in Note 10—"Income Taxes" to our Consolidated Financial Statements included in Part II, Item 8 of this report.

At December 31, 2004, our current DTAs total $10.3 million, and our non-current DTLs total $15.8 million. We are required to reduce DTAs (but not DTLs) by a valuation allowance to the extent that, based on the weight of available evidence, it is "more likely than not" (i.e., a likelihood of more than 50%) that any DTAs will not be realized. Recognition of a valuation allowance would decrease reported earnings on a dollar-for-dollar basis in the year in which any such recognition was to occur. The determination of whether a valuation allowance is appropriate requires the exercise of management's judgment. In making this judgment, management is required to weigh the positive and negative evidence as to the likelihood that the DTAs will be realized.

Prior to the fourth quarter of 2003, we carried a valuation allowance for our net DTA based on our history of net losses and the resulting uncertainty as to whether we would generate enough taxable income in the future to utilize our DTA. In the fourth quarter of 2003, based on five consecutive quarters of profitability, our improved financial condition following our IPO, restructuring our credit facility and on forecasted future results, management determined that it is more likely than not that our DTA will be realized in future periods, with the exception of DTA related to state NOL and tax credit carry-forwards, so we reversed the valuation allowance resulting in a deferred income tax benefit of $8.1 million in 2003. In the event of adverse developments in our projections of taxable income, or if our estimates and assumptions were to change, management might be required to reach a different conclusion about the realization of our DTA and re-establish a valuation allowance through a charge to earnings.

Litigation Matters

We are subject to various claims, lawsuits and proceedings that arise in the normal course of business. We do not believe we are a party to any claims, lawsuits or legal proceedings that will have a material adverse effect on our reported financial position and results of operations. We have accrued a liability in accordance with GAAP for our best estimate of the probable cost of the resolution of those claims where our liability is probable and can be reasonably estimated. This estimate has been developed in consultation with internal and external counsel that is handling our defense in these matters and is based upon a combination of litigation and settlement strategies. The establishment of reserves for claims and litigation requires management's judgment. To the extent additional information arises or our strategies change, it is possible that our estimate of our accrued liability in these matters may change, which could have a material adverse effect on our financial position and results of operations for any particular quarterly or annual period. Please read Note 15—"Contingencies" to our Consolidated Financial Statements included in Part II, Item 8 of this report and Management Overview—"Insurance Industry Investigations and Related Developments" above.

Debt Covenants

Our credit facility requires us to maintain financial covenants, which we set with our lenders, based on our estimates of future operating results at that time. Future operating results and continued compliance with our debt covenants cannot be assured and our lenders' actions are not controllable by us. Currently, based on our projections of future operating results, we do not expect to violate any such covenants. If our projections of future operating results are not achieved, resulting in a violation of our financial covenants for which our lenders do not provide a waiver or amendment, we could experience a material adverse effect on our reported financial position and results of operations for any particular quarterly or annual period.

New Accounting Pronouncements

Please read Note 1—"Nature of Operations and Summary of Significant Accounting Policies" to our Consolidated Financial Statements included in Part II, Item 8 of this report for a discussion on the impact of the adoption of new accounting pronouncements.

Results of Operations

Certain amounts have been reclassified and presented in all periods as discontinued operations to reflect the decision announced in the fourth quarter of 2004 to sell three operations that either exhibit significant earnings volatility or that do not fit with our core business strategy.

A reconciliation of organic revenue to total revenues in accordance with GAAP.

	For the Three Months Ended December 31,					
	Revenues		Change		Adjustment for net acquired businesses	Organic growth/decline
	2004	2003	Amount	Percent		
				(in thousands)		
Consolidated						
Commissions and Fees	$ 109,381	$ 92,407	$ 16,974	18.4%	$ (16,310)	0.7%
Contingents and Overrides	2,006	1,677	329	19.6	(75)	15.1
Other Income	1,449	2,478	(1,029)	(41.5)	(197)	(49.5)
Total Revenues	$ 112,836	$ 96,562	$ 16,274	16.9%	$ (16,582)	(0.3)%
Insurance Brokerage						
Commissions and Fees	$ 94,757	$ 82,638	$ 12,119	14.7%	$ (13,173)	(1.3)%
Contingents and Overrides	2,006	1,677	329	19.6	(75)	15.1
Other Income	1,426	1,677	(251)	(15.0)	(197)	(26.7)
Total Revenues	$ 98,189	$ 85,992	$ 12,197	14.2%	$ (13,445)	(1.5)%
Specialized Benefits Services						
Commissions and Fees	$ 14,624	$ 9,769	$ 4,855	49.7%	$ (3,137)	17.6%
Contingents and Overrides	—	—	—	—	—	—
Other Income	1	600	(599)	—	—	—
Total Revenues	$ 14,625	$ 10,369	$ 4,256	41.0%	$ (3,137)	10.8%
Corporate						
Commissions and Fees	$ —	$ —	$ —	— %	$ —	— %
Contingents and Overrides	—	—	—	—	—	—
Other Income	22	201	(179)	(89.1)	—	(89.1)
Total Revenues	$ 22	$ 201	$ (179)	(89.1)%	$ —	(89.1)%

	For the Twelve Months Ended December 31,					
	Revenues		Change		Adjustment for net acquired businesses	Organic growth/decline
	2004	2003	Amount	Percent		
				(in thousands)		
Consolidated						
Commissions and Fees	$ 383,507	$ 321,455	$ 62,052	19.3%	$ (50,348)	3.6%
Contingents and Overrides	18,979	17,695	1,284	7.3	(1,710)	(2.4)
Other Income	4,712	6,381	(1,669)	(26.2)	(1,096)	(43.3)
Total Revenues	$ 407,198	$ 345,531	$ 61,667	17.8%	$ (53,154)	2.5%
Insurance Brokerage						
Commissions and Fees	$ 357,800	$ 304,843	$ 52,957	17.4%	$ (44,917)	2.6%
Contingents and Overrides	18,979	17,695	1,284	7.3	(1,710)	(2.4)
Other Income	4,443	4,242	201	4.7	(1,096)	(21.1)
Total Revenues	$ 381,222	$ 326,780	$ 54,442	16.7%	$ (47,723)	2.1%
Specialized Benefits Services						
Commissions and Fees	$ 25,707	$ 16,612	$ 9,095	54.7%	$ (5,431)	22.1%
Contingents and Overrides	—	—	—	—	—	—
Other Income	6	1,606	(1,600)	(99.6)	—	(99.6)
Total Revenues	$ 25,713	$ 18,218	$ 7,495	41.1%	$ (5,431)	11.3%
Corporate						
Commissions and Fees	$ —	$ —	$ —	— %	$ —	— %
Contingents and Overrides	—	—	—	—	—	—
Other Income	263	533	(270)	(50.7)	—	(50.7)
Total Revenues	$ 263	$ 533	$ (270)	(50.7)%	$ —	(50.7)%

We define Organic Revenue as the period-to-period change in revenues, excluding the current period's total revenues attributable to acquisitions and the prior period's total revenues from divested businesses, during the twelve months following acquisition or divesture. We present Organic Revenue and believe it is relevant because it allows us to discern year-over-year growth in revenues related to the success or failure of our ability to execute on our sales and client retention strategies. This financial measure should not be considered as an alternative to other financial measures determined in accordance with GAAP.

