REPORT ON EXAMINATION

OF

PREPARED INSURANCE COMPANY

TAMPA, FLORIDA

AS OF

DECEMBER 31, 2012

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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March 7, 2014

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, 2012, 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, 2012 through December 31, 2012. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2011. This examination commenced with planning at the Office on December 2, 2013 to December 6, 2013. The fieldwork commenced on December 9, 2013 and concluded as of March 7, 2014.

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 findings noted during the examination period have been resolved by the Company subsequent to the examination date. However, the findings are discussed in detail in the body of the examination report.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the company for the examination as of December 31, 2011.

SUBSEQUENT EVENTS

On January 15, 2013, the Company issued a qualified surplus note to its Parent, Holdings, in exchange for $1,400,000. Interest accrues from the date of issuance at an annual rate equal to prime, as published by the Wall Street Journal, adjusted quarterly, plus 5% on the unpaid balance, not to exceed 12% per year.

Effective March 7, 2013, the Company amended their Articles of Incorporation to increase the authorized number of common stock from 10,000 to 5,000,000. The par value remained at $1 per share.

On May 24, 2013, the Company issued a qualified surplus note to Holdings in exchange for $2,500,000. Interest accrues from the date of issuance at an annual rate equal to prime, as published by the Wall Street Journal, adjusted quarterly, plus 5% on the unpaid balance, not to exceed 12% per year.

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 April 7, 2009, regarding the application for the issuance of a Certificate of Authority, which was amended by Consent Order 106603-09-CO, filed September 18, 2009. The Company was also party to Consent Order 108450-10-CO issued 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, 2012, with the exception of Inland Marine.

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. The Company has taken steps to generate new business and does not plan to do any further Citizens depopulation. The Citizens block of business has steadily declined with only 692 policies in-force as of December 31, 2012.

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

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, 2012, the Company’s capitalization was as follows:

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	10,000
Total common capital stock	$10,000
Par value per share	$1.00

Control of the Company was maintained by its parent, Holdings, which owned 100% of the stock issued by the Company.

The parent contributed an additional $1,400,000 in cash to the Company. Although the cash deposit was made January 15, 2013, the Office granted the Company approval to record this amount as an admitted asset at December 31, 2012.

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.

On January 15, 2013, the Company issued a qualified surplus note to Holdings in exchange for $1,400,000. Interest accrues from the date of issuance at an annual rate equal to prime, adjusted quarterly, plus 5% on the unpaid balance, not to exceed 12% per year.

On May 24, 2013, the Company issued a qualified surplus note to Holdings in exchange for $2,500,000. Interest accrues from the date of issuance at an annual rate equal to prime, as published by the Wall Street Journal, adjusted quarterly, plus 5% on the unpaid balance, not to exceed 12% per year.

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

The Company had no acquisitions, mergers, disposals, dissolutions, 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, 2012, 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 Springs, Florida	Owner, Sulco Corp. (Real Estate 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	Chief Executive Officer, Chief Risk Officer & President
Jeffrey Eugene Myers	Chief Financial Officer, Treasurer & Secretary
Michael Ernest Rubio	Vice President Claims
Stephanie Elaine Siewert	Vice President Marketing

Following were the principal internal board committees and their members as of December 31, 2012:

Executive Committee	Audit Committee	Investment Committee
Danny Correa[1]	Danny Correa[1]	Oscar Armando Garcia[1]

Panayiotis Vasiloudes	John Howard Sykes	Panayiotis Vasiloudes
Martin Lloyd Schaffel	Martin Lloyd Schaffel	Jeffrey Eugene Myers
Eric Gobble		
Oscar Garcia		

Governance Committee	**Compensation Committee**
Oscar Armando Garcia[1]	Panayiotis Vasiloudes[1]
Panayiotis Vasiloudes	Oscar Armando Garcia
Varnavas Zagaris	Varnavas Zagaris

[1]Chairman

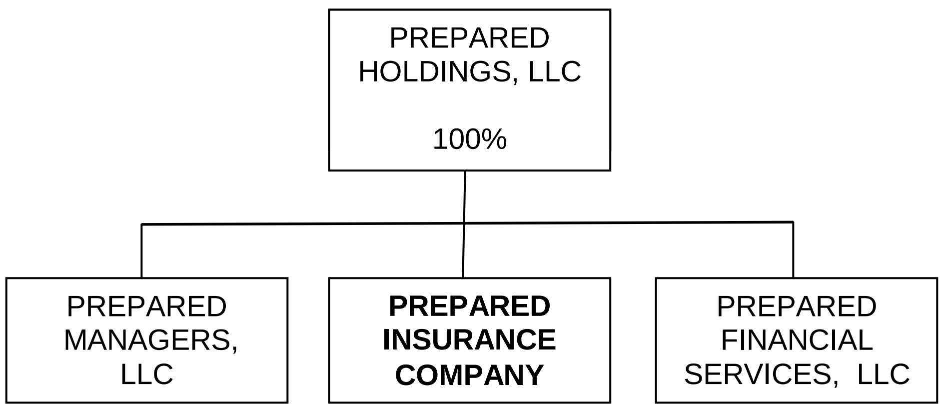
Affiliated Companies

The most recent holding company registration statement was filed with the Office on February 22, 2013, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. **Subsequent Event**: The Company filed an updated holding company registration statement on February 28, 2014.

An organizational chart as of December 31, 2012, reflecting the holding company system, is shown below. Schedule Y of the Company's 2012 annual statement provided a list of all related companies of the holding company group.

PREPARED INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2012



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 Managers on September 20, 2010. This agreement was updated on November 1, 2011. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company. Costs allocated to the Company under this agreement during 2012 amounted to $1,044,575.

The Company did not maintain demonstrable evidence that it allocated salaries and benefits between the Company and Managers under the Cost Sharing Agreement in a "fair and reasonable manner" in accordance with SSAP No. 25, paragraphs 18 and 19. During 2012, the portion of salaries and benefits allocated to the Company ranged from 25% - 100% per Managers' employee. **<u>Subsequent Event</u>:** Management revised the salary allocation percentages as of 12/31/13, reduced the portion of salary and benefits allocated to the Company and provided supporting documentation for an allocation methodology based on job duties.

Managing General Agent

The Company utilized affiliate, Managers, as its MGA. Managers maintained an active license through February 10, 2013. The license expired on February 11, 2013 and has not been renewed. In addition, there was no indication of a qualifying appointment. The failure to maintain an appointment was in violation of Section 626.7455 (1) Florida Statutes, which states that no insurer shall enter into an agreement with any person to manage the business written in this state by the general lines agents appointed by the insurer or appointed by the managing general agent on behalf of the insurer unless the person is properly licensed and appointed as a managing general agent in this state. **<u>Subsequent Event</u>:** The license was reinstated on May 19, 2014.

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. On a limited basis, claims handling services were outsourced to third party administrators. Fees incurred under this agreement during 2011 amounted to $7,553,764.

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 commenced business with the Citizens depopulation program. The Company then experienced growth in the voluntary market through an independent agency distribution system. The Company issued its first policy in November 2009 and experienced significant growth in 2010 and 2011, with approximately 16,790 and 19,357 policies in force at December 31, 2010 and 2011. In May 2011, the Company ceased writing new business to allow a better alignment of its portfolio with new reinsurance pricing caused by changes in reinsurance catastrophe models. The Company began writing new HO-3 and HO-6 business in October 2011 and DP-3 business in August 2012. Thus, premiums earned declined in 2012 due to the voluntary cessation described above. The Company had 15,340 policies in force at December 31, 2012.

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.

	2012	2011	2010	2009
Premiums Earned	15,762,567	20,474,795	9,755,687	(40,933)
Net Underwriting Gain/(Loss)	(2,509,415)	826,864	(2,107,193)	(44,296)
Net Income/(Loss)	(1,411,086)	1,118,720	(2,061,845)	2,535
Total Assets	31,735,471	28,224,997	24,888,382	10,470,005
Total Liabilities	19,531,278	15,841,762	14,845,168	70,995
Surplus As Regards Policyholders	12,204,193	12,383,235	10,043,214	10,399,010

LOSS EXPERIENCE

The 2012 reporting year was the Company's third full year of operations. The Company experienced one-year adverse loss development of approximately $33,000 and two-year adverse loss development of approximately $5,000.

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 maintained four layers of property catastrophe excess of loss reinsurance. 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 27% of ceded premiums. Reinsurance with private reinsurers was purchased through intermediary Towers Watson and consisted of unaffiliated reinsurers, of which 9 were authorized (5 of which are Lloyd's Syndicates) and 5 were unauthorized. The Company ceded approximately 23% of ceded premiums to the largest private reinsurer.

The reinsurance contracts were reviewed by the Company's appointed actuary; however, loss and loss adjustment expense reserves did not pierce the reinsurance layers as of December 31, 2012. Thus, gross reserves equal net reserves as of December 31, 2012.

ACCOUNTS AND RECORDS

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

The Company implemented a web-based general ledger system during 2012. The Company outsourced its primary business transaction processes (claims, policy and premiums administration) to an affiliate, Managers, which sub-contracted with third-party service providers. These third-party service providers hosted and maintained 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 related to policies issued by the Company. CatManDo was to act as administrator and fully investigate, evaluate and handle each assigned claim. CatManDo had no settlement authority; claims settlements required approval by the Company. During 2012, Managers began to perform more claims handling functions on an in-house basis while relying less on third-party service providers. The Company incurred Adjusting & Other expenses related to services provided by CatManDo.

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. The Company incurred Adjusting & Other expenses related to services provided by Cunningham Lindsey.

Independent Auditor Agreement

An independent CPA audited the Company's statutory basis financial statements for the years 2012, 2011 and 2010, in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Uso Sayers, CISA, CPA of Johnson Lambert LLP performed an evaluation of the information technology and computer systems of the Company and its service providers. 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, 0.65% 5/20/13	$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, 2012, 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, 2012

	Per Company	Examination Adjustments	Per Examination
Bonds	$23,508,547		$23,508,547
Cash and Short-Term Investments	3,360,074		3,360,074
Agents' Balances:			
Uncollected premium	148,515		148,515
Deferred premium	1,483,623		1,483,623
Receivable from Parent	1,339,246		1,339,246
Current federal income tax recoverable	717,976		717,976
Net deferred tax asset	442,000		442,000
Guaranty funds receivable or on deposit	528,124		528,124
Interest income due and accrued	207,366		207,366
Totals	$31,735,471	$0	$31,735,471

PREPARED INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Losses	$4,909,514		$4,909,514
Loss adjustment expenses	1,122,952		1,122,952
Other expenses	40,592		40,592
Taxes, licenses and fees	(42,932)		(42,932)
Unearned premium	9,667,932		9,667,932
Advance premium	647,963		647,963
Ceded reinsurance premium payable	3,033,189		3,033,189
Amounts withheld	121,439		121,439
Remittances and items not allocated	30,629		30,629
Total Liabilities	$19,531,278	$0	$19,531,278
Common capital stock	$10,000		$10,000
Surplus Notes	3,600,000		3,600,000
Gross paid in and contributed surplus	10,504,000		10,504,000
Unassigned funds (surplus)	(1,909,807)		(1,909,807)
Surplus as regards policyholders	$12,204,193	$0	$12,204,193
Total liabilities, surplus and other funds	$31,735,471	$0	$31,735,471

PREPARED INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2012

Underwriting Income	
Premiums earned	$15,762,567
Deductions:	
Losses incurred	$6,993,072
Loss expenses incurred	1,928,928
Other underwriting expenses incurred	9,349,982
Total underwriting deductions	$18,271,982
Net underwriting loss	($2,509,415)
Investment Income	
Net investment income earned	$557,616
Net realized capital losses	(8,612)
Net investment gain	$549,004
Other Income	
Net loss from agents' or premium balances charged off	($12,325)
Finance and service charges not included in premiums	55,681
Aggregate write-ins for miscellaneous income	(531)
Total other income	$42,825
Net loss before dividends to policyholders and before federal & foreign income taxes	($1,917,586)
Dividends to policyholders	0
Net loss after dividends to policyholders, but before federal & foreign income taxes	($1,917,586)
Federal & foreign income taxes	(506,500)
Net loss	($1,411,086)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$12,383,235
Net loss	($1,411,086)
Change in net deferred income tax	144,680
Change in non-admitted assets	(312,636)
Change in surplus notes	1,400,000
Change in surplus as regards policyholders for the year	($179,042)
Surplus as regards policyholders, December 31 current year	$12,204,193

A comparative analysis of changes in surplus is shown below.

PREPARED INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2012

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, 2012, per Annual Statement				$12,204,193
	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, 2012, Per Examination				$12,204,193

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $6,032,466

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, 2012, 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 actuaries, Andrea Sweeny of Casualty Actuarial Assistance, LLC, FCAS, MAAA and J. Doug Moulton of Moulton Actuarial Services, LLC, ACAS, MAAA, reviewed the loss and loss adjustment expense workpapers provided by the Company, and were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of $12,204,193, exceeded the minimum of $12,000,000, required by Consent Order 106603-09-CO, as extended by issuance of Approval Letter dated March 21, 2012 by the Office.

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, 2012, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $12,204,193, which exceeded the minimum of $12,000,000 required by Consent Order 106603-09-CO, as extended by issuance of Approval Letter dated March 21, 2012 by the Office.

In addition to the undersigned, Jean Adams-Harris, CFE, CPA, CISA, AES, MCM, Examiner-In-Charge and Joanne Smith, AFE, Kristen Sharrow, CFE, CPA, CGMA, Megan Hubbuch, CPA, CPCU, AIAF and Alexander Pirie, CPA, Participating Examiners, of Johnson Lambert LLP participated in the examination. Uso Sayers, CISA, CPA, IT Senior Manager of Johnson Lambert LLP and John Romano, CFE, CPA of ParenteBeard LLC, Examination Manager participated in the examination. In addition, Andrea Sweeny, FCAS, MAAA of Casualty Actuarial Assistance, LLC and J. Doug Moulton, ACAS, MAAA of Moulton Actuarial Regulatory Services, LLC participated in the examination as consulting actuaries.

Respectfully submitted,

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Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation