REPORT ON EXAMINATION

OF

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE

FORT LAUDERDALE, FLORIDA
AS OF

DECEMBER 31, 2009

BY THE

OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

November 9, 2010

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Honorable Alfred W. Gross
Chairman, NAIC Financial Condition (E) Committee
Commissioner, Virginia Bureau of Insurance
State Corporation Commission
PO Box 1157
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Dear Sirs and Madam:

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, 2009, of the financial condition and corporate affairs of:

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
800 CORPORATE DRIVE, SUITE 420
FORT LAUDERDALE, FL 33334

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, 2009, through December 31, 2009. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on July 19, 2010, to July 23, 2010.The fieldwork commenced on July 26, 2010, and concluded as of November 9, 2010.

This financial examination was a zone 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 Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, 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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Reciprocal for the examination as of December 31, 2008.

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. (PRM). The AIF managed all of the operations of the Reciprocal and was owned by Privilege Underwriters, Inc.

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 not to make any principal or interest payments to the subordinated surplus debenture unless such payment was approved in writing by the Office. The Reciprocal was in compliance with this directive, see the Subsequent Events section below.

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. All requirements of this order were met.

The Reciprocal was authorized to transact the following insurance coverage in Florida on December 31, 2009:

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

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

Dividends to Stockholders

The Reciprocal does not have stockholders.

Capital Stock and Capital Contributions

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

Surplus Debentures

The Reciprocal issued surplus notes on January 25, 2007, in the amount of $17,000,000 to the State Board of Administration of Florida. In addition, on June 4, 2007, the Reciprocal issued surplus notes totaling $10,000,000 to Trident III, LP and Trident III Professionals Fund, LP. Furthermore, on June 13, 2007, the Reciprocal issued surplus notes in the amount $24,000,000 to an affiliate, Privilege Underwriters, Inc. (PUI). On August 5, 2008, two of the Reciprocal's surplus notes totaling $34,000,000 were transferred to PURE Insurance Company. The surplus notes were subordinate to subscriber and other liabilities. The Reciprocal must obtain approval from the Office prior to payment of principal and/or interest on the surplus notes. See the subsequent event section below.

Subsequent Event

The Reciprocal was approved by the Office on June 21, 2010 to pay principal in the amount of $250,000 on its surplus note totaling $17,000,000 from the State Board of Administration of Florida. The Reciprocal paid the principal amount on June 29, 2010.

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.

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.

Conflict of Interest

The Reciprocal adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

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" set forth the terms and conditions upon which the SAC shall operate. Members serving as the SAC as of December 31, 2009, were:

Name and Location	Principal Occupation
John S. Baine Columbus, Ohio	Executive, Nationwide Companies
Harold P. Bitler Hilton Head, South Carolina	Retired
Ross J. Buchmueller Larchmont, New York	President & CEO Pure Group Companies

James D. Carey Riverside, Connecticut	Principal Stone Point Capital, LLC
Douglas G. Fields Province, Florida	Senior VP Oswald Trippe & Co.
Matthew Jauchius Columbus, Ohio	SVP Chief Strategy Officer Nationwide Companies
Peter M. Mundheim New York, New York	Principal Stone Point Capital, LLC
William W. Wilson Key Largo, Florida	Consultant
Nicholas D. Zerbib Larchmont, New York	Principal Stone Point Capital, LLC

The SAC in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

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

The Reciprocal maintained internal committee functions through the SAC with general responsibilities outlined in the Powers of the Subscribers Advisory Committee. The Audit Committee was comprised of the following individuals that were also members of the SAC:

Audit Committee

William W. Wilson [1]
Ross Buchmueller
Douglas Fields
Harold Bitler

[1] Chairman

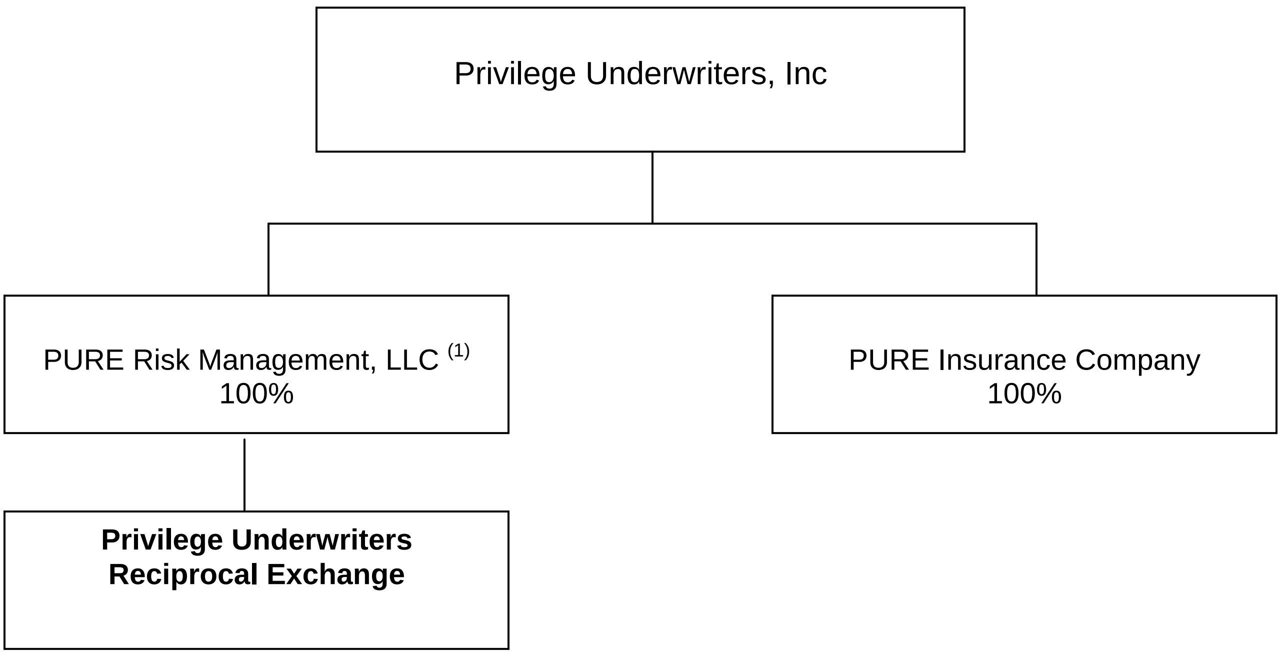
Affiliated Companies

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 (PIC) 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, 2009, reflecting the holding company system, is shown below. Schedule Y of the Reciprocal's 2009 annual statement provided a list of all related companies of the holding company group.

PRIVILEGE UNDERWRITERS REICIPROCAL EXCHANGE
ORGANIZATIONAL CHART

DECEMBER 31, 2009



[1] PURE Risk Management, LLC serves as Attorney-in-fact for the Reciproal.

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 PRM as the AIF and allowed the AIF to conduct the lawful business of the Reciprocal. Each Subscriber agreeded to make a surplus contribution for five years. The surplus contribution was a percentage of the policy premium (10% for Homeowner and Watercraft policies and 4% for all other policies).

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 PRM, on January 24, 2007. The agreement provided, in general, that PRM manage the affairs of the Reciprocal to include premiums and claims administration services and periodic reporting of the Reciprocal's financials to the SAC.

In consideration of the Underwriting and Marketing services provided to the Reciprocal, PRM will receive as compensation an amount equal to 17% of the Gross Written Premium of the Reciprocal. In return for services provided in the servicing and management of claims, PRM was to receive a fee to be equal to 5% of Gross Earned Premium. These percentages may be adjusted at any time as agreed to by both the Reciprocal and PRM with written approval by the Office. Loss adjustment expenses in excess of $2,500 per claim, were paid by the Reciprocal.

