REPORT ON EXAMINATION

OF

PREPARED INSURANCE COMPANY

TAMPA, FLORIDA

AS OF

DECEMBER 31, 2011

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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October 23, 2012

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, 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, 2011, of the financial condition and corporate affairs of:

PREPARED INSURANCE COMPANY
1715 NORTH WESTSHORE BOULEVARD SUITE 930
TAMPA, FLORIDA 33607

Hereinafter referred to as, the “Company”. Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2011, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2010. This examination commenced with planning at the Office from July 9, 2012 to July 13, 2012. The fieldwork commenced on July 23, 2012, and concluded as of October 23, 2012.

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 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

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Disclosures

The Company's 2011 annual statement disclosure note #13 was not in compliance with SSAP No. 41 regarding surplus notes, omitting certain required content.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the company for the examination as of December 31, 2010.

SUBSEQUENT EVENTS

A change was made to the lines of business written by the Company subsequent to the examination date. The Company voluntarily withdrew its authority to write Inland Marine coverage on February 9, 2012.

Additionally, on March 21, 2012, the Office granted the Company extension of its coverage A limit to exceed $750,000 contingent on maintaining surplus of $12 million per Consent Order 103593-09-CO.

HISTORY

General

The Company was incorporated in Florida on April 16, 2009, and commenced business on September 18, 2009, as Prepared Insurance Company.

The Company was party to Consent Order 103593-09-CO, filed on April 7, 2009, regarding the application for the issuance of a Certificate of Authority, which was amended by Consent Order 106603-09-CO, filed on September 18, 2009. The Company was also party to Consent Order 108450-10-CO, issued on January 19, 2010. The Company was in compliance with these Consent Orders.

The Company was authorized to transact the following insurance coverage in Florida on September 18, 2009, and continued to be authorized as of December 31, 2011:

Homeowners multi peril	Allied Lines
Fire	Inland Marine (withdrawn 2/9/2012)

The Company assumed 3,366 policies from Citizens Property Insurance Corporation (Citizens) in March of 2010. The “opt out” rate on the policies assumed from Citizens was approximately 36% at December 31, 2010. Of the insured’s that chose not to “opt out”, approximately 78% renewed their policies with the Company in 2011. At December 31, 2011, Citizens policies represented approximately 5% of all policies in force. The Company has taken steps to generate new business and does not plan to do any further Citizens depopulation.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

As of December 31, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$10,000
Par value per share	\$10.00

Control of the Company was maintained by its parent, Prepared Holdings, LLC ("Holdings"), who owned 100% of the stock issued by the Company.

The parent contributed \$10,504,000 in cash to the Company as of December 31, 2011.

Surplus Notes

On December 31, 2009, the Company issued a qualified surplus note to Holdings, in exchange for \$800,000, of which \$400,000 was received during 2010 and 2009, respectively. Interest accrues on the unpaid balance at an annual rate equal to prime, adjusted quarterly, plus 2%, not to exceed 12% per year. The principal and unpaid interest are due and payable on December 31, 2014, upon approval by the Office. On July 15, 2011, the Company issued another qualified surplus note to

Holdings, in exchange for $1,400,000. Interest accrues on the unpaid balance at an annual rate equal to prime, adjusted quarterly, plus 3%, not to exceed 12% per year. The principal and unpaid interest are due and payable on December 31, 2015, upon approval by the Office.

The Company's 2011 annual statement disclosure in note #13 was not in compliance with SSAP No. 41 regarding surplus notes, due to omission of certain required content. The required content not disclosed in note # 13 included the following; interest rate(s) at which interest accrues, maturity date(s) or repayment schedules, liquidation preference to the reporting entity's common and preferred shareholders, and repayment restrictions and conditions.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code and including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company 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 shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2011, were:

Directors

Name and Location	Principal Occupation
Martin Lloyd Schaffel Tampa, Florida	Executive Chairman, Audio Visual Innovations, Inc.
John Howard Sykes Tampa, Florida	Chairman of the Board, NorthStar Bank
Eric Lee Gobble Tampa, Florida	President, Chief Executive Officer, & Chief Risk Officer, Prepared Insurance Company
Panayiotis Vasiloudes Tampa, Florida	President, Academic Alliance in Dermatology
Varnavas Louis Zagaris Tarpon Spring, Florida	Owner, Sulco Corp. (Real Estate Florida Development)
Danny Correa Coral Gables, Florida	Chief Executive Officer of ACGG Development Group
Oscar Armando Garcia Miami, Beach, Florida	Chief Operating Officer of ACGG Development Group

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

Senior Officers

Name	Title
Eric Lee Gobble (a)	Chief Executive Officer, Chief Risk Officer & President
Jeffrey Eugene Myers (b)	Chief Financial Officer, Treasurer & Secretary
Michael Ernest Rubio	Vice President Claims
Stephanie Elaine Siewert	Vice President Marketing

(a) Douglas Raucy resigned and was replaced by Eric Lee Gobble as President and Chief Executive Officer on April 12, 2011. The position title of Chief Operating Officer was not utilized upon this change.

(b) John Hill resigned and was replaced by Jeffrey Eugene Myers as Chief Financial Officer, Treasurer and Secretary on September 29, 2011.

Following were the principal internal board committees and their members as of December 31, 2011:

Executive Committee	Audit Committee	Investment Committee	Governance Committee	Compensation Committee
Danny Correa[1]	Danny Correa[1]	Oscar Armando Garcia[1]	Oscar Armando Garcia[1]	Panayiotis Vasiloudes[1]
Panayiotis Vasiloudes	John Howard Sykes	Panayiotis Vasiloudes	Panayiotis Vasiloudes	Oscar Armando Garcia
Martin Lloyd Schaffel	Martin Lloyd Schaffel	Jeffrey Eugene Myers (a)	Varnavas Zagaris	Varnavas Zagaris
Oscar Armando Garcia				
Eric Lee Gobble (b)				

[1] Chairman

(a) Jeffrey Eugene Myers replaced John Hill effective September 29, 2011.
(b) Eric Lee Gobble replaced Douglas Raucy effective April 12, 2011.

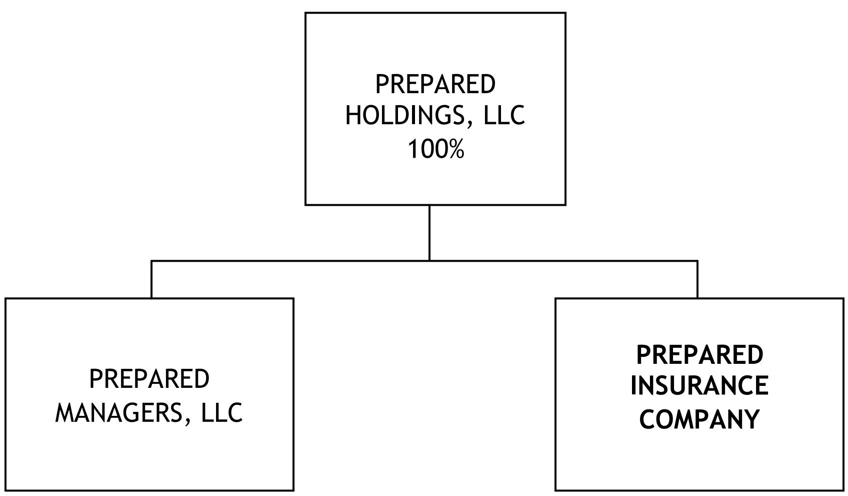
Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 28, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2011, reflecting the holding company system, is shown below. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

PREPARED INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2011



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

Cost Allocation Agreement

The Company entered into a Cost Sharing Agreement with Holdings, and Prepared Managers, LLC (Managers) on September 20, 2010. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company. Fees incurred under this agreement during 2011 amounted to $393,617.

Managing General Agent and Claims Administration Agreement

The Company entered into a Managing General Agent (MGA) and Claims Administration Agreement with its affiliate, Managers, on April 17, 2009. The agreement continues in force for a term of three years with the option to renew for additional one-year periods, unless otherwise terminated within the guidelines of the agreement. MGA fees were based on 25% of written annual premium. MGA fees for policies assumed from Citizens were based on the difference between the 25% commission and the ceded commissions retained by Citizens. The MGA also charged a fee of $25 per policy for new and renewal business. Claims administration services were included in the agreement as part of the MGA fee with additional charges for catastrophe management services and subrogation and salvage. Claims handling services were outsourced to third party administrators directly paid by the Company. Fees incurred under this agreement during 2011 amounted to $8,793,529.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to $1,000,000 with a deductible of $50,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of $5,000,000 and a deductible of $100,000, Errors and Omissions (E&O) liability insurance with coverage up to $5,000,000 with a deductible of $250,000, as well as Employment Practices Liability coverage with limits of $1,000,000 and a deductible of $100,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participated in a 401(k) savings plan that covered substantially all employees sponsored by Managers. The Company paid its respective share of expenses to Managers through the cost sharing agreement. The Company also provided employees with health, life and disability insurance through Managers.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

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

The Company 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 Company started business with the Citizens depopulation program. The Company then grew in the voluntary market through an independent agency distribution system. The Company issued their first policy in November 2009 and experienced significant growth in 2010 with approximately 17,200 policies in force at December 31, 2010, compared to 12 policies in force at December 31, 2009. In an effort to restrict rapid new business growth, the Company ceased writing new business on May 31, 2011, and began writing new business again on September 21, 2011, though writing less than 50 new policies in the final quarter of 2011. The Company had 19,739 policies in force at December 31, 2011.

Profitability of Company

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

	2011	**2010**	**2009**
Premiums Earned	20,474,795	9,755,687	(40,933)
Net Underwriting Gain/(Loss)	826,864	(2,107,193)	(44,296)
Net Income	1,118,720	(2,061,845)	2,535
Total Assets	28,224,997	24,888,382	10,470,005
Total Liabilities	15,841,762	14,845,168	70,995
Surplus As Regards Policyholders	12,383,235	10,043,214	10,399,010

LOSS EXPERIENCE

The 2011 reporting year was the Company's second year of operations. Losses and loss adjustment expenses during 2011 each increased by less than 5% of earned premium. There was no one-year or two-year loss development as this was the Company's second year of operations.

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 Company did not assume any reinsurance during the period of this examination.

Ceded

The Company had four layers of property catastrophe excess of loss reinsurance in place. Additionally, the Company had reinstatement premium protection and an excess per risk agreement. The largest reinsurer of the Company was the Florida Hurricane Catastrophe Fund, with approximately 55% of premiums ceded to it by the Company. Reinsurance with private reinsurers was purchased through intermediary Towers Watson and consisted of unaffiliated reinsurers, of which 10 were authorized (4 of which are Lloyd's Syndicates) and 6 were unauthorized. The Company ceded approximately 8% of premiums to the largest private reinsurer.

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

The letters of credit obtained for three of the Company's unauthorized reinsurers were not in compliance with Rule 69O-144.055(6), Florida Administrative Code, omitting required content. Specifically, letters of credit for reinsurers ACE and Allianz Risk Transfer indicated an evergreen clause of 30 days instead of 60 days and a governing state of New York instead of Florida. Also, the letter of credit for reinsurer Amlin indicated an evergreen clause of 30 days instead of 60 days. **Subsequent Event**: The Company submitted letter of credit amendments for these three reinsurers that included the required content.

The Company executed with reinsurer Allianz Risk Transfer an agreement that was not in compliance with Section 624.610 (8)(b), Florida Statutes, due to exclusion of content required to take credit for reinsurance. **Subsequent Event**: The Company submitted an agreement amendment for this reinsurer that included the required content.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Tampa, Florida.

An independent CPA audited the Company's statutory basis financial statements for the years 2011 and 2010, in accordance with Section 624.424(8), Florida Statutes. The Company was automatically exempt from filing audited financial statements for 2009 as permitted by Section 624.424(8)(b), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were largely held in spreadsheets during the examination period. Subsequently, the Company started and has continued to implement a web-based general ledger system. The Company outsourced their primary business transaction processes (claims, policy and premiums administration) to third-party service providers. These third-party service providers also hosted and maintained the IT environment and the systems that processed the Company's policies, premiums and claims.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with the Morgan Stanley Trust, N.A., effective November 6, 2009. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Policy Administration Services Agreement

Effective June 19, 2009, the Company's affiliate, Managers, entered into a Policy Administration Services Agreement with WaterStreet Company. The services included system services, policy issuance, premium billing and collection, commission handling, data access and reporting, accounting and other third party services.

Claims Services Agreement

Effective April 20, 2009, Managers entered into an agreement for claims administration services with CatManDo, Inc. ("CatManDo") to provide claims services for claims that arose out of policies issued by the Company through its MGA, Managers. CatManDo was to act as administrator and fully investigate, evaluate and handle each claim reported. CatManDo had no settlement authority; claims settlements required approval by the Company.

Managers entered into an additional Claims Services Agreement on May 1, 2011, with Cunningham Lindsey U.S., Inc. to handle claims and provide service call center capabilities.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Jennifer L. Jeffers, CISA, AES of Jennan Enterprises, 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 and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	CD, 1.00%, 05/20/12	$ 300,000	$ 300,000
TOTAL FLORIDA DEPOSITS		$ 300,000	$ 300,000
TOTAL SPECIAL DEPOSITS		$ 300,000	$ 300,000

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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."

PREPARED INSURANCE COMPANY

Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	$24,071,534		$24,071,534
Cash and Short-Term Investments	1,661,969		1,661,969
Agents' Balances:			
Uncollected premium	328,098		328,098
Deferred premium	1,171,920		1,171,920
Reinsurance recoverable	153,229		153,229
Net deferred tax asset	611,750		611,750
Interest and dividend income due & accrued	226,497		226,497
Totals	$28,224,997	$0	$28,224,997

PREPARED INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	$4,400,101		$4,400,101
Loss adjustment expenses	1,072,088		1,072,088
Other expenses	179,505		179,505
Taxes, licenses and fees	122,036		122,036
Unearned premium	7,867,091		7,867,091
Advance premium	631,792		631,792
Ceded reinsurance premium payable	560,732		560,732
Amounts withheld	85,618		85,618
Remittances and items not allocated	24,112		24,112
Payable to parents, subsidiaries, & affiliates	898,687		898,687
Total Liabilities	$15,841,762	$0	$15,841,762
Common capital stock	$10,000		$10,000
Surplus Notes	2,200,000		2,200,000
Gross paid in and contributed surplus	10,504,000		10,504,000
Unassigned funds (surplus)	(330,765)		(330,765)
Surplus as regards policyholders	$12,383,235	$0	$12,383,235
Total liabilities, surplus and other funds	$28,224,997	$0	$28,224,997

PREPARED INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2011

Underwriting Income	
Premiums earned	$20,474,795
Deductions:	
Losses incurred	$8,089,771
Loss expenses incurred	1,909,000
Other underwriting expenses incurred	9,649,160
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$19,647,931
Net underwriting gain or (loss)	$826,864
Investment Income	
Net investment income earned	$605,078
Net realized capital gains or (losses)	3,235
Net investment gain or (loss)	$608,313
Other Income	
Net gain or (loss) from agents' or premium balances charged off	($29,631)
Finance and service charges not included in premiums	105,502
Aggregate write-ins for miscellaneous income	(76,692)
Total other income	($821)
Net income before dividends to policyholders and before federal & foreign income taxes	$1,434,356
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$1,434,356
Federal & foreign income taxes	315,636
Net Income	$1,118,720
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$10,043,214
Net Income	$1,118,720
Net unrealized capital gains or losses	0
Change in net deferred income tax	(183,489)
Change in non-admitted assets	4,790
Change in excess statutory over statement reserves	0
Change in surplus notes	1,400,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	$2,340,021
Surplus as regards policyholders, December 31 current year	$12,383,235

A comparative analysis of changes in surplus is shown below.

PREPARED INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

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, 2011, per Annual Statement				$12,383,235
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS: No Adjustment				
LIABILITIES: No Adjustment				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2011, Per Examination				$12,383,235

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses <u>$5,472,189</u>

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2011, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Leigh J. Halliwell, FCAS, MAAA of L.J. Halliwell, LLC, reviewed the loss and loss adjustment expense work papers provided by the Company.

Capital and Surplus

The amount of Capital and surplus reported by the Company of $12,383,235, exceeded the minimum of $10,000,000 or 10% of liabilities as shown on the previously filed annual statement, required by Consent Order 103593-09-CO.

SUMMARY OF RECOMMENDATIONS

General

We recommend that the Company fully disclose all required information regarding surplus notes according to SSAP No. 41 in the future including interest rate(s), maturity date(s), liquidation preference, and repayment restrictions and conditions.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Prepared Insurance Company** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $12,383,235, which exceeded the minimum of $10,000,000 or 10% of liabilities as shown on the previously filed annual statement, required by Consent Order 103593-09-CO.

In addition to the undersigned, Tracy Gates, CPA, CISA of Highland Clark, Examination Manager and Maurice Fuller, Participating Examiner, of the Office participated in the examination. In addition, Leigh Halliwell, FCAS, MAAA, consulting actuary of L.J. Halliwell, LLC, Jennifer Jeffers, CISA, AES, IT Manager of Jennan Enterprises, LLC, also participated in the examination.

Respectfully submitted,

____
Jonathan Frisard
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation