REPORT ON EXAMINATION

OF

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE

WHITE PLAINS, NEW YORK

AS OF

DECEMBER 31, 2008

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

Tallahassee, Florida

September 24, 2009

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Chapter 629 and Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2008, of the financial condition and corporate affairs of:

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
ONE NORTH LEXINGTON AVENUE
WHITE PLAINS, NEW YORK 10601

Hereinafter referred to as, the "Reciprocal". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2008, through December 31, 2008. The Reciprocal was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This is a second year examination. The examination commenced with planning at the Office on July 20, 2009, to July 23, 2009. The fieldwork commenced on August 3, 2009, and concluded as of September 24, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Reciprocal by obtaining information about the Reciprocal including corporate governance, identifying and assessing inherent risks within the Reciprocal, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Reciprocal as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Reciprocal's financial condition.

All accounts and activities of the Reciprocal were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Reciprocal's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Reciprocal's independent audit reports and certain work papers prepared by the Reciprocal's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

There were no exceptions or findings in the examination as of December 31, 2007.

HISTORY

General

The Reciprocal was organized in Florida on January 23, 2007, as a reciprocal insurer and commenced business on January 29, 2007, as Privilege Underwriters Reciprocal Exchange. The Reciprocal was a non-assessable unincorporated aggregation of subscribers governed by a Subscribers Advisory Committee (SAC) which is similar to a board of directors.

The Reciprocal was managed by its Attorney-in-Fact (AIF), Pure Risk Management, L.L.C. The AIF managed all of the operations of the Reciprocal and was owned by Privilege Underwriters, Inc.

The Reciprocal was initially capitalized with $10 Million of surplus notes.

The Reciprocal was party to Consent Order 88701-06-CO, filed January 16, 2007, regarding the application for the issuance of a Certificate of Authority. The Reciprocal was in compliance with that order.

The Reciprocal was party to Consent Order 90182-07-CO, filed September 11, 2007, in order to enter into a subordinated surplus debenture with Privilege Underwriters, Inc. for up to $30 Million. The Office approved this transaction.

The Reciprocal was party to Consent Order 96856-08-CO, filed July 30, 2008, regarding the application of 1492 Capital, LLC to obtain an indirect controlling interest of the Reciprocal through the acquisition of shares of Privilege Underwriters, Inc., the parent of the AIF. The Office approved this acquisition.

The Reciprocal was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Homeowners multi peril	Inland marine
Other liability	Private passenger auto physical damage
Private passenger auto liability	

The SAC Charter was not amended during the period covered by this examination.

Capital Stock

The Reciprocal was a non-assessable reciprocal and therefore had no capital stock.

Profitability of Reciprocal

The following table shows the profitability trend (in dollars) of the Reciprocal for the period of operations, as reported in the filed annual statements.

	2008	**2007**
Premiums Earned	6,864,333	1,989,299
Net Underwriting Gain/(Loss)	(2,991,775)	(2,956,544)
Net Income	(3,804,559)	(3,410,591)
Total Assets	59,882,064	59,393,434
Total Liabilities	12,020,861	10,269,770
Surplus As Regards Policyholders	47,861,203	49,123,664

Dividends to Stockholders

The Reciprocal was organized as a non-assessable reciprocal insurer and therefore had no stock holders.

Management

The annual SAC meeting was held in accordance with Section 629.201, Florida Statutes. A document titled “Powers of the Subscriber’s Advisory Committee” sets forth the terms and conditions upon which the SAC shall operate. Members serving as the SAC of December 31, 2008, were:

Committee Member

Name and Location	Principal Occupation
Harold P. Bilter Hilton Head, South Carolina	Retired
Ross J. Buchmueller Larchmont, New York	President & CEO Pure Group Companies
Douglas G. Fields Province, Florida	Senior VP Oswald Trippe & Co.
William W. Wilson Key Largo, Florida	Consultant

The Committee Members in accordance with the Reciprocal's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Ross Buchmueller	President
Martin Hartley	Executive Vice President & COO
Jeffrey Paraschac	Senior Vice President & CFO

Conflict of Interest Procedure

The Reciprocal adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the SAC were reviewed for the period under examination through the end of field work. The recorded minutes of the SAC adequately documented its meetings and approval of Reciprocal transactions and events in accordance with Section 607.1601, Florida

Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

The Reciprocal had no acquisitions, mergers, disposals, dissolutions or purchases or sales through reinsurance during the period under examination.