Agency Agreement

The Reciprocal and PUI entered into a Broker (Agency) agreement. PUI received a 10% commission on policies written for policies with commission and entered into a distinct professional services agreement with members for non- commission policies. The Reciprocal was not involved in the collection of fees between PUI and members

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 a bond with the Office 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 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.

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PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

TERRITORY AND PLAN OF OPERATIONS

The Reciprocal was authorized to transact insurance in the following states at December 31, 2009:

Connecticut	Florida	New Jersey
New York	South Carolina	District of Columbia
Georgia	Maryland	Alabama
Rhode Island		

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.

COMPANY GROWTH

The Reciprocal had experienced net losses (underwriting and income) since inception. The losses were due primarily to the higher than industry average underwriting expense ratios which were usually between 35% and 50%. Since the Reciprocal had been in operation for less than five years and was expanding into multiple states, the higher than industry average expense ratio was expected during the growth phase of its operations. The Reciprocal's underwriting expense ratio (measured as Other Underwriting Expenses Incurred divided by Net Premiums Written as reported in the Annual /Quarterly Financial Statements) was over 200% at the end of December 31, 2007, and 93% as of December 31, 2008 and 2009. As of the 2nd Qtr, 2010 Quarterly Statements filed with the NAIC, the Reciprocal's underwriting expense ratio was 71% depicting improvement in the company's ability to operate efficiently. The Reciprocal developed projections depicting profitable operations by December 31, 2012, although these projections were preliminary and based upon management assumptions. The Reciprocal's surplus was supported by subscriber surplus contributions which provided the Reciprocal an advantage over other insurance company models. For the past three years, and the years going forward, net losses had been and were offset by the Reciprocal's surplus contributions from its members. The Reciprocal had been consistently growing its member base and members were required to make surplus contributions for the first 5 years.

Profitability of Company

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

	2009	2008	2007
Premiums Earned	6,805,662	6,864,333	1,989,299
Net Underwriting Gain/(Loss)	(3,795,053)	(2,991,775)	(2,956,544)
Net Income	(2,147,223)	(3,804,559)	(3,410,591)
Total Assets	71,537,016	59,882,063	59,393,434
Total Liabilities	21,558,887	12,020,860	10,269,770
Surplus As Regards Policyholders	49,978,129	47,861,203	49,123,664

LOSS EXPERIENCE

There have not been any significant changes in the Reciprocal's loss experience.

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, 2009.

Ceded

The Reciprocal ceded risk on a quota share and excess of loss basis to various reinsurers. Quota share agreements were entered into for each of the Reciprocal's lines of business. In addition, the Reciprocal obtained coverage through the Florida Hurricane Catastrophe Fund (FHCF), and obtained property excess of loss reinsurance for catastrophic events. Effective June 1, 2009, the Reciprocal had a number of reinsurance agreements with various subscribers under an amended and revised contract with Guy Carpenter and also with General Reinsurance Corporation. 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, PIC, whereby PIC assumed 50% of the business and related liabilities net of outside reinsurance. This contract was effective as of 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, 2008, and 2009 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 third party vendor software program developed by SAGE called MAS500. The system was incorporated by the Reciprocal at inception in 2007 and was supported by an internal information technology department as well as external vendors. 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, Florida Administrative Code.

Investment Management Agreement

The Reciprocal entered into an agreement with GenRe – New England Asset Management, Inc., (GenRe), a corporation organized under the laws of the state of Delaware. The agreement provided that GenRe would make all investment decisions for and provide investment accounting services for the Reciprocal.

Claims Services Agreement

The Reciprocal entered into an agreement with CEI Insurance Services (CEI) whereas CEI provided certain online application claims auto adjusting services and had developed a nationwide network of vehicle repair vendors to provide vehicle repairs or appraisals for CEI and 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, Florida Administrative Code.

Information Technology Report

ParenteBeard LLC performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

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 T-Note	2.75%	$ 320,000	$ 330,848
FL	US T-Note	2.75%	220,000	227,458
TOTAL FLORIDA DEPOSITS			$ 540,000	$ 558,306
TOTAL STATE DEPOSITS			$ 540,000	$ 558,306

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Reciprocal's financial position as of December 31, 2009, 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, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	$50,571,045		$50,571,045
Cash & short term investments	5,284,619		5,284,619
Investment income due and accrued	310,200		310,200
Agents' Balances:			
Uncollected premium	2,432,987		2,432,987
Deferred premiums	10,692,448		10,692,448
Reinsurance recoverables	2,245,717		2,245,717
Totals	$71,537,016		$71,537,016

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	$2,074,913		$2,074,913
Loss adjustment expenses	427,250		427,250
Commissions payable	2,172,485		2,172,485
Other expenses	563,934		563,934
Taxes, licenses and fees	605,849		605,849
Unearned premium	6,505,635		6,505,635
Advance premium	238,893		238,893
Ceded reinsurance premiums payable	4,572,332		4,572,332
Funds held by company under reinsurance treaties	3,577,993		3,577,993
			0
Payable to parent, subsidiaries and affiliates	819,603		819,603
Total Liabilities	$21,558,887		$21,558,887
Surplus Notes	$51,000,000		$51,000,000
Gross paid in and contributed surplus	8,738,949		8,738,949
Unassigned funds (surplus)	(9,760,820)		(9,760,820)
Surplus as regards policyholders	$49,978,129		$49,978,129
Total liabilities, surplus and other funds	$71,537,016		$71,537,016

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
Statement of Income
December 31, 2009

Underwriting Income	
Premiums earned	$6,805,662
Deductions:	
Losses incurred	3,221,695
Loss adjustment expenses incurred	1,039,234
Other underwriting expenses incurred	6,339,786
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$10,600,715
Net underwriting gain or (loss)	($3,795,053)
Investment Income	
Net investment income earned	$422,399
Net realized capital gains or (losses)	1,198,430
Net investment gain or (loss)	$1,620,829
Other Income	
Net gain or (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	
Aggregate write-ins for miscellaneous income	
Total other income	
Net income before dividends to policyholders and before federal & foreign income taxes	($2,147,223)
Dividends to policyholders	
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($2,147,223)
Federal & foreign income taxes	0
Net Income	($2,147,223)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$47,861,203
Net Income	($2,147,223)
Change in net unrealized gains (losses)	30,136
Change in net deferred income tax	701,317
Change in nonadmitted assets	(823,131)
Surplus adjustments: Paid in	4,382,828
Examination Adjustment	0
Change in surplus as regards policyholders for the year	$2,116,926
Surplus as regards policyholders, December 31 current year	$49,978,129

A comparative analysis of changes in surplus is shown below.

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE
Comparative Analysis of Changes In Surplus

DECEMBER 31, 2009

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, 2009, per Annual Statement				$49,978,129
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS: No Adjustments				
LIABILITIES: No Adjustments				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2009, Per Examination				$49,978,129

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $2,502,163

An outside actuarial firm appointed by the SAC, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, made a reasonable provision for all unpaid loss and loss expense obligations of the Reciprocal under the terms of its policies and agreements.

The Office engaged an independent actuarial firm, AMI Risk Consultants, to review the Loss and Loss Adjustment Expense reserves carried in the Reciprocal's balance sheet as of December 31, 2009 and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Reciprocal of $49,978,129, exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

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, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Reciprocals Surplus was $49,978,129, which exceeded the minimum of $4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, Examiner in Charge, Jennifer Cox and Steven Dioguardi, Participating Examiners, of ParenteBeard LLC; Gail Flannery, FCAS MAAA, Consulting Actuary, of AMI Risk Consultants; and Leon Pressman, CISA, IT Manager, also representing ParenteBeard LLC, participated in the examination. Mark Brown, Reinsurance/Financial Specialist of the Office also participated in the examination

Respectfully submitted,

____
Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation;

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Mary James, CFE, CPM
Chief Financial Examiner
Florida Office of Insurance Regulation