We understand that analysts and investors regularly rely on non-GAAP financial measures to provide a financial measure by which to compare a company's assessment of its operating profitability against that of its peers. We believe that investors use Organic Revenue to provide a financial measure by which to compare a company's internally generated (as opposed to acquired) revenue to that of its peers. Organic Revenue may be helpful by eliminating the impact of acquired revenue from internally generated revenues. This financial measure should not be considered as an alternative to other financial measures determined in accordance with GAAP.

Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

Revenues. Revenues increased $61.7 million, or 17.8%, to $407.2 million for 2004, from $345.5 million for 2003. Of the $61.7 million in revenue growth, $53.2 million was due to acquisitions, net of disposed businesses, and $8.5 million, or 2.5%, was due to organic growth. Organic revenue growth in 2004 was negatively affected by the softening rate environment for P&C insurance products and a decline in contingent and other income net of acquired business. Contingent commissions were $19.0 million ($17.3 million excluding the impact of acquisitions) for 2004, compared to $17.7 million for 2003.

Compensation and Employee Benefits. Compensation and Employee Benefits increased $41.4 million, or 21.1%, to $237.3 million in 2004, from $195.9 million in 2003. For 2004, the increase was primarily due to the effect of acquisitions and $6.6 million of expenses related to the fourth quarter 2004 margin improvement plan and integration efforts, partially offset by a favorable variance in bonus expense based on unfavorable operating results for the year. As a percentage of revenues, Compensation and Employee Benefits was 58.3% and 56.7% for 2004 and 2003, respectively.

Other Operating Expenses. Other Operating Expenses increased $23.6 million, or 30.9%, to $100.1 million for 2004, from $76.5 million for 2003. For 2004, the increase was primarily due to the effect of acquisitions and the impact of expenses related to the fourth quarter 2004 margin improvement plan of $6.1 million. Additionally, for 2004, we incurred a net increase of $2.6 million in costs related to the implementation of Sarbanes-Oxley Section 404 procedures and a net increase of $0.7 million related to legal fees and costs related to various insurance industry investigations over the comparable period in 2003. As a percentage of revenues, Other Operating Expenses were 24.6% for 2004, compared to 22.1% for 2003.

Income From Continuing Operations. Income from Continuing Operations decreased $17.5 million or 52.1% to $16.1 million for 2004, from $33.6 million for 2003. Comparisons of 2004 to 2003 are negatively affected by the fact that in 2004 we recorded a provision for income taxes at an approximate 43.7% effective rate; whereas in 2003, the reversal of a valuation allowance in the deferred tax assets resulted in an income tax benefit of $5.1 million. The increase in income tax expense for 2004 over the same period in 2003 was $17.6 million, which was somewhat offset by lower interest and depreciation expense, an expense of $4.0 million for the early extinguishment of debt in 2003 and income from continuing operations generated by our higher revenue base in 2004. Contingent commissions contributed approximately $19.0 million and $17.7 million to income from continuing operations for 2004 and 2003, respectively.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

Revenues. Revenues increased $24.1 million, or 7.5%, to $345.5 million in 2003 from $321.4 million in 2002. In 2003, Organic Revenue Growth was 4.1%, comprised of new business written, the positive impact of higher premium rates on renewal commissions and increased contingent commissions of $3.0 million in our Insurance Brokerage segment, partially offset by the impact of lost and non-recurring business. The impact of acquisitions contributed approximately $11.0 million and zero to revenues in 2003 and 2002, respectively.

Compensation and Employee Benefits Expenses. Compensation and Employee Benefits Expenses decreased $1.5 million, or 0.7%, to $195.9 million in 2003 from $197.4 million in 2002. In 2003, we had integration efforts and other charges of $0.4 million compared to $8.1 million in 2002. Also in 2003, we had $6.1 million of Compensation and Employee Benefits Expenses attributable to the impact of acquisitions, compared to zero in 2002. As a percentage of revenues, Compensation and Employee Benefits Expenses were 56.7% in 2003 compared to 61.4% in 2002. The decrease in 2003, as a percentage of revenues, is primarily due to the $8.1 million integration efforts and other charges in 2002, the positive affects of our integration efforts and improvements in performance in our Insurance Brokerage segment. To reduce compensation expense, in the first quarter of 2002 we terminated 32 employees and renegotiated compensations arrangements for four sales professionals.

Other Operating Expenses. Other Operating Expenses increased $9.2 million, or 13.8%, to $76.5 million in 2003 from $67.3 million in 2002. The increase is primarily attributable to (i) $2.9 million in expenses related to the move of our corporate offices from San Francisco to New York and for consulting fees related to Sarbanes-Oxley Section 404 compliance preparation, (ii) the increase in costs generally associated with being a public company and (iii) $1.6 million of other operating expense attributable to the impact of businesses acquired in 2003, partially offset by (iv) integration efforts and other charges of $1.6 million in 2002, compared to zero in 2003. As a percentage of revenues, Other Operating Expenses were 22.1% in 2003 compared to 20.9% in 2002.

Income From Continuing Operations. Income from Continuing Operations increased $23.2 million, or 224.0%, to $33.6 million in 2003 from $10.4 million in 2002, due to (i) a reduction in Compensation and Employee Benefits Expenses principally due to the expenses attributable to our integration efforts and other charges in 2002, (ii) continued improvement in performance in our Insurance Brokerage segment, (iii) the reduction in interest expense principally due to the restructuring of our credit facility and lower borrowings in 2003, (iv) the net increase in income tax benefit due to the reversal of the valuation allowance on our net deferred tax asset in 2003, and (v) the positive impact of acquisitions, partially offset by (vi) a $7.7 million gain recorded in the third quarter of 2002 related to our pre-IPO capital structure. The effective tax rate from continuing operations in 2003 was (18.1)% compared to (5.2)% in 2002. The decrease in the effective tax rate and corresponding increased benefit in 2003 resulted from the reversal of the deferred tax asset valuation allowance, offset by the impact of state income taxes.

Our Segments

We have three reporting segments: Insurance Brokerage, Specialized Benefits Services and Corporate.

The Insurance Brokerage segment offers:

- general and specialty property and casualty insurance, which we refer to as P&C insurance;

- individual and group health, life and disability insurance, which we refer to as Employee Benefits insurance; and
- core benefits (retirement services).

The Specialized Benefits Services segment offers:

- sales of workplace benefits insurance products and services; and
- enrollment and communication services related to employee benefits.

The Corporate segment offers:

- corporate management, acquisition processes, sales management, human resources, legal, capital planning, financial and reporting support.

For the year ended December 31, 2004, no segment had any material dependence on a single client or group of similar clients.

Effective January 1, 2004, we integrated our core benefits operation and part of our executive and professional benefits operation with our Northeast insurance brokerage operation in an effort to gain operating efficiency and further promote cross-sales of their products with other brokerage products. Accordingly, we moved a part of our executive and professional benefits and all of our core benefits operations from the Specialized Benefits Services segment into the Insurance Brokerage segment. Prior period segment information was reclassified to reflect the change in the organizational structure.

Certain amounts have been reclassified and presented in all periods as discontinued operations to reflect the decision announced in the fourth quarter of 2004 to sell three operations that either exhibit significant earnings volatility or that do not fit with our core business strategy.

Insurance Brokerage

	Year Ended December 31,		
	2004	**2003**	**2002**
	(in thousands, except for percentages)		
Revenue:			
Property & Casualty	$ 234,130	$ 203,505	$ 179,848
Employee Benefits	147,092	123,275	123,126
Total Revenues	381,222	326,780	302,974
Compensation and Employee Benefits Expenses	217,821	179,702	176,266
Other Operating Expenses	70,532	56,131	53,103
Amortization of Intangible Assets	22,069	20,389	20,129
Depreciation	6,609	7,125	7,732
Interest	1,161	1,659	3,331
Income From Continuing Operations Before Income Taxes	$ 63,030	$ 61,774	$ 42,413

Comparisons for Years Ended December 31, 2004, 2003 and 2002

The Insurance Brokerage segment results reflect the following margin improvement plan, integration efforts and other charges: $9.1 million, zero and $4.6 million in 2004, 2003 and 2002, respectively.

Revenues in the Insurance Brokerage segment increased $54.4 million, or 16.7%, to $381.2 million in 2004 from $326.8 million in 2003, and increased $23.8 million, or 7.9%, to $326.8 million in 2003 from $303.0 million in 2002. In 2004 and 2003, revenues were positively impacted by approximately $47.7 million and $11.0 million, respectively, due to acquisitions. There were no businesses acquired in 2002. Organic Revenue Growth in 2004 and 2003 was 2.1% and 4.2%, respectively, comprised of new business written and the positive impact of market conditions, partially offset by the impact of lost and non-recurring business. Market conditions include the effect on our commission revenues due to the impact of premium rate changes and changes in our clients' underlying exposure base. Contingent commissions were $1.3 million and $3.0 million greater in 2004 and 2003, respectively, than in the prior year. P&C revenues represented 57.5%, 58.9% and 56.0% of our total consolidated revenues in 2004, 2003 and 2002, respectively, and Employee Benefits revenues represented 36.1%, 35.7% and 38.3% of our total consolidated revenues in 2004, 2003 and 2002, respectively.

Income from continuing operations before income taxes in the Insurance Brokerage segment increased $1.3 million or 2.0% to $63.0 million in 2004 from $61.7 million in 2003, and increased $19.4 million or 45.6% to $61.7 million in 2003 from $42.4 million in 2002. The increase in income from continuing operations before income taxes in 2004 is primarily attributable to acquisitions, offset by $9.1 million in expenses related to our margin improvement plan and integration efforts and declining profitability due to an adverse premium rate environment. The increase in income from continuing operations before income taxes in 2003 is attributable to: (i) a decrease in Compensation and Employee Benefits Expenses as a percent of revenues, due to an improvement in performance in our operations and positive effects of our integration efforts; (ii) the positive impact of increased contingent commissions; (iii) the accretive impact of acquisitions; and (iv) the integration efforts and other charges of $4.6 million taken in 2002.

Specialized Benefits Services

	Year Ended December 31,		
	2004	2003	2002
	(in thousands, except for percentages)		
Total Revenues	$ 25,713	$ 18,218	$ 17,833
Compensation and Employee Benefits Expenses	9,801	8,009	10,458
Other Operating Expenses	9,904	8,888	4,528
Amortization of Intangible Assets	1,594	931	628
Depreciation	405	327	319
Interest	385	408	276
Income (Loss) From Continuing Operations Before Income Taxes	$ 3,624	$ (345)	$ 1,624

Comparisons for Years Ended December 31, 2004, 2003 and 2002

The Specialized Benefits Services segment results reflect the following margin improvement plan, integration efforts and other charges: zero, zero and $1.1 million in 2004, 2003 and 2002, respectively.

Specialized Benefits Services revenues increased $7.5 million, or 41.1%, to $25.7 million in 2004 from $18.2 million in 2003, and increased $0.4 million, or 2.2%, to $18.2 million in 2003 from $17.8 million in 2002. The increase in revenues in 2004 is attributable to acquisitions and organic revenue growth of $5.4 million and $2.1 million, respectively. The increase in revenues in 2003 was due to organic revenue growth. Organic revenue growth was 11.3% and 2.2% in 2004 and 2003, respectively. Specialized Benefits Services revenues represented 6.3%, 5.3% and 5.5% of our total consolidated revenues in 2004, 2003 and 2002, respectively.

Income From Continuing Operations Before Income Taxes in the Specialized Benefit Services segment was $3.6 million, ($0.3) million and $1.6 million for the years ended December 31, 2004, 2003 and 2002, respectively. Income from continuing operations before income taxes in the Specialized Benefits Services segment increased in 2004 primarily due to the positive impact of acquisitions and to organic growth of revenues. The decrease in income from continuing operations before income taxes in 2003, compared to 2002, was due primarily to product sales mix and timing of core enrollment sales.

Corporate

	Year Ended December 31,		
	2004	2003	2002
	(in thousands, except for percentages)		
Total Revenues	$ 263	$ 533	$ 619
Compensation and Employee Benefits Expenses	9,645	8,183	10,646
Other Operating Expenses	19,676	11,486	9,625
Interest(a)	6,985	11,757	16,350
Depreciation	1,640	2,090	2,939
Equity Based Compensation	417	—	1,042
Change in Value of Stock Appreciation Rights	—	—	(2,995)
Change in Value of Redeemable Common Stock Warrants	—	—	(4,070)
Value of Stock Options Exchanged for Stock Appreciation Rights	—	—	1,269
Loss From Continuing Operations Before Income Taxes	$ (38,100)	$ (32,983)	$ (34,187)

(a) Includes the early extinguishment of debt (interest adjustment) in 2003 and 2002.

Comparisons for Years Ended December 31, 2004, 2003 and 2002

The Corporate segment results reflect the following margin improvement plan, integration efforts and other charges: $3.6 million, $0.4 million and $3.9 million in 2004, 2003 and 2002, respectively.