Surplus Debentures

The Reciprocal had the following surplus debenture as of December 31, 2008.

State Board of Administration of Florida issued $17,000,000 on June 13, 2007 with an interest rate of 5.00% due June 13, 2027.

The surplus note has restrictions which require the approval of the Office prior to any payment of interest or repayment of principal.

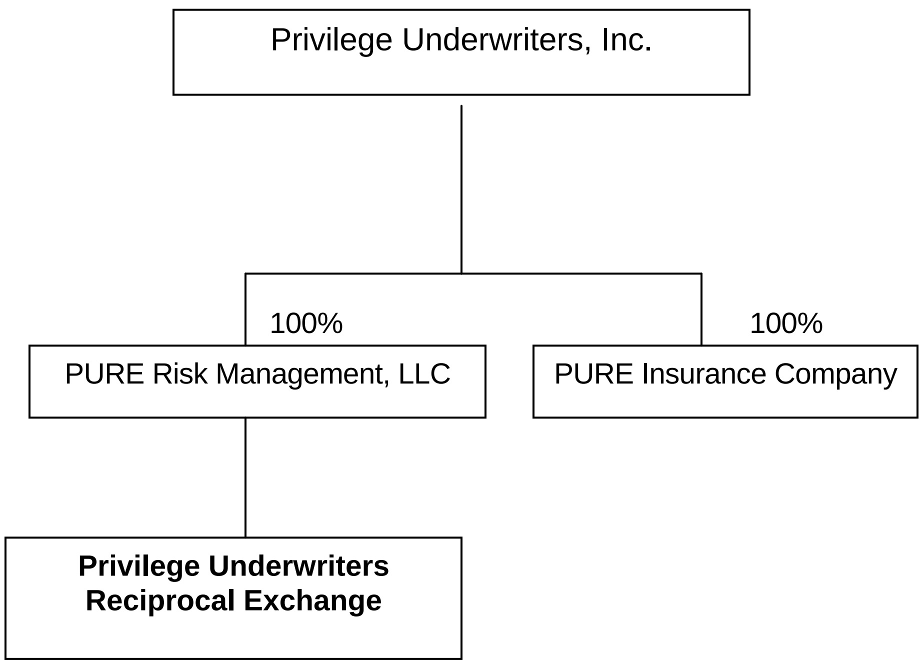
AFFILIATED COMPANIES

The Reciprocal became a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code on August 5, 2008, when PURE Insurance Company was formed. The latest holding company registration statement was filed with the State of Florida on July 22, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Reciprocal's 2008 annual statement provided a list of all related companies of the holding company group.

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
ORGANIZATIONAL CHART

DECEMBER 31, 2008



PURE Risk Management, LLC serves as Attorney-in-fact for Privilege Underwriters Reciprocal Exchange.

The following agreements were in effect between the Reciprocal and its affiliates:

Subscribers Agreement and Power of Attorney

Each new Subscriber signed a Subscriber's Agreement and Power of Attorney which appointed Pure Risk Management, LLC as the AIF, which allowed the AIF to conduct the lawful business of the Reciprocal. Each Subscriber agreed to make a surplus contribution for five years. The surplus contribution was a percentage of the policy premium and was 10% for Homeowner and Watercraft policies and 4% for all other policies.

Agency Agreement

The Reciprocal and Privilege Underwriters, Inc. (PUI) entered into an agency agreement whereby PUI receives a 10% commission on policies written for policies with commission and will enter into a distinct professional services agreement with the member for non-commission policies. The Reciprocal will not be involved in the collection of fees between PUI and the member.

