

OFFERING MEMORANDUM

**PEDIATRICIANS INSURANCE RISK
RETENTION GROUP OF AMERICA, INC.**

(A Mutual Insurance Corporation)

Pediatricians Insurance Risk Retention Group of America, Inc. is a United States-domiciled mutual insurance corporation (the “Company”). It hereby offers general pediatricians the opportunity to become a member of the Company. The Company is a non-assessable company and will issue non-assessable insurance policies.¹

Only no-surgery pediatricians duly licensed to practice and entities who are owned by and/or employ such no-surgery pediatricians, who satisfy the Company’s underwriting requirements for initial eligibility to purchase insurance, and who satisfy all other requirements for membership set by the Board of Directors and its Underwriting & Risk Management Committee of the Company shall be eligible to become members of the Company.

THIS OFFERING IS BEING MADE TO “ELIGIBLE PERSONS” (AS DEFINED HEREIN) ONLY. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF INSURANCE OR MEMBERSHIPS TO OTHER PERSONS OR ENTITIES.

THIS MEMORANDUM SHOULD NOT BE CONSTRUED AS AN OFFER TO SELL INSURANCE OR MEMBERSHIPS IN ANY JURISDICTION TO ANY PERSON OR ENTITY TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SALE.

THE MEMBERSHIPS OFFERED BY THIS MEMORANDUM HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, NOR ANY STATE SECURITIES COMMISSION OR AGENCY. MEMBERSHIPS SUBSCRIBED FOR HEREUNDER SHALL BE SUBJECT TO SUBSTANTIAL RESTRICTIONS ON TRANSFER.

The date of this Memorandum is December 2008

¹ “Non-assessable” means that members of the Company will not be personally assessed for any of the Company’s financial obligations.

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GENERAL INFORMATION

Summary

Pediatricians Insurance Risk Retention Group of America, Inc. (the “Company”) is a United States-domiciled risk retention group which insures certain primary professional liability insurance risks of no-surgery pediatricians duly licensed to practice and entities who are owned by and/or employ such no-surgery pediatricians, who satisfy the Company’s underwriting requirements for initial eligibility to purchase insurance, and who satisfy all other requirements for membership set by the Board of Directors of the Company and the Company’s Underwriting & Risk Management Committee as empowered by the Board of Directors.

The Company is domiciled in the District of Columbia as a mutual insurance company and qualifies as a “risk retention group” under the Federal Liability Risk Retention Act (15 U.S.C. §3901 et seq.) (the “Risk Retention Act”). The Company is registered to conduct insurance business as a risk retention group in several states of the continental U.S.A. (see INSURANCE REGULATION, below). The Company is a non-assessable company and will issue only non-assessable insurance policies.

Background

For nearly eight years, many states have been in the midst of a growing health care crisis, due in part to the rapidly escalating cost of medical malpractice insurance. The Company was organized as an attempt to address this crisis.

According to Jeb Bush, former governor of the State of Florida, “Florida has been on the verge of a massive health care crisis. Doctors are leaving our state. Hospitals are closing needed services. Patients can’t get basic health care. We cannot stand by and watch. We must fix this problem...” Governor Bush made these comments in a press conference in Tallahassee on Friday, May 2, 2003. You can find his comments on the state’s MyFlorida website at <http://www.myflorida.com/myflorida/governorsoffice/malpractice/>. The Company is a direct and potentially highly effective response to this problem – a response which is unique in many states, and, due to its risk management focus and low-risk selection methodology, unique in the United States generally.

The Company addresses the medical malpractice insurance needs of general pediatricians only. By focusing on this particular segment of essential medical services, which is historically the lowest compensated and often most critical and socially important segment of all medical practitioners, the Company believes that it can effectively address the malpractice insurance needs of this key area, and serve as a model for other areas of medical practice which have similar malpractice insurance problems.

The Company offers insurance policies in several states, including Florida, Texas, Utah, Illinois, Tennessee, and Maryland, amongst others. By providing services in several states, the Company hopes to grow its membership and capital base. While the Company has been successful in Florida, and now holds approximately 10% of the Florida general pediatric marketplace, the

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Company has not been able to obtain marketing traction in other states – largely because of the highly competitive environment and continuously “shifting sands” of the insurance marketplace.

DISCLAIMERS

BECAUSE THE COMPANY HAS HAD FIVE YEARS' HISTORY OF OPERATIONS, AND FOR OTHER REASONS SET FORTH IN THIS MEMORANDUM, PARTICIPATION IN THE COMPANY SHOULD BE VIEWED AS HAVING A MEANINGFUL DEGREE OF RISK. WHILE THE COMPANY BELIEVES THAT ITS PLANNED CAPITALIZATION AND PREMIUM LEVEL WILL GENERATE SUFFICIENT FUNDS TO PAY ITS INSUREDS' CLAIMS, THERE CAN BE NO ASSURANCE THAT THE COMPANY WILL BE ABLE TO HONOR ALL POLICY CLAIMS. EACH POTENTIAL MEMBER IS URGED TO CAREFULLY READ THE MATERIAL UNDER "RISK FACTORS." MEMBERSHIPS SHOULD BE PURCHASED ONLY BY PERSONS AND ENTITIES ABLE TO BEAR THE ENTIRE RISK OF LOSS OF THEIR SURPLUS CONTRIBUTION.

THE OFFERING OF MEMBERSHIPS IN THE COMPANY HAS NOT BEEN REGISTERED WITH OR APPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITY OF ANY STATE, NOR HAS ANY SUCH COMMISSION OR REGULATORY AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM OR THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. IT IS THE COMPANY'S BELIEF THAT MEMBERSHIPS IN THE COMPANY DO NOT CONSTITUTE SECURITIES, OR ARE EXEMPT SECURITIES, FOR PURPOSES OF FEDERAL AND STATE SECURITIES REGULATION. THE MEMBERSHIPS AND THE UNDERLYING SECURITIES WHICH REPRESENT THEM WILL BE SUBJECT TO SUBSTANTIAL RESTRICTIONS ON TRANSFER.

THIS IS NOT AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO PURCHASE INSURANCE OR MEMBERSHIPS IN ANY JURISDICTION TO ANY PERSON OR ENTITY TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SALE.

THIS MEMORANDUM CONTAINS A SUMMARY OF CERTAIN PROVISIONS OF THE SUPPORTING MATERIALS RELATING TO THIS PROGRAM, INCLUDING THE POLICYHOLDER'S AGREEMENT, THE POLICY FORMS, THE COMPANY'S ARTICLES OF INCORPORATION AND THE COMPANY'S BYLAWS, AS WELL AS SUMMARIES OF VARIOUS PROVISIONS OF RELEVANT STATUTES. THE SUMMARIES DO NOT PURPORT TO BE COMPLETE AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE TEXTS OF THE ORIGINAL SUPPORTING MATERIALS AND STATUTES.

PROSPECTIVE SUBSCRIBERS SHOULD NOT CONSTRUE THE CONTENTS OF THIS MEMORANDUM AS INVESTMENT, TAX OR LEGAL ADVICE. EACH PROSPECTIVE SUBSCRIBER IS URGED TO CONSULT WITH, AND MUST RELY UPON THE ADVICE OF, ITS OWN INVESTMENT, TAX AND LEGAL ADVISORS WITH RESPECT TO THE SUITABILITY OF PARTICIPATION IN THE COMPANY. IN PARTICULAR, EACH PROSPECTIVE SUBSCRIBER IS URGED TO CONSULT WITH ITS OWN TAX ADVISOR WITH RESPECT TO THE TAX TREATMENT OF THE COMPANY. EACH PROSPECTIVE SUBSCRIBER IS RESPONSIBLE FOR THE FEES OF ITS OWN ADVISORS.

NO PERSON HAS BEEN AUTHORIZED TO MAKE REPRESENTATIONS OR GIVE ANY INFORMATION WITH RESPECT TO THE MEMBERSHIP INTERESTS IN, OR THE LIABILITY INSURANCE TO BE OFFERED BY THE COMPANY, AND NO OFFERING LITERATURE OR ADVERTISING IN WHATEVER FORM SHALL BE EMPLOYED IN THIS OFFERING, EXCEPT FOR THIS MEMORANDUM AND ANY INFORMATION CONTAINED IN DOCUMENTS SUPPLIED UPON REQUEST. ONLY THOSE REPRESENTATIONS EXPRESSLY SET FORTH IN THIS MEMORANDUM OR CONTAINED IN DOCUMENTS SUPPLIED UPON REQUEST MAY BE RELIED UPON IN CONNECTION WITH THIS OFFERING. THE DELIVERY OF THIS MEMORANDUM AT ANY TIME SUBSEQUENT TO THE DATE HEREOF DOES NOT IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE OF THIS MEMORANDUM.

THE COMPANY

The Company operates as a mutual captive insurance company organized as a risk retention group currently under the laws of the District of Columbia and the federal Liability Risk Retention Act. Its mandate is to provide primary professional liability insurance to no-surgery pediatricians duly licensed to practice in various states of the continental United States and entities who are owned by and/or employ such no-surgery pediatricians, which physicians satisfy the Company's underwriting requirements for initial eligibility to purchase insurance, and who satisfy all other requirements for membership set by the Board of the Directors of the Company. This Memorandum describes the organization, insurance program and operating objectives of the Company.

Eligible Persons (see below) that purchase memberships in the Company (the "Members") shall also be required to purchase primary professional liability insurance coverage from the Company. Upon termination of a Member's insurance coverage for any reason, such Member's rights as a member shall cease.

The Company is governed by a board of directors (the "Board of Directors"), the members of which are selected by a vote of the Members to staggered three-year terms, each Member having the right to one vote for each full-time equivalent doctor such Member employs or is owned by, provided that a Member who is an individual shall be entitled to one vote and, provided further, that no Member shall be entitled to more than ten votes. Cumulative voting is not allowed. Annual meetings of the Members are conducted at which time an election is held to determine who shall serve on the Board of Directors for any directorship whose term expired in the year immediately preceding such annual meeting for the following three-year term.

The current Board of Directors is composed of seven directors, including:

Henry Gelband, M.D.

Dr. Gelband is Chairman and a member of the Board of Directors of the Company. Dr. Gelband is currently a Professor of Pediatrics and Pharmacology, the Vice Chairman for Clinical Affairs and a member of the Executive Committee of the Department of Pediatrics at the University of Miami School of Medicine in Miami, Florida.

Dr. Gelband has been affiliated with University of Miami School of Medicine since 1971, when he was an Assistant Professor of Pediatrics and Pharmacology. He has published extensively over his career and has lectured throughout the country, including visiting professorships at leading university hospitals across the country. He is a member of the Florida Medical Association and the Florida Pediatric Society. From 1981 to 1983, he served as Vice Chairman of the Pediatric Cardiology Section of the American Academy of Pediatrics.

Dr. Gelband graduated from Washington and Jefferson College in Washington, Pennsylvania with an AB in 1958. He received his MD from Jefferson Medical College in Philadelphia, Pennsylvania in 1962. Dr. Gelband completed his residency in 1967 at Mt. Sinai hospital in New York, New York, where he was Chief Resident. He completed his postdoctoral work at

Columbia University in New York, New York in 1969 and is a Fellow in Pediatric Cardiology. He is also a Special Research Fellow in Pharmacology from Columbia University. Dr. Gelband is a board-certified pediatrician with a subspecialty in pediatric cardiology.

Eugene A. Rosov

Mr. Rosov is the President and a member of the Board of Directors of the Company. He is also a founder, a member of the Board of Directors and the Chief Executive Officer of Medical Development and Management Company, Inc. (“MDMC”). MDMC is a Delaware corporation formed to provide certain services to the Company (see BUSINESS OF THE COMPANY – Management and Other Services, below). For the past 15 years, Mr. Rosov has founded public technology companies, including Talk Visual Corporation (formerly traded on the NASDAQ Stock Market), Innovative Telecom Company, Inc. and WaterTest Corp.

Among his accomplishments, Mr. Rosov has addressed environmental committees of both the United States Senate and House of Representatives on the subject of drinking water quality, co-founded the international umbrella organization for chamber music (CMA) and managed the former top-ranked squash player in the world.

Mr. Rosov graduated from Harvard College in 1971 with a BA in General Studies, concentration in English.

Todd Zimmerman, D.O.

Dr. Zimmerman is a member of the Board of Directors and the Chief Medical Officer of the Company. He is a founder, a director and the Chief Operating Officer of MDMC. Dr. Zimmerman is the Medical Director of Pediatric Emergency Medicine (Emergikids) at Alexian Brothers Medical Center in Elk Grove Village, Illinois, and is the Assistant Medical Director of Pediatric Emergency Medicine (Emergikids) for the Alexian Brothers Health System. Dr. Zimmerman also functions as a consultant and Advisory Board member of PulseMD, a visionary Electronic Medical Record company.

Dr. Zimmerman was previously working as an attending physician in Pediatric Emergency Medicine at St. Mary's Medical Center in West Palm Beach, Florida and prior to this was functioning as the clinical director of the Pediatric Emergency Department at West Boca Medical Center, Boca Raton, Florida. As Staff Physician at Rush-St. Luke's Medical Center and Cook County Hospital, both in Chicago, Illinois, he taught Pediatric Emergency Medicine to medical students, interns, pediatric residents and emergency medicine and family practice residents. From 1998 to 2001, he completed a Fellowship in Pediatric Emergency Medicine at Cook County Hospital, preceded by a residency in Pediatrics at Lutheran General Hospital in Park Ridge, Illinois. Dr. Zimmerman is currently Board Certified in Pediatric Emergency Medicine and Pediatrics.

Dr. Zimmerman attended the Chicago College of Osteopathic Medicine, where he received his DO in 1995, and matriculated from Michigan State University in 1991, with a BS in Interdepartmental Biological Sciences. His specialization has been the investigation of medical

malpractice cases, Quality Assurance and Risk Management in general pediatrics and pediatric emergency medicine, and the charting, billing and review of pediatric medical systems. He has been interviewed on an ABC-TV affiliate and has lectured on the legal aspects of pediatric emergency medicine.

George Termotto, M.D.

Dr. Termotto is a principal of Affiliated Pediatrics of Broward, P.A., Hollywood, FL. and is the medical director of Kid's Clinic and the Prescribed Pediatric Extended Care (PPEC) facilities at Broward Children's Center in Pompano Beach. He is a practicing pediatrician with a specialized interest in a) the development of children with physical and mental handicaps; and b) asthma and reactive airway diseases.

Dr. Termotto was the Senior Pediatrician with primary responsibility for a panel of 1800 children for the Cigna Health Plan of South Florida from 1980 to 1988. He was Cigna's Chairman of the Department of Pediatrics and Chairman of the Patient Education Committee. He developed Signa's newborn discharge program. Dr. Termotto is also a recognized co-author and translator of two books about children and newborns.

He received his BS and M.Ed at the University of Miami, where he was a fellow specializing in the exceptional child. He completed his pediatric internship and residency at the University of Miami - Jackson Memorial Hospital. Dr. Termotto attended the University of Zaragoza School of Medicine, where he graduated in 1975 and did post-graduate work in comparative pediatrics from 1979-1980. Since 1996, he has served as clinical professor of pediatrics at the NovaSoutheastern School of Medicine. He is a senior attending at Plantation General Hospital, Joe DiMaggio Children's Hospital, Memorial West Hospital, and Memorial Miramar Hospital.

He is a member of the American Academy of Pediatrics, the Florida Pediatric Society, and the Southern, Florida, and Broward County Medical Associations. He has served on many committees for various health plans and currently serves on the Florida fetal and infant mortality review committee, part of the Healthy Mothers-Healthy Babies Coalition of Broward County. He is fluent in both English and Spanish.

Michael Martin, M.D.

Dr. Martin received his MD from the University of Chicago, did his Internal Medicine Residency at Yale, and completed a Fellowship in Epidemiology, at the University of California, San Francisco. He also received both his MBA and MPH from the University of California at Berkeley. Since 1994, he has been the Chief Executive Officer of SunMed, Inc., a primary care medical group and management services organization (MSO) headquartered in Miami. SunMed provides comprehensive health care services to the patients of various South Florida HMOs. SunMed currently provides services to approximately 15,000 Medicare, Medicaid and Commercial patients. Prior to joining SunMed, Dr. Martin was President & CEO of Advocates for Primary Care, Inc., an MSO formed to established and managed primary care medical groups. Advocates' largest client was a San Francisco-based medical group that was responsible for providing health care services to more than 65,000 members. Prior to joining Advocates, Dr.

Martin served as Medical Director for California Pacific Medical Services Organization (CPMSO). CPMSO provided all the management services to California Pacific Medical Group, a San Francisco-based medical group with more than 700 physicians. California Pacific Medical Group was the dominant medical group in the San Francisco marketplace.

From 1987 to 1993, Dr. Martin was a consultant with William M. Mercer, Incorporated, the world's largest employee benefits consulting firm. In this capacity, Dr. Martin had the opportunity to work with many of the country's largest employers and health care providers. His primary areas of focus was evaluating and enhancing utilization management and quality improvement programs.

Dr. Martin is an Assistant Clinical Professor in the Department of Epidemiology and Biostatistics at the University of California in San Francisco. He has published numerous articles in the field of preventive medicine. He has earned several awards for his efforts, including the Secretary's Award for Innovation in Health from the Department of Health and Human Services.

Emil David DeVito

Emil DeVito attended Rutgers University as an undergraduate from 1964-1968, and received his Master's Degree in business administration from the Rutgers Graduate School of Business Administration in 1974.

From 1974 to 1976, he served as Senior Auditor for one of the "Big Eight" certified public accounting firms, Arthur Young and Company. From 1976 to 1983, Mr. DeVito was employed by and eventually became a partner in the international certified public accounting firm of Pannell Kerr Forster.

He joined the management team of Princeton Insurance Company (Princeton, New Jersey) as Vice President of Finance in 1983. He was appointed Princeton's Senior Vice President and Chief Financial Officer in 1992 and remained in that position until his early retirement in 2003. He continued to work as the Acting Chief Financial Officer for a group of four State-specific medical malpractice reinsurance exchanges operating in Pennsylvania, Florida, New Jersey and Maryland from 2006 to 2008.

He is a member of the American Institute of Certified Public Accountants, the New Jersey State Society of Certified Public Accountants, and the Society of Insurance Accountants.

Paul Judah Goldberg, MD, MPH

Dr. Paul J. Goldberg is a member of the Board of Directors of PIRRGGA, and Chief Medical Officer of South Florida Pediatric Partners ("SFPP"), as well as a practicing pediatrician for SFPP.

He attended Boston University College of Liberal Arts from 1979 to 1984, participating in a 6-year combined Bachelor of Arts - Medical Doctor Program, matriculating in 1984. Subsequently, Dr. Goldberg received a Master's Degree in Public Health from the Harvard

University School of Public Health in Cambridge, Massachusetts.

Dr. Goldberg proceeded to do a pediatric residency at the University of Chicago Wyler's Children's Hospital, from June 1984 to June 1987. Starting in July 1987 and until June 1988 he was chief resident and instructor in clinical pediatric medicine at the University of Chicago Wyler's Children's Hospital. From September 1989 up to May 1996 he was a practicing pediatrician at Child Health Care Associates in Hollywood, Florida.

In May of 1996 Dr. Goldberg began to practice pediatrics at the MCH Pediatric Group in Hollywood, Florida until June 1999. As of June 1999, Dr. Goldberg became the Chief Medical Officer at South Florida Pediatric Partners where he currently leads the partnership group and practices pediatrics.

The overall management of the Company is the responsibility of the Board of Directors, but the day-to-day corporate activities of the Company will be managed by MDMC from its offices located in Miami, Florida. MDMC will be responsible for the marketing, underwriting, policy administration, billing and claims management function of the Company, in accordance with policies established by the Company's Board of Directors. See BUSINESS OF THE COMPANY – Management and Other Services, below.

ELIGIBLE PERSONS

The offering of memberships pursuant to this Memorandum is being made only to no-surgery pediatricians duly licensed to practice and entities who are owned by and/or employ such no-surgery pediatricians, who satisfy the Company's underwriting requirements for initial eligibility to purchase insurance, and who satisfy all other requirements for membership set by the Board of Directors of the Company ("Eligible Persons"). Eligible Persons must provide comprehensive data as requested by the Company including an insurance application and participate in periodic risk management reviews by their peers and the Company.

Each Eligible Person must remit to the Company with its subscription for membership an amount of surplus designated by the Company (the "Surplus Contribution") and execute the Policyholder's Agreement attached as Exhibit A hereto, if such Eligible Person chooses to become a Member pursuant to this Memorandum. Such Surplus Contribution shall be in addition to premium payments. The amount of the Surplus Contribution required of new Members is subject to change in the future, at the discretion of the Board of Directors.

The Company received a license from the District of Columbia Department of Insurance, Securities and Banking effective January 1, 2006. Prior to that date, the Company was licensed through the Vermont Department of Banking, Insurance and Health Care Administration. Each Member must commit to purchase at least two years of coverage, in the form of two twelve-month policies, from the Company (if the Company is willing to insure such Member for such length of time). The Member may not apply for return of capital until the Member has

been an insured of the Company for five years, and such return is subject to four elements: 1) an on-site audit to assess compliance with the Company's binding arbitration program and full and complete participation and success in the other aspects of the Company's risk management and loss prevention program (RMLP program) in its entirety; 2) audit review of the RLMP Member's RMLP participation and recommendation to the Board of Directors for the capital return request by the Underwriting & Risk Management Committee; 3) approval by the Board of Directors for capital return; and 4) approval of the requested capital return by the District of Columbia Department of Insurance, Securities and Banking

BUSINESS OF THE COMPANY

Scope of Coverage

This is only a description of the scope of coverage to be provided by the Company; see the Policy Forms attached hereto for the binding terms of the coverage to be provided by the Company.

Policies issued by the Company will provide professional medical malpractice liability insurance coverage with limits of up to \$250,000 per patient occurrence and up to \$750,000 in total annually per physician, exclusive of expenses the Company incurs in defending any claim arising under such policy. The Company will also provide to certain members who meet performance, practice history and location standards set by the Company, its Board of Directors and its Underwriting & Risk Management Committee, coverage with limits of up to \$500,000 per patient occurrence and up to \$1,500,000 in total annually per physician, exclusive of expenses the Company incurs in defending any claim arising under such policy; and also coverage with limits of up to \$1,000,000 per patient occurrence and up to \$3,000,000 in total annually per physician, exclusive of expenses the Company incurs in defending any claim arising under such policy. Other policy limits may be offered from time to time. For any of its offered policy coverage limits the Company may also issue policies which may be inclusive of expenses incurred in defending any claim arising under such policy; and also coverage with any other set of limits as determined by the Board of Directors and the Underwriting & Risk Management Committee.

The policy will cover claims for which the insured pediatrician is legally responsible and which arise out of acts or omissions in connection with the delivery of professional medical services. Separate coverage may be provided for professional organizations (e.g., partnerships or corporations). Single separate per claim and annual total limits would apply to the professional organization.

The policy will not cover fines, penalties or punitive or exemplary damages that an insured may be required to pay and will not cover claims arising out of dishonest, fraudulent, criminal or malicious acts by an insured. The Company reserves the right to limit the coverage of claims for certain members in certain locations to only those patients who have executed all provisions of a Binding Arbitration Agreement between the physician and patient in the specific form attached hereto as Exhibit C.

Policies issued by the Company will provide coverage on a claims-made basis. Under a claims-made basis, the Company will provide coverage only for claims that are reported during the policy period and that relate to professional services that an insured performed or should have performed after the retroactive date stated in the policy. For purposes of determining whether a particular claim is covered by the policy, the claim would be deemed to have been reported to the Company on the date that the action giving rise to the claim was first reported to the Company. The Company reserves the right to issue policies for claims that are reported during the policy period and that relate to professional services that an insured performed or should have performed after the retroactive date stated in the policy, and for purposes of determining whether a particular claim is covered by the policy the member must have been notified of an intent to litigate.

In general, policies issued by the Company will cover claims arising out of actions occurring within five years or more prior (“nose” or “prior events” coverage) to the inception of coverage by the Company. However, members may elect to obtain coverage for shorter prior events periods. Upon termination of an insured’s liability insurance policy the Company may also offer continuing coverage (“tail” coverage) on a case-by-case basis to its insureds. Tail coverage allows an insured to report claims after termination of the insured’s liability insurance policy if the action giving rise to such claim occurred while the liability insurance policy was in force.

Policy Period; Renewal; Cancellation

The policy period will be twelve months. Renewal will be subject to underwriting and loss control criteria. The policy will have a right of cancellation. Please refer to Exhibit B hereto for the full terms and conditions of the policies.

The Company will provide all of its insureds with an aggregate annual limit, located in the Declarations to the insured’s insurance policy, which applies separately to each consecutive annual policy period. The renewal of a policy will reinstate the annual aggregate limit. The reinstated annual aggregate limit applies separately to each renewal period, even if the renewal period is shorter than 12 months.

You should note that the Company relies on each insured’s representations to determine premiums and eligibility for issuance or renewal of insurance coverage. In the event that an insured conceals from the Company or fails to disclose to the Company any material information, or attempts to defraud, lie to or mislead the Company, the Company may cancel its insurance policy with the insured.

Claims Management

The Board of Directors, through a delegation of authority to its Underwriting and Risk Management Committee, has the responsibility for managing the disposition of specific claims brought against the Members. The Board of Directors considers input from the Company’s officers and from MDMC.

MDMC is the first point of contact for a Member that is made aware of a potential claim,

specific action, request for medical information, subpoena or any notification by counsel or a court. The Member contacts MDMC, which assigns the file to a claims manager and to the Chief Medical Officer of the Company and/or the Chairman of the Underwriting and Risk Management Committee. The claims manager and/or the Chief Medical Officer conducts an initial interview with the Member. A summary of the claim along with any required documentation is prepared, which may include the medical record, chart and any supporting documentation such as discharge forms. After consultation with the President, and the members of the Underwriting and Risk Management Committee of the Board of Directors, an outside legal counsel is chosen to handle the case, and such outside legal counsel will be engaged and notified by the Underwriting and Risk Management Committee.

In the event of a potential claim or lawsuit, outside counsel is retained by the Company to represent the Member. This contact will be coordinated through the claims manager and through the Chairman of the Underwriting and Risk Management Committee. The Member's assistance and cooperation in the investigation and preparation for claims and potential claims is critical. The Company's outside legal counsel may need to speak with or meet with a Member in order to fully understand the facts of a claim. The Members are required to cooperate fully with the Company and its outside legal counsel.

The claims manager, in conjunction with the President, Chief Medical Officer and Chairman of the Underwriting and Risk Management Committee actively manage potential claims and lawsuits. They are responsible for preparing all necessary documentation relating to a claim for review by outside legal counsel. If necessary, the Member may be asked to meet in person or by telephone conference with the Underwriting and Risk Management Committee of the Board of Directors in order to discuss specific aspects of a claim. The Underwriting and Risk Management Committee of the Board of Directors makes the determination to settle claims or to proceed with litigation, or where applicable, binding arbitration. The President, Chief Medical Officer, Chairman of the Underwriting and Risk Management Committee and/or the claims manager coordinates any litigation, including discovery, depositions and, if required, mediation, arbitration and jury trial.

The Company shall not be obligated to pay any claim or judgment or to defend or continue to defend any claim or suit after the applicable aggregate limit of loss or limit of expense has been reached.

Underwriting and Risk Management

Only no-surgery pediatricians duly licensed to practice and entities who are owned by and/or employ such no-surgery pediatricians may apply to become insureds of the Company. Each application for insurance is reviewed by MDMC in conjunction with the Chairman of the Underwriting and Risk Management Committee to determine suitability for insurance based on the underwriting guidelines established by the Underwriting and Risk Management Committee of the Board of Directors. They will assess certain factors to determine risks, including the claims history, experience and geographic location of the potential insured's practice. They also consider qualitative factors, such as policies and procedures followed by the potential insureds practice, including: charting, use of discharge sheets, processing and follow-up of laboratory

results and overall medical records management. Other factors which may be considered include the general condition and layout of the potential insured's practice.

The underwriting process includes a detailed review of each application, and if possible, an on-site visit to the applicant's office by MDMC and/or by a member of the Underwriting and Risk Management Committee. Following the application review and office visit, the reviewers will prepare an underwriting file for each applicant and make recommendations to the Underwriting and Risk Management Committee of the Board of Directors. Such recommendations include whether or not to accept applications for coverage, suggested pricing and terms of coverage offered and the amount of the insured's Surplus Contribution.

MDMC monitors the Members based on criteria approved by the Underwriting and Risk Management Committee of the Board of Directors to ensure that the Members remain in compliance with the Company's underwriting standards. Each Member is evaluated annually and each policy underwritten each year. Pursuant to the Company's underwriting standards, each Member will participate in loss prevention and risk management education programs. As part of the ongoing underwriting process, MDMC continually reviews each Member's claims experience on an individual basis, and makes recommendations to the Underwriting and Risk Management Committee of the Board of Directors when MDMC believes that its review has determined potentially substandard practices, or, conversely, when it recognizes new or innovative practices which may assist other Members in risk mitigation.

The Underwriting and Risk Management Committee of the Board of Directors oversees the annual peer review and risk management process.

Dispute Arbitration

The Company provides a Member Dispute Resolution Program to resolve insurance coverage and payment disputes and any other disputes between the Company and a Member. The Member Dispute Resolution Program is designed to provide Members with a process by which Members can lodge complaints with the Company in a fair, timely and efficient manner. The members are required to sign a Binding Arbitration Agreement which provides for arbitration in the event of any and all disputes.

In general, disputes are initially handled by the Board of Directors, but, in the Company's discretion, any dispute may initially be handled by any of the committees of the Board of Directors. If a dispute is not resolved by the Board of Directors or a committee thereof, in lieu of litigation, Members must seek resolution of their disputes through the Company's Binding Arbitration Program.

If, after working with the Board of Directors or a committee thereof, a Member's dispute is not resolved, the Member may elect to have the dispute reviewed by a panel consisting of Members who are independent of the dispute and members of the Board of Directors and committees thereof. The panel will consider all information it deems appropriate regarding the dispute and make a determination with regard to the dispute.

If a Member is not satisfied with the panel's decision, the Member may demand arbitration by contacting the member dispute resolution administrator at the Company's offices. The policies and procedures of the American Arbitration Association (or another organization acceptable to all of the parties) will direct the arbitration procedures. The Company will pay the costs of the mediation, but will not pay any of the costs incurred by a Member as a result of the arbitration (e.g., legal representation, discovery costs, compensation for time off work, travel, etc.).

If an agreement is not achieved through mediation, the final stage in the dispute resolution process is binding arbitration. An independent, professional arbitration association will be responsible for arranging the logistics of the arbitration. One or more impartial arbitrators will conduct the arbitration and make a final determination of the dispute, which will be binding on all participants to the arbitration. The Company will pay the costs of the arbitration, but will not pay any costs of the Member associated with the arbitration process (e.g. legal representation, witness fees, discovery costs, compensation for time off work, travel, etc.).

A report of all decisions made pursuant to the dispute resolution process will be made to the Board of Directors. The Board of Directors will monitor the dispute resolution process to ensure the best interests of the individual Members are balanced with the best interests of all Members in the aggregate.

Any legal action brought against the Company, its Board of Directors, Officers or Agents must be settled by Binding Arbitration as provided by the Policyholders Agreement. All members must sign a Policyholders Agreement to become an insured of the Company. Members who refuse to sign an initial or a revised Policyholders Agreement may not be insured by the Company.

Establishment of Reserves

For financial accounting purposes, the Company provides for its ultimate liability under the policies it writes by establishing loss reserves. The Company performs an annual actuarial review of its estimated liabilities for unpaid losses and unpaid loss adjustment expenses. These reserve amounts necessarily are imprecise since they represent predictions of the outcome of future litigation or settlement negotiations.

Investment Income

A meaningful source of the Company's net income may be derived from investment income earned on the investment of its available funds. The surplus contributed pursuant to the Policyholder's Agreements, as well as premiums received, are invested by the Company until such time as all or a portion of such funds are required to be disbursed for the settlement of claims or the payment of operating expenses of the Company.

The Company invests in a diversified portfolio of primarily high quality fixed income securities, including: FDIC insured Certificates of Deposit, money market funds, highly rated commercial paper, United States government and agency notes and bonds, highly-rated tax-exempt and corporate bonds and certain asset-backed securities, including mortgage-backed securities. The

Company may invest a small portion of its assets in listed securities, including: common and preferred stock, convertible and exchangeable debt, and equity and debt securities issued by real estate investment trusts. The investments of the Company conform to the Investment Policy as stated and approved by the Company's Finance Committee and the Board of Directors.

Reinsurance

PIRRGA has obtained reinsurance through the assistance of Risk Services, LLC and has in place a treaty to generally provide coverage for all losses in excess of \$125,000 through the engagement of Aspen RE (a NYSE "A" rated reinsurance carrier) and various Lloyd's of London syndicates ("A-" rated insurance carrier syndicates). The Company's Broker of Record for the purposes of discussion and negotiation with its reinsurers may change from time to time. At this time, the Company's Broker of Record is Risk Services, LLC of Sarasota, Florida.

Management and Other Services

The officers and directors of the Company have ultimate supervisory authority over the operations of the Company. The Company has engaged certain service providers to provide management and other services to the Company.

MDMC provides insurance management services to the Company for a fee. Such services include: (i) marketing and identification of eligible pediatricians for inclusion as members and policyholders of the Company; (ii) development of underwriting guidelines, including pricing strategies, to be implemented by the Company, subject to the Company's approval of such guidelines; (iii) claims handling and administration services; (iv) development and implementation of peer review and loss prevention strategies; (v) policy administration; (vi) policy renewal and review; (vii) development and oversight of investment guidelines; and (viii) other administrative services, including coordination and monitoring of the Company's other service providers, including third-party investment managers, audit firms, actuaries and attorneys. MDMC is a privately owned corporation domiciled in Delaware, with its principal office in Miami, Florida. MDMC was formed in March, 2003 to provide marketing, underwriting and other services to risk retention groups such as the Company. Eugene Rosov, Dr. Todd Zimmerman, Dr. Michael Martin and Michael J. Mazzola are the principal owners and officers of MDMC and are officers and members of the Board of Directors of the Company.

Risk Services, LLC is responsible for providing certain financial and administrative services to the Company on a fee-for-service basis including, but not limited to: (i) maintaining the accounting books and records of the Company; (ii) preparation of monthly expense disbursements, premium collections from the Members; (iii) preparation of the Company's internal and external financial statements; and (iv) ensuring that state and federal requirements, including filings and reports, are met in order to keep the Company in good standing. Risk Services, based in Sarasota, Florida, manages more risk retention groups than any other service provider in the United States. It is a professional-services firm with approximately 180 employees. Michael T. Rogers, the President of Risk Services, LLC, is the Company's principal contact.

Oliver-Wyman, a subsidiary of Marsh & McLennan Companies, Inc., provides an annual actuarial review and loss reserve analysis for the Company as of the end of each fiscal year and also provides actuarial studies in support of the Company's filings for approval to offer insurance in Florida and in other states. The loss reserve analysis must be filed annually with the District of Columbia Department of Securities, Insurance and Banking.

The Avon, Connecticut office of Saslow, Lufkin & Buggy, LLP performs the annual financial audit of the Company. Saslow, Lufkin & Buggy's Burlington, Vermont and Avon, Connecticut offices specialize in providing auditing, tax and consulting services to alternative risk clients, including risk retention groups, associations, pure captives, reciprocals and commercially licensed companies.

Pre-Operational Expenses

The pre-operational expenses of the Company have been amortized and paid out of the initial premiums received by the Company and any investment income thereon.

INSURANCE REGULATION

Risk Retention Act

The Company is currently organized as a District of Columbia captive insurer qualifying as a risk retention group under the federal Liability Risk Retention Act of 1986 (the "Risk Retention Act"). The Risk Retention Act authorizes formation of risk retention groups to provide liability insurance to persons or firms engaged in businesses or activities that are similarly related with respect to the liability (other than personal risk liability or employer's liability) to which its members are exposed. Risk retention groups may have as their owners only persons or firms who comprise the membership of the risk retention group and who are provided insurance by such group. The Risk Retention Act permits a risk retention group to be organized and chartered under the laws of one state and thereafter write insurance in all states without being licensed in each such state, provided that it first registers with and submits its plan of operation to the insurance commissioner of each state in which it intends to solicit or do business.

The Risk Retention Act generally exempts risk retention groups from the laws and regulations of states other than the jurisdiction in which it is chartered, with various exceptions. It also prohibits states from requiring risk retention groups to participate in any insurance insolvency guaranty fund or otherwise discriminating against risk retention groups.

The Risk Retention Act does not preempt certain state requirements, including the authority of the states to require the risk retention group to comply with unfair claims settlement practices laws, to pay premium and other state taxes, to participate in residual market programs and to submit to financial examination in certain cases.

District of Columbia Insurance Regulation

The Company is currently subject to regulation under the captive insurance laws of the District

of Columbia (“the District”). The District requires a captive insurance company to register and file certain reports, including an annual statutory financial statement in the form promulgated by the National Association of Insurance Commissioners, a premium tax return, and other filings. All changes in the general business operations of the captive insurer require prior approval by the District’s Department of Insurance, Banking and Securities (the “District Department”). The District Department also regulates the type of investments that may be made by captive insurers organized as risk retention groups.

If the Company cannot maintain the required capital and insurance premium levels of its venue of domestication, the Company may not be permitted to continue to provide insurance coverage. In such event, each Member would be required to purchase insurance elsewhere and would be entitled to a return of its capital investment, depending on the financial condition of the Company at that time.

The Company provides for indemnification of its directors, officers and agents to the fullest extent authorized by law. The Company shall indemnify its directors and officers, and by action of its directors, may indemnify its employees and agents, against liability incurred by any of them in their capacity as such, to the fullest extent permitted by and in accordance with federal and state laws, as they may be amended from time to time. Such indemnification shall continue for a person who has ceased to be a director, officer or agent and shall inure to the benefit of the heirs, executors, administrators and estate of such person with respect to such person’s activities while a director, officer or agent.

The Company may purchase and maintain insurance on behalf of any director, officer, employee or agent of the Company against any liability asserted against or incurred by him or her in serving in any such capacity or arising out of his or her status as such, whether or not the Company would have power to indemnify him or her against such liability or cost.

ORGANIZATION AND MANAGEMENT

The current directors and executive officers of the Company are provided below.

The Company is licensed to conduct insurance business in the District of Columbia and is currently registered as a risk retention group in several states in the continental United States. The Company may register, and intends to register, as a risk retention group in other states in the future. The Company plans to register in such only if entry into such states is supported by actuarial analysis of those states and if the expansion is approved by the Board of Directors.

Directors and Executive Officers:

Eugene Rosov	President and Director
Emil DeVito	Treasurer and Director
Andrew Cunningham	Secretary
Todd Zimmerman, D.O.	Chief Medical Officer and Director
Henry Gelband, M.D.	Chairman and Director
George R. Termotto, M.D.	Director

Paul Goldberg, M.D.	Director
Michael J. Martin, M.D.	Director

Mssrs. Rosov and Zimmerman were appointed by the Company's incorporators. Dr. Gelband, Dr. Goldberg, Dr. Martin, Dr. Termotto and Mr. DeVito were appointed by the other directors pursuant to the terms of the Company's Bylaws after the Company's incorporation. Directors serve three-year staggered terms and are elected by the Members at the Company's annual meetings immediately succeeding the expiration of such three-year terms. Pursuant to the Company's Bylaws, the officers are elected by the directors. Mr. Cunningham serves as the Company's Secretary and is not a Director.

The Company provides the directors and officers with compensation of \$1,000 for each meeting of the Board of Directors and \$1,500 for the Chairman of the Board; it also provides \$1,000 for any committee meeting thereof attended by a director. Directors are reimbursed for reasonable travel and other out-of-pocket expenses incurred in connection with such meetings. In addition to compensation and reimbursement as a director, a director may serve the Company in another capacity and receive compensation for such services.

Committees of the Board of Directors

Through the Board of Directors, the Company has formed committees to provide for proper oversight of the Company. Such committees and their purposes include:

- Audit Committee – to assist the Board of Directors in its oversight of: the integrity of the financial statements of the Company; the Company's compliance with legal and regulatory requirements; the independence and qualification of the Company's independent auditor; and the performance of the Company's internal audit function and its independent auditors.
- Investment Committee – to assist the Board of Directors in reviewing the Company's investment policies, strategies and transactions, and the performance of the Company and its subsidiaries (if any exist).
- Underwriting and Risk Management Committee – to assist the Board of Directors in reviewing Eligible Persons' applications for insurance, Members' adherence to loss control policies, the peer review process and evaluations and the claims management process, including approval of actions involving litigation, binding arbitration and settlement offers, if applicable.

It is the responsibility of the Board of Directors to delegate such powers to the committees as the Board of Directors deems appropriate.

Conflicts of Interest

As provided above, in "BUSINESS OF THE COMPANY – Management and Other Services," MDMC will provide management services to the Company, and will be responsible for the marketing, underwriting, policy administration, billing and claims management functions of the

Company. MDMC will receive management fees for its services, subject to a minimum annual fee, based on the number of the Company's insured pediatricians. MDMC is owned by Eugene Rosov, Michael J. Mazzola, Dr. Michael Martin and Dr. Todd Zimmerman. Eugene Rosov is the President of the Company and a member of the Board of Directors. Drs. Todd Zimmerman and Michael Martin are members of the Board of Directors of MDMC.

The Company has contracted with Risk Services LLC to provide certain administrative, accounting and other functions to the Company and to support the Company's operations.

TERMS OF SUBSCRIPTION

Each potential insured must become a member of the Company, execute the Policyholder's Agreement, in the form attached hereto as Exhibit A, and otherwise satisfy the underwriting and other eligibility criteria established by the Company.

The Policyholder's Agreement, the policy forms, the Articles of Incorporation and the Bylaws are important documents for each potential insured to review and understand as these documents outline the rights and obligations of the Members/insureds. The Policyholder's Agreement is attached hereto and includes the Binding Arbitration Agreement. The policy forms are attached hereto as well. The Articles of Incorporation and Bylaws are available upon request.

RISK FACTORS

Prospective Members should carefully consider the following risk factors. Membership in the Company and the purchase of insurance from the Company are subject to specific risks, including, without limitation, the following:

Risk of Unexpected Losses

While the Company's auditors, managers and advisors believe that it is sufficient at the time of this writing, there is no assurance that the Company's capitalization and premium levels will be sufficient to permit the Company to honor all policy claims.

Limited Operating History

As entity with two years' operating history, the Company does not have extensive prior operating history or experience. The Company will rely heavily on the advice of MDMC and Risk Services and other outside consultants for its operations.

Inexperience of the Board of Directors in Insurance Operations

The management of the Company ultimately rests with its Board of Directors, which consists of individuals who have limited experience in the operation of an insurance company and have therefore caused the Company to retain the services of qualified consultants, administrative managers, and others. The Company relies heavily on the advice of these consultants and incurs fees for their services.

Risk of Loss Exceeding Claim Reserves

There can be no assurance that the premiums to be charged or the amount set aside to reserve for losses will be sufficient to cover all actual losses. The feasibility of the program is based on actuarial studies produced by a leading actuarial firm. The actuarial studies project that the premiums charged by the Company will be sufficient to cover its losses. However, as with any projections, actual results may differ substantially from projections. Losses with respect to the types of coverage to be provided can be predicted only by statistical extrapolation from available data using certain actuarial assumptions. To the extent that these assumptions are incorrect, the Company may not be able to pay insureds' claims, in which case its insureds would be individually liable for claims against them.

Restrictions on Transferability of Mutual Memberships

The mutual memberships in the Company are not transferable or assignable, and may not be pledged or hypothecated.

Retention of Capital Upon Termination of Insurance

If a Member withdraws from the Company or its insurance contract with the Company is terminated, the Member's right to a return of its Surplus Contribution will be limited.

The Company will return the terminated Member's Surplus Contribution in three annual installments (with interest in the Board of Directors' discretion), but only if the Board of Directors, acting in its sole discretion, determines that the Company can return such Surplus Contribution without threatening the Company's financial stability, and if the Company has received all necessary approvals from the District Department.

No Assurance of Profitability

The primary purpose of the Company is to provide professional liability insurance to Eligible Persons. There can be no assurance that the operations of the Company will produce any economic return to its Members. Even if the Company generates profits, such profits may be retained for additional reserves and surplus. There can be no assurance that dividends or other distributions will be declared and paid.

There is no assurance that the Company will not face competition in the future from commercial insurers that may have greater financial resources than the Company, in which case it may be difficult for the Company to compete with such insurers on the basis of equivalent premium rates.

Investment Risks

Investment earnings may in the future represent a portion of the Company's income. The Company's investments are subject to normal market risks, as well as particular risks inherent in the securities in which it invests. Investment losses could decrease the Company's surplus, which would affect the Company's ability to provide insurance coverage to its Members. The Company's investment strategy will utilize a conservative investment philosophy which will provide cash flow sufficient to meet liquidity needs.

Possible Increase in Future Premium Rates

Future premium rates are dependent, in part, on claims experience and the financial performance of the Company. While the Company believes that its selection and management methods will reduce both claims and premiums, actual claims, loss experience and other factors may require the Company to charge higher premiums than those charged currently. During its second year of operation, the Company increased its premium rates overall by eight per cent (8%). In order to counterbalance this increase, the Company provided for a 32% return of premium not to exceed \$5,000 for those members who participate fully and successfully in its Risk Management and Loss Prevention programs.

Exemption from Regulation

As a captive insurance company organized as a risk retention group, many of the insurance code provisions that apply to traditional insurance companies do not apply to the Company.

Exemption from Participation in Insurance Insolvency Funds

Under the provisions of the federal Liability Risk Retention Act, the Company will be exempt from participation in any state insurance insolvency guaranty fund. Members will be ineligible to receive benefits from such guaranty funds in the event the Company becomes insolvent.

Changes in Laws

Any changes in the federal Liability Risk Retention Act, the laws of the District, its location of venue or other laws governing captive insurers, the Business Corporation Acts of the Company venue of domicile, the Internal Revenue Code or any other applicable laws or regulations may impact the ability of the Company to continue operations, require material changes to its operations, or render the Company non-compliant with law. In such event, the Members will bear the risk of loss of their investment, and the Company's ability to pay its insurance obligations could be impaired.

Independent Counsel.

No independent legal, tax or financial counsel has been retained to represent the interests of the prospective Members. Each Eligible Person is therefore urged to consult with its own counsel as to the contents of this Memorandum and as to the terms and provisions of all attachments hereto.

TAXATION OF THE COMPANY

Federal Tax Treatment of the Company

The Company is required to file a federal income tax return and pay any federal income tax liability annually as a corporation.

A company that qualifies as an insurance company for federal tax purposes determines its taxable income under special tax accounting rules set forth in subchapter L of the Internal Revenue Code of 1986 (the “Code”). These special tax accounting rules include the deduction of reserves for losses to be paid in future years. Qualification as an insurance company for federal tax purposes depends on a determination that the company is “transacting insurance,” which depends on a number of factors, including a determination that the company’s business includes sufficient shifting of risk from the insureds to the company and a sufficient distribution of independent risks insured by the company.

The Company’s status as a captive insurance company risk retention group licensed under the laws of the District does not, in itself, determine whether the Company qualifies as an insurance company for federal income and excise tax purposes. Management has determined that the Company’s business will include sufficient risk shifting and risk distribution to qualify for federal tax treatment as an insurance company. As a result, the Company will file federal income tax returns and determine its federal income tax liability as an insurance company.

There is no plan for the Company to request a ruling or other determination from the Internal Revenue Service that the Company qualifies as an insurance company for federal income tax purposes. If it is determined (through examination by the Internal Revenue Service or a decision of a court of competent jurisdiction) that the Company does not qualify as an insurance company, the Company may be subject to additional taxes, interest and penalties. You should note, however, that the Internal Revenue Service has examined a number of captive insurance programs similar to the Company’s over the past 20 years, and has determined in many cases that captive insurers qualify as insurance companies for federal income tax purposes.

Member’s Deduction of Premium Paid for Coverage

In general, premiums paid to a company that qualifies as an insurance company for federal income tax purposes are deductible by the insured for federal income tax purposes as ordinary and necessary business expenses, under Code Section 162 and the related Treasury Regulations. In general, such premiums are also deductible for state income tax purposes. As the Company is taking a position as an insurance company for federal income tax purposes, a Member’s deduction of premium paid to the Company for federal and state income tax purposes should be deemed consistent with the Company’s tax position.

There is no plan for the Company to request a ruling or other determination from the Internal Revenue Service or any state taxing authority that premiums paid to the Company are deductible by the insured as ordinary and necessary business expenses. If it is determined (through

examination by the Internal Revenue Service, a state taxing authority or a decision of a court of competent jurisdiction) that the Company does not qualify as an insurance company for tax purposes or that the premium paid to the Company is not deductible, the Member's deduction of premium paid to the Company may be disallowed and the Member may be subject to additional taxes, interest and penalties. You should note, however, that the Internal Revenue Service has examined a number of captive insurance programs similar to the Company's over the past 20 years, and in many cases has allowed deductions for premiums paid to captive insurers.

Each Member should consult its own tax advisors concerning the deductibility of premium and other amounts paid to the Company.

State Taxation of the Company

The Company is currently a licensed insurance carrier in the District of Columbia and is approved and registered as a risk retention group in several states. In any state in which the Company is "licensed or registered," the Company will pay premium taxes out of the premiums collected from the Members, and the Company's premium rates will reflect this increased expense.