Revenues at the Corporate segment represent interest income. Net Corporate expenses were $38.1 million, $33.0 million and $34.2 million in 2004, 2003 and 2002, respectively. In 2004, we recorded $3.6 million in expenses related to our margin improvement plan and integration efforts. Additionally, in 2004, we recorded $2.1 million in expense related to the Corporate office move, $3.2 million in fees related to Sarbanes-Oxley Section 404 compliance and $0.7 million related to legal fees and costs related to various insurance industry investigations. In 2003, we recorded $2.3 million in expense related to the corporate office move and $0.6 million related to Sarbanes-Oxley Section 404 compliance. The increase in net Corporate expenses in 2004 was primarily due to the expenses recorded in connection with the margin improvement plan and integration efforts and to increased costs related to Sarbanes-Oxley Section 404 compliance and various insurance industry investigations, offset by lower interest expense primarily due to lower interest rates and the charge in 2003 for the early extinguishment of debt. The decrease in net Corporate expenses in 2003 was primarily due to: (i) $6.0 million decrease in interest expense in 2003, the result of lower borrowing and more favorable interest rates; (ii) the integration efforts and other charges in 2002; (iii) the expense on the value of stock options exchanged for stock appreciation rights in 2002; and (iv) the expense on the grant of restricted stock in 2002, offset primarily by; (v) the $7.1 million gain in 2002 from the change in value of redeemable common stock warrants and stock appreciation rights related to our per-IPO capital structure; (vi) the integration efforts and other charges in 2002; (vii) the move and Sarbanes-Oxley-related expenses in 2003, noted above; and (viii) the increase in costs generally associated with being a public company.

Integration Efforts, Margin Improvement Plan and Other Charges

	Year Ended December 31,		
	2004	2003	2002
	(in thousands)		
Integration Efforts			
Compensation and Employee Benefits Expenses	$ 276	$ 396	$ 5,395
Other Operating Expenses	—	—	116
Total Integration Efforts	276	396	5,511
Margin Improvement Plan			
Compensation and Employee Benefits Expenses	6,277	—	—
Other Operating Expenses	6,094	—	—
Total Margin Improvement Plan	12,371	—	—
Other Charges			
Compensation and Employee Benefits Expenses	—	—	2,711
Other Operating Expenses	—	—	1,445
Total Other Charges	—	—	4,156
Total Integration Efforts, Margin Improvement Plan and Other Charges	$ 12,647	$ 396	$ 9,667

Integration Efforts

We recorded $0.3 and $0.4 million in 2004 and 2003, respectively, for severance costs related to the move of the corporate offices from San Francisco to New York.

Upon completion of the majority of our acquisitions, we undertook initiatives to determine the following: (i) positions within the organization that could be eliminated without resulting in loss of revenues or detriment to service; (ii) sales professionals contracts that should be renegotiated because they were in excess of our standard compensation practices; and (iii) accretive benefits that could be derived from the early termination of lease commitments. Upon completion of the analysis we reduced the number of our employees by 32 during the first quarter of 2002 and such persons were given various levels of severance depending on their length of service with us. This process resulted in severance charges of $3.6 million in the first quarter of 2002. In addition, in the first quarter of 2002 we renegotiated the compensation arrangements of some of our sales professionals whose compensation arrangements were in excess of our standard compensation practices. The renegotiation of these contracts resulted in an expense of $1.8 million in the first quarter of 2002.

Margin Improvement Plan

In the fourth quarter of 2004, we announced that our Board of Directors had approved a margin improvement plan in order to reduce ongoing operating expenses. As a result of this action, we recorded expense of $12.4 million in the fourth quarter of 2004. The expenses related to employee severance and related benefits for 28 employees of $3.4 million, facilities closures of $3.4 million, the modification of 34 sales professionals' agreements of $2.9 million and service contract termination fees of $2.7 million. See "Contractual Obligations," below, for further discussion on the service contract termination fees.

Other Charges

In January 2002, Bernard H. Mizel retired as our chairman and chief executive officer and we recorded a charge of $2.8 million related to the retirement.

In December 2001, we entered into a service agreement with Ceridian Corporation. The agreement stipulated that Ceridian Corporation will provide administrative services to our customers and us. In March 2002, the original service agreement was amended due to our announcement to sell USIA. Please read "Discontinued Operations" below for further information. The amendment eliminated USIA as a party to the service agreement, which resulted in the accrual of a $1.0 million amendment fee in the first quarter of 2002.

See Note 20—"Subsequent Events" to our Consolidated Financial Statements in Part II, Item 8 of this report.

Stock Appreciation Rights

In 1995, we adopted a Long-Term Incentive Plan to provide a means to attract, retain and motivate employees. As part of the Long-Term Incentive Plan we issued stock appreciation rights ("SARs"). SARs generally vest over a five-year period, although accelerated vesting is possible under specified circumstances. Upon exercise of a SAR, the holder generally is entitled to receive, in cash, the excess of the fair market value per share of our common stock on the date of exercise over the grant price of the SAR. The valuation of SARs is based on the estimated fair value of a share of our common stock. In accordance with GAAP, compensation expense, or a reduction of compensation expense, for SARs is recorded over the vesting period based on the change in fair value from grant date to each balance sheet date. Please read Note 8—"Employee Benefit Plans" to our Consolidated Financial Statements included in Part II, Item 8 of this report. We recorded a net reduction in SAR-related compensation expense of $3.0 million in 2002, resulting from a reduction in the fair market value of our common stock.

Upon the consummation of our IPO in October 2002, the Long-Term Incentive Plan was terminated and replaced with the 2002 Equity Incentive Plan.

After the consummation of our IPO, we exchanged all our outstanding SARs for stock options or stock under our 2002 Equity Incentive Plan. On November 27, 2002, all SAR holders agreed to exchange their SARs for stock options and the number of options that each individual employee was entitled to receive and the option exercise price was known. The historical accounting treatment of SARs was finalized and all SARs tendered in the exchange were cancelled. In accordance with GAAP, the SAR program existing prior to our IPO was accounted for as a fixed plan, and compensation expense was measured by the difference between the quoted market price and the price, if any, to be paid by the employee. The corresponding accrual for SAR-related compensation expense was reversed and offset compensation expense that was recognized upon the conversion to a stock option. Our stock price did not increase significantly prior to the consummation of the exchange of SARs for options; therefore the financial statement impact of the transaction in which the SARs were ultimately exchanged for stock options was a $1.3 million expense, which was recorded in the fourth quarter of 2002. Upon the consummation of the exchange of all SARs for options or stock, no further expense was recognized under our 2002 Equity Incentive Plan in connection with the exchange.

2002 Equity Incentive Plan

Our Board of Directors adopted, and a requisite majority of our stockholders approved, a new 2002 Equity Incentive Plan that became effective and replaced the Long-Term Incentive Plan upon the consummation of our IPO. The 2002 Equity Incentive Plan reserves up to 10,270,000 shares of our common stock for issuance to directors, executive officers, employees and non-employee contributors. Awards may consist of options, SARs, restricted shares, dividend equivalents or other share-based awards and are granted to eligible participants under the plan.

Upon the consummation of our IPO, approximately 104,000 shares of restricted stock, which were fully vested, were granted to nine executive officers. A $1.0 million expense was recorded for the value of the grant of restricted stock during the fourth quarter of 2002.

In the second quarter of 2004, we granted 152,748 shares of restricted stock to various corporate and operating company management. The shares vest 25% per year over four years. The fair value of the shares on the grant date was $2.2 million. The restricted stock grant was recorded as unearned compensation in stockholders' equity and is being charged to compensation expense on a straight-line basis over the vesting period. We recognized compensation expense related to the grant of $0.4 million in 2004.

In the fourth quarter of 2004, we granted 295,196 shares of restricted stock to 27 sales professionals as partial consideration for the amendment of their compensation agreements in connection with the margin improvement plan. The shares vest 20% per year over five years. The fair value of the shares on the grant date was $3.4 million. We also issued 15,000 shares of restricted stock to one employee, valued at $0.2 million, under the same terms as the sales professionals' grants. The restricted stock grants were recorded as unearned compensation in stockholders' equity and are being charged to compensation expense on a straight-line basis over the vesting period. No compensation expense related to these grants was recorded in 2004.

Redeemable Common Stock Warrants

In March 1996, we issued warrants to purchase 0.7 million shares of common stock issued at an exercise price of $11.125 per share. Holders of the Redeemable Common Stock Warrants, issued in conjunction with a 1996 senior subordinated debt offering that was repaid in 1999, agreed to terminate the put rights associated with the Redeemable Common Stock Warrants concurrent with the consummation of our IPO. The aggregate value of the warrants was $4.3 million and was reported as Redeemable Common Stock warrants on our balance sheet prior to the consummation of our IPO. The change in value of the warrants, which was recorded as a change in value of redeemable common stock warrants in our statements of operations, was $(4.1) million for 2002.

Early Extinguishment of Debt

In August 2003, we completed a $155.0 million senior secured credit facility, further described below under "Liquidity and Capital Resources—Long-Term Debt." The proceeds from borrowings under the credit facility were drawn, in part, to repay all amounts under our previously existing credit facility. As a result of repaying the previously existing credit facility, we recorded an expense of $4.0 million as early extinguishment of debt to reflect the prepayment penalty and the write-off of remaining deferred financing costs in the third quarter of 2003.

On October 25, 2002, we completed our IPO of 9.0 million shares at a price of $10 per share. The cash proceeds of the offering after the underwriting discount were $83.7 million. After deducting offering expenses of $5.3 million, $78.4 million was used to pay down our indebtedness under the credit facility. In connection with the debt repayment, we wrote-off $1.9 million in deferred financing costs in the fourth quarter of 2002.

In April 2002, we completed the sale of USIA for $19.9 million. We received cash proceeds of $18.2 million with the remaining consideration of $1.7 million in the form of an account receivable. Of the $18.2 million in cash proceeds, $16.3 million was used to reduce our term loan and $1.9 million was used to pay selling costs. In connection with the debt repayment, we wrote-off $0.7 million in deferred financing costs in the second quarter of 2002.

Liquidity and Capital Resources

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, capital expenditures, debt service, acquisitions, other commitments and contractual obligations. Prior to our IPO, we relied on our ability to generate cash flows from our financing activities, such as the issuance of debt and equity, to supplement our cash flows from operations which were insufficient to fund our business operations. Following our IPO, we substantially reduced our long-term debt, but still lacked sufficient cash flows from operations to fund our foreseeable required debt payments. In 2003 we entered into a new credit facility, as further described below, and now consider our liquidity in terms of cash flows from operations and their sufficiency to fund our operating and investing activities.

When considering our liquidity, it is important to note that we hold cash in a fiduciary capacity as a result of premiums received from clients that have not yet been paid to insurance carriers. The fiduciary cash is recorded as an asset on our balance sheet with a corresponding liability, net of commissions, to insurance carriers. We earn interest on these funds during the time between receipt of the cash and payment to insurance carriers. In some states, fiduciary cash must be kept in separate bank accounts subject to specific guidelines, which generally emphasize capital preservation and liquidity, and is not available to service debt or for other corporate purposes. Insurance brokerage transactions typically generate large cash flows, and the timing of such cash flows can significantly affect the net cash balances held at month end. Additionally, the seasonality of some of our businesses, particularly in the Specialized Benefits Services segment, can create period-to-period fluctuations in our cash flows.

We believe that cash and cash equivalents on hand of $2.9 million and our availability under our revolving credit facility of $23.2 million as of December 31, 2004, together with cash flows generated from operations, should be sufficient to fund our estimated $11.6 million in debt principal repayments, working capital needs, acquisitions and budgeted $10.9 million in capital expenditures through December 31, 2005. Our liquidity thereafter will depend on our financial results and results of operations and future available sources of additional equity or debt financing. Our revolving credit facility provides us with availability of up to $30.0 million, all of which is available for general corporate purposes, including acquisitions. As of December 31, 2004, letters of credit in the amount of $1.8 million were outstanding under our revolving credit facility. Our future operating performance and ability to service our debt will be subject to economic conditions and to financial, business and other factors, many of which are beyond our control. Please read our “Risks Related to Our Business” in Part I, Item 1 of this report.

Cash and cash equivalents at year-end (decreased) increased $(42.8) million, $27.2 million and $(11.7) million for the years ended December 31, 2004, 2003 and 2002, respectively. Net cash provided by operating activities totaled $44.3 million, $39.2 million and $33.4 million for the years ended December 31, 2004, 2003 and 2002, respectively, and is principally dependent upon our results of operations and the timing of collection of premiums receivable and payments of premiums payable. Cash provided by operating activities was negatively impacted in 2003 by the pay-down of approximately $13.8 million in liabilities existing at December 31, 2002 in our Corporate segment related to pre-IPO obligations.

Working capital decreased by $37.8 million to $32.8 million at December 31, 2004, compared to $70.6 million at December 31, 2003, principally due to the use of cash for acquisitions in the second half of 2004, current liabilities assumed in 2004 acquisitions and the net cash proceeds received from the new credit facility in 2003.

Net cash used in investing activities totaled $98.1 million, $23.2 million and $3.6 million for the years ended December 31, 2004, 2003 and 2002, respectively, which principally reflects acquisition activities and capital expenditures. Included in the net cash provided by investing activities for the year ended December 31, 2002 is $18.2 million in proceeds from the sale of USIA. Please read “Discontinued Operations” below. Cash expenditures for acquisitions amounted to $89.0 million, $18.2 million and $5.7 million for the years ended December 31, 2004, 2003 and 2002, respectively. We made no acquisitions in 2002. The $5.7 million for the year ended December 31, 2002, reflects the payment of additional purchase price and retention-based acquisition payments. Cash expenditures for property and equipment amounted to $11.1 million, $8.1 million and $6.9 million for the years ended December 31, 2004, 2003 and 2002, respectively. The net effect of investments in discontinued operations was $(1.2) million, $(2.1) million and $(9.3) million for the years ended December 31, 2004, 2003 and 2002, respectively.

Net cash provided by (used in) financing activities totaled $11.1 million, $11.2 million and $(41.5) million for the years ended December 31, 2004, 2003 and 2002, respectively. In 2004 we made payments of $43.9 million for debt, $0.5 million for debt issuance costs and $3.9 million to reacquire our common stock under our share repurchase program. During 2004 we drew down a net of $5.0 million on our revolving credit facility ($29.0 million drawn and $24.0 million repaid). We also raised $29.7 million from the issuance of our common stock as a result of a forward sale agreement, by issuing 1.8 million shares of our common stock, along with stock options and employee purchase plan transactions. In 2003, we refinanced our credit facility resulting in gross proceeds from the issuance of debt of $125.0 million and costs paid of $3.8 million. With the proceeds, we paid down our previously existing revolver and term loan of $70.9 million and $27.3 million, respectively, and other acquisition-related debt of $5.0 million. In the first quarter of 2002, we received $2.5 million from the issuance of our preferred stock to Sovereign Bancorp. In the second quarter of 2002, we used $16.3 million of the proceeds from the sale of USIA to reduce our term loan. In the fourth quarter of 2002, we completed our IPO of 9.0 million shares at a price of $10 per share. The cash proceeds of the offering after the underwriting discount were $83.7 million. After deducting offering expenses of $5.3 million, $78.4 million was used to pay down our indebtedness under our previous credit facility.

Income from continuing operations was $16.1 million, $33.6 million and $10.4 million for the years ended December 31, 2004, 2003 and 2002, respectively. Based on approximately 49.1 million, 46.0 million and 8.8 million shares outstanding at those dates, income (loss) per share from continuing operations on a basic basis was $0.33 for 2004, $0.74 for 2003 and $(0.93) for 2002. Income (loss) per share from continuing operations on a diluted basis was $0.33 for 2004, $0.73 for 2003 and $(0.93) for 2002.

Taxes

At December 31, 2003, we had $23.8 million of net operating loss carry-forwards for federal tax purposes that we utilized fully by the third quarter of 2004, becoming a full taxpayer for both federal and state income taxes. Our ability to use these net operating loss carry-forwards to offset future taxable income, if any, may be subject to limitations under Section 382 of the Internal Revenue Code of 1986, as amended, and similar state provisions. The provisions of Section 382 are triggered by specific ownership changes of our stock. We do not believe Section 382 will limit us in utilizing our net operating loss carry-forwards in 2004 and have not assumed any such limitation in our tax provision. However, if limited, the unused portion may then be carried forward to future years. In 2004 and 2003 we paid $8.3 million and $3.4 million, respectively, for state and federal income taxes.

Registration Statement

In February 2004, we filed a $300.0 million universal shelf registration statement on Form S-3 which was declared effective by the SEC in March 2004. The universal shelf registration statement covers offerings of our common stock, preferred stock, debt securities, warrants to purchase common stock, preferred stock or debt securities, stock purchase contracts, stock purchase units or any combination of such securities. The timing, structure and nature of any funds raised under this shelf registration statement, as well as the use of such funds, are at the discretion of our management and Board of Directors.

In April 2004, we completed a follow-on public offering under the universal shelf registration statement of 11,229,578 shares of our common stock at a public offering price of $14.72 per common share. Of those shares, 4,025,000 shares were sold by us via forward sale agreements and 7,204,578 shares were sold by various selling shareholders. On December 29, 2004, we settled a portion of our forward sale agreement by issuing 1,781,000 shares of our common stock in exchange for proceeds of $25.0 million. We used $20.0 million of the proceeds to repay borrowings under our revolving credit facility. On January 30, 2005, we settled the remaining portion of our forward sale agreement by issuing 2,244,000 shares in exchange for proceeds of approximately $31.5 million. Please read Note 20—"Subsequent Events," to our Consolidated Financial Statements in Part II, Item 8 of this report.

We consummated our acquisition of Summit on February 3, 2005. Pursuant to the terms of the registration rights provisions of the Merger Agreement, we are required to prepare and file with the SEC, not later than ninety (90) days following the consummation of the merger, a registration statement to permit the public offering and resale under the Securities Act of 1933 on a continuous basis shares of our common stock held by the beneficiaries of the merger.

Exercise of Warrants

In the third quarter of 2004, our largest shareholder, Capital Z, exercised warrants to purchase 1,810,000 shares of our stock at a strike price of $15.00 per share. The average of the high and low stock price over the ten trading days prior to exercise, or $15.66 per share, was used to calculate a net share issuance of 76,283 shares. The remaining warrants to purchase 689,997 shares of our stock at $15.00 per share expired unexercised in the third quarter of 2004.

Stock Repurchase Plan

On May 10, 2004, we announced that our Board of Directors authorized a limited stock repurchase plan. Using only proceeds, and any related tax benefit amounts from the exercise of stock options and warrants, we may, at our discretion, repurchase shares on the open market or in private transactions in order to help offset dilution from our equity compensation plans and previously issued warrants to purchase our common stock. The amount and timing of repurchases will be based upon the number of shares of our common stock which may be issued from time to time upon the exercise of stock options and warrants, market conditions and other factors. During the second, third and fourth quarters of 2004 we purchased 282,548 shares of our common stock on the open market at an aggregate cost of $3.9 million.

On December 20, 2004, we announced that our Board of Directors authorized an expanded stock repurchase program that permits us to purchase our shares of common stock up to certain limits set forth within our credit facility. We had the capacity under the credit facility to purchase up to approximately $11.0 million in 2004. In 2005, we can purchase up to $9.7 million of our common stock under our credit facility.

Long-Term Debt

Our debt consists of the following:

	As of December 31,	
	2004	2003
	(in thousands)	
Senior Credit Facility:		
Term loan	$ 123,438	$ 124,688
Revolving credit facility	5,000	—
Other Debt:		
Notes issued in connection with acquisitions, due various dates through 2009	23,073	21,376
Zurich term loan	—	3,000
Other long-term debt, primarily capital leases	4,813	7,422
Total debt	156,324	156,486
Current portion of long-term debt	(11,617)	(17,186)
Long-term debt	$ 144,707	$ 139,300

In August 2003, we completed a $155.0 million senior secured credit facility with several lending institutions. The credit facility is structured as follows: a $30.0 million revolving credit facility maturing on August 11, 2007, and a $125.0 million term loan payable in quarterly installments which commenced on October 31, 2003. The last quarterly installment is due on August 11, 2008, the maturity date of the term loan. The proceeds from borrowings under the credit facility were drawn to (i) repay all amounts under the previously existing credit facility, (ii) repay a portion of certain notes issued for acquisitions, (iii) pay fees and expenses in connection with the credit facility including a prepayment penalty in connection with the prepayment of the previously existing credit facility and (iv) for general corporate purposes. As a result of repaying the previously existing credit facility, we recorded an expense of $4.0 million as early extinguishment of debt to reflect the prepayment penalty and the write-off of remaining deferred financing costs in the third quarter of 2003.

On March 26, 2004, we executed a first amendment to the credit facility, providing for a 0.5% reduction to the applicable term loan interest rate effective April 1, 2004, and paid an amendment fee to Banc of America Securities LLC and J.P. Morgan Securities Inc., the joint lead arrangers. As amended, borrowings under the term loan bear interest, at our option, at either a base rate plus 1.5% per annum or the Eurodollar rate plus 2.5% per annum. The base rate and the Eurodollar rate are effectively the Prime Rate and the London Interbank Offering Rate for the applicable period, respectively. The interest rate on the term loan was 4.63% and 4.13% at December 31, 2004 and 2003 respectively.

The revolving credit facility is available for loans denominated in U.S. dollars and for letters of credit. Borrowings under the revolving credit facility bear interest, at our option, at either a base rate plus an applicable margin ranging from 1.5% to 2.5% per annum or the Eurodollar rate plus an applicable margin ranging from 2.5% to 3.5% per annum, depending on our credit ratings as determined by Standard & Poor’s and Moody’s Investors Service credit rating services at the time of borrowing. Borrowings under the term loan bear interest, at our option, at a base rate plus 2.0% per annum or the Eurodollar rate plus 3.0% per annum. The base rate and the Eurodollar rate are effectively the Prime Rate and the London Interbank Offering Rate, respectively. Additionally, there is a commitment fee on the unused portion of the revolving credit facility of 0.5% per annum. The revolving credit facility may be used for acquisition financing and general corporate purposes. At December 31, 2004, availability under the revolving credit facility was $23.2 million.

The credit facility contains various limitations, including limitations on our ability to pay dividends, buy-back our common stock and make other distributions to stockholders, borrowings and acquisitions. The credit facility also contains various financial covenants that must be met, including those with respect to fixed charges coverage and limitations on consolidated debt, net worth and capital expenditures. Failure to comply with the covenants may result in an acceleration of the borrowings outstanding under the facility. All of the stock of our subsidiaries and certain other identified assets are pledged as collateral to secure the credit facility. Additionally, each subsidiary guarantees our obligations under the credit facility. As of December 31, 2004 we had $1.8 million outstanding under letters of credit, which reduced the availability of our revolving credit facility to $23.2 million as of that date.

On March 26, 2004, we requested and received a waiver that specifically excludes the Bertholon-Rowland and Dodge, Warren & Peters acquisitions from our credit facility limitations on aggregate cash payments, aggregate total consideration and assumed indebtedness (see Note 5—“Long-Term Debt” and Note 2—“Acquisitions” to our Consolidated Financial Statements in Part II, Item 8 of this report). No other covenants were waived or amended.

On January 11, 2005, we received approval from our lending institutions for a second amendment to our credit facility, which allowed for a $90.0 million increase to our existing term loan, a waiver of certain covenant limitations to allow for the acquisition of Summit and an amendment of certain other covenants in our credit agreement. See Note 20—"Subsequent Events" to our Consolidated Financial Statements in Part II, Item 8 of this report.

On July 24, 2003, Standard & Poor's raised the counterparty credit and bank loan rating on us to "BB-" from "B+." On August 12, 2003, Moody's Investors Service assigned a "B1" rating to our new credit facility with a stable outlook. On November 1, 2004, Standard & Poor's placed our ratings on credit watch with negative implications, primarily due to a subpoena we received from the New York Attorney General and related industry announcements.

As of December 31, 2004, we were in compliance with the covenants in our credit facility. The significant financial covenants of our new credit facility were as follows:

Description of Covenant	Actual	Covenant
Consolidated Indebtedness to Adjusted Pro Forma EBITDA Ratio(a)	1.85	2.25 maximum
Fixed Charge Coverage Ratio(a)	2.57	1.50 minimum
Stockholders' Equity(a) (in millions)	$ 327.57	$ 258.16 minimum

(a) As defined in our credit facility. Adjusted Pro Forma EBITDA is our actual trailing twelve months EBITDA adjusted to reflect the full year impact of businesses acquired or sold.

Contractual Obligations

The table below summarizes our contractual obligations as of December 31, 2004:

Payments due by period	Total	1 year or less	2-3 years	4-5 years	After 5 years
			(in thousands)		
Principal and Payment Obligations:					
Credit facility	$ 128,438	$ 1,250	$ 2,500	$ 124,688	$ —
Other debt and capital lease obligations	27,886	10,367	12,134	5,257	128
Operating lease commitments	71,069	17,498	28,158	17,306	8,107
Interest Obligations:					
Variable rate interest obligations	21,208	5,997	11,877	3,334	—
Fixed rate interest obligations	2,570	1,250	1,230	90	—
Other	2,250	900	1,350	—	—
Total	$ 253,421	$ 37,262	$ 57,249	$ 150,675	$ 8,235

Credit Facility

See discussion above under "Long-Term Debt".

Other Debt and Capital Lease Obligations

At December 31, 2004 our other debt of $23.1 million consisted primarily of notes payable issued in conjunction with acquisitions. Some of these notes payable may be subject to reduction based on future performance of the acquired company. At December 31, 2004, our capital lease obligations of $4.8 million related to purchases of furniture and equipment. In the past, we have used external financing to fund a portion of such purchases and plan on continuing to do so in the future.

Operating Leases

Substantially all of our office space is leased under an operating lease structure. Many of these leases have options permitting renewals for additional periods and provisions for escalations based on an inflation index.

Interest Obligations

At December 31, 2004, we had future interest obligations under fixed rate notes, primarily acquisition related, of $2.6 million.

Of our $156.3 million in long-term debt at December 31, 2004, $133.3 million was subject to variable interest rates, most of which is eligible to be prepaid. The variable interest rate payment projections in the table above assume that interest rates stay fixed at the December 31, 2004 rates and that we do not prepay any long-term debt with variable interest rates.

Other

We have structured our acquisition agreements to include contingent purchase price payments to be treated as adjustments to purchase price and capitalized when the contingency is resolved. At December 31, 2004, we estimate the future significant contingent purchase price payments to be between $7.4 million and $12.0 million. These payments would be payable in a combination of cash, common stock and debt. These amounts primarily relate to acquisitions and will be reflected on our financial statements as a liability and additional purchase price when the contingency is resolved. Approximately $2.6 million of the future contingent purchase price payments have measurement dates of December 31, 2005. Please read "Acquisition Strategy" above and Note 2—"Acquisitions" in our Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

We routinely enter into employment agreements with management and other key employees. Some of these contracts may provide for severance benefits in the event that we terminate the employment relationship without cause. Severance costs are expensed as incurred in accordance with GAAP.

Pursuant to a Marketing and Distribution Agreement dated November 7, 2002 (the "Agreement") between ourselves and Minnesota Life Insurance Company (MLI), the parties agreed to perform specific services in connection with our creation of a nationwide wealth management distribution system. Among other things, we were required to hire and train sales professionals, build-out the back-office of our broker dealer subsidiary to support wealth management and life insurance sales and service, and create a website. MLI, for its part, was to provide us with access to competitive products, product education and development fees to fund the creation of the wealth management distribution system. In the fourth quarter of 2004, both parties mutually agreed to terminate the Agreement and we paid MLI $2.4 million in exchange for mutual releases from the service obligations in the Agreement. We recorded this payment as an expense in the fourth quarter in other operating expenses and included it in the margin improvement plan under service contract terminations. Please read "Integration Efforts, Margin Improvement Plan and Other Charges" above.

Some of our common stockholders have various put rights that are exercisable upon specific events. Please read Note 7—"Redeemable Securities" to our Consolidated Financial Statements included in Part II, Item 8 of this report.

Off-Balance Sheet Commitments

We have two letters of credit totaling $1.8 million established as collateral for our workers' compensation insurance program. Letters of credit which are outstanding reduce the borrowing availability under our revolving credit facility. The letters of credit referred to automatically renew annually on the anniversary date of issuance with a final expiration five business days prior to August 11, 2007, the maturity date of our revolving credit facility.

Discontinued Operations

On December 20, 2004, we announced that our Board of Directors had approved plans to sell three operations in our Insurance Brokerage and Specialized Benefits Services segments that either exhibit significant earnings volatility or do not fit with our core business strategy. As a result of these actions, we recorded a $9.5 million pre-tax impairment charge on the goodwill and other intangible assets of one of these operations. The historical results of operations for these entities have been reflected in our financial statements as discontinued operations in accordance with Statement of Financial Accounting Standards, or SFAS, No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." To date, in the first quarter of 2005, we consummated the sale of two operations and are in active negotiations with potential buyers for the sale of the third operation.

In the latter part of 2001, we completed a strategic and financial review of our company and concluded that USIA, a third-party administrator, was no longer core to our mission, vision or strategy. Consequently, in January 2002, we announced our intention to sell USIA and subsequently sold the business in April 2002. The cash proceeds from the disposition of USIA were used to repay a portion of our bank borrowings, seller notes associated with the business and related transaction expenses. USIA is reflected in our financial statements as a discontinued operation.

The assets, liabilities and results of operations for these discontinued operations have been disaggregated in our financial statements. Discontinued operations had net (losses) income of $(7.8) million, $1.9 million and $(13.2) million for the years ended December 31, 2004, 2003 and 2002, respectively. The net loss for the years ended December 31, 2004 and 2002 includes a $9.5 million pre-tax impairment charge and a $7.2 million pre-tax loss on the sale of USIA, respectively.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USI HOLDINGS CORPORATION
(Registrant)

DATE: December 2, 2005

By: /s/ DAVID L. ESLICK
Name: David L. Eslick
Title: Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DAVID L. ESLICK David L. Eslick	Chairman, President and Chief Executive Officer (Principal Executive Officer) and Director	December 2, 2005
/s/ ROBERT S. SCHNEIDER Robert S. Schneider	Chief Financial Officer (Principal Financial Officer)	December 2, 2005
/s/ DAVID A. HESS David A. Hess	Vice President, Finance (Principal Accounting Officer)	December 2, 2005
/s/ RICHARD M. HAVERLAND* Richard M. Haverland	Director	December 2, 2005
/s/ THOMAS A. HAYES* Thomas A. Hayes	Director	December 2, 2005
/s/ RONALD E. FRIEDEN* Ronald E. Frieden	Director	December 2, 2005
/s/ L. BEN LYTLE* L. Ben Lytle	Director	December 2, 2005
/s/ ROBERT A. SPASS* Robert A. Spass	Director	December 2, 2005
/s/ ROBERT F. WRIGHT* Robert F. Wright	Director	December 2, 2005
*/s/ DAVID L. ESLICK Attorney-in-Fact		December 2, 2005

USI HOLDINGS CORPORATION

Exhibit Index

Exhibit No.	Description
31.1	**Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.**
31.2	**Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.**
32.1	**Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	**Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

EXHIBIT 31.1

CERTIFICATION OF DAVID L. ESLICK PURSUANT TO RULE 13a-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934 FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2004 OF USI HOLDINGS CORPORATION

I, David L. Eslick, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of USI Holdings Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 2, 2005

/s/ DAVID L. ESLICK

David L. Eslick
Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION OF ROBERT S. SCHNEIDER PURSUANT TO
RULE 13a-14 UNDER THE
SECURITIES EXCHANGE ACT OF 1934
FORM 10-K FOR THE YEAR ENDED
DECEMBER 31, 2004 OF
USI HOLDINGS CORPORATION**

I, Robert S. Schneider, certify that:

1. I have reviewed this amended annual report on Form 10-K/A of USI Holdings Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 2, 2005

/s/ ROBERT S. SCHNEIDER

Robert S. Schneider
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(CHAPTER 63, TITLE 18 U.S.C. §1350(a) AND (b))

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. §1350(a) and (b)), the undersigned hereby individually certifies in his capacity as an officer of USI Holdings Corporation (the "Company") that the Amended Annual Report of the Company on Form 10-K/A for the period ended December 31, 2004 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of and for the periods covered by such Report.

Dated: December 2, 2005

/s/ DAVID L. ESLICK

David L. Eslick
Chief Executive Officer

This certification shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to USI Holdings Corporation and will be retained by USI Holdings Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(CHAPTER 63, TITLE 18 U.S.C. §1350(a) AND (b))

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. §1350(a) and (b)), the undersigned hereby individually certifies in his capacity as an officer of USI Holdings Corporation (the "Company") that the Amended Annual Report of the Company on Form 10-K/A for the period ended December 31, 2004 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company at the end of and for the periods covered by such Report.

Dated: December 2, 2005

/s/ ROBERT S. SCHNEIDER

Robert S. Schneider
Chief Financial Officer

This certification shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to USI Holdings Corporation and will be retained by USI Holdings Corporation and furnished to the Securities and Exchange Commission or its staff upon request.