Reinsurance Pooling Agreement

The Reciprocal was party to a reinsurance pooling agreement with PURE Insurance Company as noted in the reinsurance section.

FIDELITY BOND AND OTHER INSURANCE

The AIF managed the affairs of the Reciprocal. The AIF filed with the Office a bond in the sum of $100,000 in aggregate form in favor of the State of Florida, for the benefit of all persons damaged as a result of a breach by the AIF from the conditions of the bonds. This adequately adhered to the suggested minimum amount of coverage as required in Section 629.121, Florida Statutes.

The Reciprocal also maintained Directors and Officers (D&O) liability insurance coverage limits of $5,000,000 and deductibles ranging from $25,000 to $50,000. In addition to the primary D&O coverage, the Reciprocal had D&O liability limit excess amount up to $20,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Reciprocal had no employees and therefore had no pension, stock ownership or insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	US Treasury Notes	$ 540,000	$ 576,788
TOTAL FLORIDA DEPOSITS		$ 540,000	$ 576,788
SC	US Treasury Notes	$ 121,000	$ 134,801
TOTAL OTHER DEPOSITS		$ 121,000	$ 134,801
TOTAL STATE DEPOSITS		$ 661,000	$ 711,589

INSURANCE PRODUCTS

The Reciprocal was authorized to transact insurance in the State of Florida. The Certificate of Authority to transact insurance business in Florida was issued to the AIF in accordance with Section 629.091, Florida Statutes.

Territory

The Reciprocal was authorized to transact insurance in the following states at December 31, 2008:

Connecticut	Florida	New Jersey
New York	South Carolina	District of Columbia

The Company became licensed in Georgia and Maryland during 2009.

Treatment of Policyholders

The Reciprocal established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Reciprocal maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Reciprocal had no assumed business at December 31, 2008.

Ceded

The Reciprocal ceded risk on a quota share and excess of loss basis to various third party reinsurers. Quota share agreements were entered into for each line of business, Florida

Hurricane Catastrophe Fund (FHCF) and property excess of loss reinsurance for catastrophic events. Effective June 1, 2008, the Reciprocal had a number of reinsurance agreements with various subscribers under an amended and revised contract with Guy Carpenter. Various quota share percentages for each line of business were ceded under separate agreements.

The reinsurance contracts were reviewed by the Reciprocal's appointed actuary and were utilized in determining the ultimate loss opinion.

The Reciprocal participated in a 50% pooling agreement with its affiliate PURE Insurance Company (PIC), whereby PIC assumed 50% of the business net of outside reinsurance. This contract was effective at the inception of PIC on August 5, 2008.

ACCOUNTS AND RECORDS

The Reciprocal maintained its principal operational offices in White Plains, New York, where this examination was conducted.

An independent CPA audited the Reciprocal's statutory basis financial statements annually for the years 2007 and 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Reciprocal's accounting records were maintained on a computerized system. The Reciprocal's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Reciprocal and non-affiliates had the following agreements:

Custodial Agreement

The Reciprocal entered into a custodial agreement with TD Bank, NA, dated October 10, 2008. The agreement contained all the requirements of Rule 69O-143.042.

Attorney-in-Fact Agreement

The Reciprocal, being a non-assessable reciprocal insurer and as prescribed by Chapter 629, Florida Statutes, entered into an Attorney-in-Fact agreement with the AIF, Pure Risk Management, LLC on January 24, 2007. The agreement provided, in general, that the AIF manage the affairs of the Reciprocal to include premiums and claims administration services and periodic reporting of the Reciprocal's financials to the SAC.

For providing the services, excluding claim handling, AIF was paid a percentage of the total gross written premium and for claim handling services was paid a percentage of gross earned premium. Loss adjustment expense in excess of $2,500 per claim, were paid by the Reciprocal.

Independent Auditor Agreement

The Reciprocal engaged Amper, Politziner & Mattia, LLP to perform the statutory audits of its financial statements for the year under examination, as required by Section 624.424(8), Florida Statutes and Rule 69O-137.002, FAC.

Information Technology Report

Deanna Leyden, CFE, CISA, CICA performed an evaluation of the information technology and computer systems of the Reciprocal. Results of the evaluation were noted in the Information Technology Report provided to the Reciprocal.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Reciprocal's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	$48,789,859	$0	$48,789,859
Cash and Short term investments	1,010,193		$1,010,193
Investment income due and accrued	444,295		444,295
Agents' Balances:			
Uncollected premium	1,539,193		1,539,193
Deferred premium	6,573,741		6,573,741
Amounts recoverable from reinsurers	886,740		886,740
Receivable from parents, subsidiaries and affiliates	638,043		638,043
Totals	$59,882,064	$0	$59,882,064

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	$1,947,712	$0	$1,947,712
Loss adjustment expenses	483,757		483,757
Commissions payable	464,935		464,935
Other expenses	522,591		522,591
Taxes, licenses and fees	236,374		236,374
Unearned premium	3,589,739		3,589,739
Ceded reinsurance premiums payable	1,439,283		1,439,283
Funds held by company under reinsurance treaties	3,336,470		3,336,470
Total Liabilities	$12,020,861	$0	$12,020,861
Common capital stock	$0		$0
Surplus notes	51,000,000		51,000,000
Gross paid in and contributed surplus	4,356,122		4,356,122
Unassigned funds (surplus)	(7,494,919)		(7,494,919)
Surplus as regards policyholders	$47,861,203		$47,861,203
Total liabilities, surplus and other funds	$59,882,064	$0	$59,882,064

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
Statement of Income

DECEMBER 31, 2008

Underwriting Income	
Premiums earned	$6,864,333
Deductions:	
Losses incurred	2,986,676
Loss expenses incurred	533,951
Other underwriting expenses incurred	6,335,480
Total underwriting deductions	$9,856,107
Net underwriting gain or (loss)	($2,991,774)
Investment Income	
Net investment income earned	($412,207)
Net realized capital gains or (losses)	(400,577)
Net investment gain or (loss)	($812,784)
Net income before dividends to policyholders and before federal & foreign income taxes	($3,804,559)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($3,804,559)
Federal & foreign income taxes	0
Net Income	($3,804,559)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$49,123,664
Net Income	($3,804,559)
Net unrealized capital gains or losses	(29,750)
Change in neet deferred income tax	1,484,366
Change in non-admitted assets	(1,611,190)
Surplus adjustments: Paid in	2,698,671
Change in surplus as regards policyholders for the year	($1,262,462)
Surplus as regards policyholders, December 31 current year	$47,861,202

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $2,431,469

An outside actuarial firm, appointed by the SAC, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The contracted actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Reciprocal of $47,861,203, exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2008

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2008, per Annual Statement				$47,861,203
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
No adjustment			$0	
LIABILITIES:				
No adjustment			$0	
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2008, Per Examination				$47,861,203

SUMMARY OF FINDINGS

Compliance with previous directives

There were no exceptions or findings in the examination as of December 31, 2007

Current examination comments and corrective action

There were no exceptions or findings in the examination as of December 31, 2008.

SUBSEQUENT EVENTS

The Reciprocal obtained a license in the States of Georgia and Maryland during 2009.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Privilege Underwriters Reciprocal Exchange** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Reciprocal's Surplus as regards policyholders was $47,861,203, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned Maurice Fuller, Examiner with the Florida Office of Insurance Regulation and Joanne Campanelli, CFE, Brent Sallay, FCAS, MAAA, Randall Ross, ACAS, MAAA, Stanley Kaplan, CFE and Deanna Leyden, CFE, CISA, CICA of Examination Resources, LLC, participated in the examination.

Respectfully submitted,

____
James M. Pafford, Jr
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation