PREFERRED CONTRACTORS INSURANCE COMPANY
RISK RETENTION GROUP, LLC

NOTICE TO POTENTIAL INVESTORS/INSUREDS

The purpose of this information circular is to provide background information to prospective insureds regarding the organization, capitalization and operation of Preferred Contractors Insurance Company Risk Retention Group, LLC (“PCIC RRG”). The execution and submission of an Application for Insurance, Subscription Agreement and Operating Agreement, the purchase of shares, and the payment of insurance premiums when due, shall constitute an acknowledgement that a prospective insured has reviewed this Information Circular and the exhibits hereto, and shall evidence the agreement of the prospective insured to be bound by the terms and conditions of the PCIC RRG insurance program established by these documents.

NOTICE TO BROKERS AND AGENTS

Each potential insured contacted regarding participation in the PCIC RRG program must receive a copy of the PCIC RRG Information Circular. The Liability Risk Retention Act specifically states that ownership interests in a risk retention group are securities for the purpose of the anti-fraud provisions of Section 17 of the Securities Act of 1933 and Section 10 of the Securities Exchange Act of 1934. The potential for liability under these anti-fraud provisions for all concerned mandates that no potential insured should be given an Application for Insurance unless preceded or accompanied by a copy of the Information Circular.

WHERE YOU CAN FIND MORE INFORMATION:

If you have any questions regarding PCIC RRG, this offering or the insurance to be provided by PCIC RRG, or if you would like to request a copy of PCIC RRG’s most recent audited financial statements, please contact:

Phillip Salvagio
Safebuilt Insurance Services, Inc.
3250 Grey Hawk Court, Unit Z
Carlsbad, California 92010
(760) 599-7242

The insurance policy described in this Information Circular will be issued by Preferred Contractors Insurance Company Risk Retention Group, LLC. PCIC RRG may not be subject to all of the insurance laws and regulations of your state. State insurance insolvency guaranty funds are not available for PCIC RRG.
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**ATTACHMENTS**

- Attachment A: Operating Agreement
- Attachment B: Subscription Agreement
PREFERRED CONTRACTORS INSURANCE COMPANY
RISK RETENTION GROUP, LLC

SUMMARY

This summary is intended for convenience of reference only and may not contain all of the information that is important to a subscriber. Each subscriber should read this Information Circular and the attachments hereto in their entirety.

Overview of PCIC RRG

Preferred Contractors Insurance Company Risk Retention Group, LLC (“PCIC RRG”) is an insurance company organized under the laws of the State of Montana that is operated as a risk retention group under the Liability Risk Retention Act of 1986 (the “Liability Risk Retention Act”). PCIC RRG offers general liability insurance to members of PCIC RRG. Only entities that purchase a minimum of one share in PCIC RRG and meet PCIC RRG’s underwriting standards may purchase insurance from PCIC RRG.

PCIC RRG was formed as a limited liability company in Montana in 2005 for the purpose of underwriting general liability insurance for homebuilders and controlled artisan contractors. PCIC RRG currently limits its market to those homebuilders located in California, Arizona, Colorado, Connecticut, Florida, Idaho, Illinois, Louisiana, Montana, Nevada, New Jersey, New Mexico, New York, Oregon, Utah, Washington, Georgia, North Carolina, South Carolina, Pennsylvania, Tennessee, and Texas. Homebuilders in these parts of the country are currently having considerable difficulty in finding affordable and available insurance from traditional insurers, who have been unable to provide the market with successful underwriting and quality service.

PCIC RRG’s Operating Agreement is contained herein as Attachment A. PCIC RRG operates pursuant to a Certificate of Authority issued by the Montana Department of Insurance.

A copy of PCIC RRG’s most recent audited financial statements are available upon written request to PCIC RRG.

Management and Support Services

As a limited liability company, ultimate responsibility for the management of PCIC RRG is vested in its managers, whom currently consist of David E. Pike, John Huth and Jeffrey Lee Livingston (the “Managers”). For more information on the Managers, see the section captioned “Management” in this Information Circular. PCIC RRG does not presently have any regular employees, but rather contracts with independent service providers to obtain all necessary services. Administrative, accounting/financial, investment management, regulatory compliance and management reporting services are provided by W.A. Taft & Company (MT) LLC. Safebuilt Insurance Services, Inc. (“SIS”) provides policyholder services, including underwriting applications, policy issuance, billing, and collection of premiums.

Insurance Policy Offered by PCIC RRG

The only coverage that PCIC RRG currently provides is general liability coverage for homebuilders and controlled independent artisan contractors. Each participant will receive an insurance policy to which he or she can refer.
Use of Proceeds

The proceeds from the sale of the share will supplement the capital and surplus of PCIC RRG. Montana law requires that PCIC RRG have a minimum of $500,000 in capital and surplus, although greater amounts may be required based on the level of activity of PCIC RRG. The funds used from the sale of the shares will be used for working capital.

Purchase Price and Purchase Requirements

The initial purchase price for each PCIC RRG share is equal to thirty-three and one-third percent (33-1/3%) of the purchasing entity’s first year premium. PCIC RRG policyholders own an equity position in PCIC RRG. Each PCIC RRG policyholder is required to contribute an amount equal to 33-1/3% of their first year’s annual premium to purchase a single share of PCIC RRG. Each policyholder must subscribe to a minimum of one share in PCIC RRG.

After the initial year’s 33-1/3% capital contribution, members are required to continually pay 33-1/3% of their annual premium upon time of renewal as an additional capital contribution and for membership privileges to Preferred Contractors Association, Inc. (“PCA”), a member of PCIC RRG. One percent of the additional capital contribution will help build the capital of PCIC RRG and the remainder of the additional capital contribution will go towards annual PCA dues, which will give each member full access to all of PCA’s benefits, including but not limited to, discounts on equipment, auto rentals, travel, restaurants and professional services.

Restrictions on Transfer of Shares

Each subscriber for a PCIC RRG share is required to become a party to the Operating Agreement of PCIC RRG, which establishes the terms under which the subscriber will hold its share. There will be no market for shares and, under the Operating Agreement, members are prohibited from selling, transferring, pledging or otherwise encumbering their shares in PCIC RRG. For more information, see the section captioned “Operating Agreement” in this Information Circular and the Operating Agreement contained herein as Attachment A.

Mandatory Cancellation of Shares

Members who cease to be insured by PCIC RRG for any reason shall have their share canceled by PCIC RRG in accordance with the Operating Agreement and shall have no further rights or obligations as a member of PCIC RRG. Under certain circumstances, such as cancellation of their share held less than three years, no distribution will be paid for the share canceled by PCIC RRG. In all other cases, the distribution amount will be equal to the amount of capital contributed or an amount based on PCIC RRG’s book value, whichever is less, and may be paid in three equal annual installments bearing no interest. Subscriptions in shares of PCIC RRG should not be considered for either short or long-term investment purposes, but rather as a means to improve the access of the subscriber to stable, affordable and quality insurance coverage. For more information, see the section captioned “Operating Agreement” in this Information Circular.

Insurance Application

Each prospective insured is required to submit a completed copy of an Application for Insurance, along with historical loss runs, financial statements, brochures and any other general information about the company relevant to PCIC RRG or its insurance program administrator. If the risks are deemed suitable for PCIC RRG, SIS will communicate to the applicant the premium required to purchase a
twelve-month policy insuring the risks accepted for coverage. This annual premium figure becomes the basis for determining the purchase price of a single share of PCIC RRG that the applicant will be required to purchase. If the risks are deemed suitable for insurance by PCIC RRG, the applicant will be so informed. The purchase of a single share of PCIC RRG does not guarantee continued insurance coverage. Members who in the future are deemed to be unacceptable underwriting risks may not have their insurance policies renewed by PCIC RRG. If a member’s insurance policy is not renewed, such member’s share of PCIC RRG will be subject to cancellation under PCIC RRG’s Operating Agreement.

Operating Agreement and Subscription Agreement

Each prospective insured must also execute and submit, along with its insurance application, the Operating Agreement and Subscription Agreement contained herein as Attachments A and B.

Reinsurance

PCIC RRG has entered into an agreement with Aspen Insurance UK LTD & various other Lloyds syndicates for excess of loss reinsurance to limit its maximum retained loss exposure to $250,000 per occurrence. PCIC RRG also purchases reinsurance on an excess of loss basis to cover $750,000 in excess of its retention of $250,000 per occurrence. Additionally, PCIC RRG cedes 80% of its remaining risk under a quota share agreement with Pacific Re, Inc. (“Pacific Re”), a Montana captive reinsurer, which effectively reduces the maximum retained risk per occurrence to $50,000.

RISK FACTORS

The purchase of insurance and PCIC RRG shares involves a high degree of risk. Subscribers should consider the following factors since they may have a material impact upon the long-term prospects of PCIC RRG:

Limited Operating History

PCIC RRG is a relatively new company with a limited history of operations. There can be no assurance that PCIC RRG will be able to successfully implement its long-term objectives or maintain a profitable level of operations.

Inexperience of the Managers

The management of PCIC RRG will ultimately rest with the Managers, individuals with limited experience in the operations of an insurance company. Moreover, PCIC RRG does not have, and presently is not expecting to employ, any officers or employees who have long-term experience in managing an insurance company. Rather, PCIC RRG relies on the services of experienced consultants who provide their advisory services as independent contractors. For more information on these service providers, see the section captioned “Management Agreements” in this Information Circular. The loss of services of the management firms could have a material adverse effect on the ability of PCIC RRG to operate effectively.

Unpredictability of Loss Experience

PCIC RRG was established to help provide a long-term solution to the cyclical liability insurance availability and affordability problems faced by its members. As a privately owned insurance company, PCIC RRG only has available to it the limited financial resources that are contributed by participants in the program or that are earned by PCIC RRG. As with any such insurance company, the possibility exists
that there will be insufficient financial resources to cover all the claims that may be made. In the event that there are a number of large claims, it is possible PCIC RRG will be unable to pay all claims made under its policies and that participants may lose their capital contributions.

**Limited Operating History of Quota Share Reinsurer**

PCIC RRG cedes 80% of its remaining risk under a quota share agreement with Pacific Re, which effectively reduces the maximum retained risk per occurrence to $50,000. Pacific Re is a relatively new company with a limited history of operations. There can be no assurance that Pacific Re will be able to continue to operate profitably so that it will be able to meet its obligations to PCIC RRG.

**Limits on Excess of Loss Reinsurance**

PCIC RRG’s ceded reinsurance in excess of $250,000 has a cap on losses of 250% of the maximum reinsurance premium or $15,000,000 as of December 31, 2009, whichever is lower. PCIC RRG bears the risk for all losses in excess of the maximum reinsurance amount.

**No Expectations that Distributions Will Be Made**

At least for the foreseeable future, PCIC RRG does not expect to make distributions to its members. The payment and amount of any such distributions are subject to the discretion of the Managers, the prior approval of the Montana Department of Insurance and the legality of such payments under the laws of the State of Montana.

**Lack of Liquidity**

Shares of PCIC RRG’s are transferable only in limited circumstances and may be owned only by persons who are insured by PCIC RRG. Accordingly, no public or any other market will develop for PCIC RRG’s shares. Subscribers must assume that they will bear the economic risk of an investment in PCIC RRG’s shares for an indefinite period of time.

**Possible Loss of Investment Upon Termination of Coverage**

Upon termination of its insurance coverage with PCIC RRG, a member’s share will be subject to cancellation by PCIC RRG in accordance with the terms and conditions contained in PCIC RRG’s Operating Agreement. Under certain circumstances, such as cancellation of shares held less than three years, no distribution will be paid for shares canceled by PCIC RRG. In all other cases, the distribution amount will be based on the lesser of PCIC RRG’s book value or the purchase price paid for the purchasing entity’s share, and may be paid in three equal annual installments bearing no interest. For more information, see the section captioned “Operating Agreement” in this Information Circular.

**Risk of Investment Loss**

The investments of PCIC RRG are restricted to properly insured interest-bearing accounts, U.S Government bonds, Treasury bills, money market certificates or other suitable investments authorized by the applicable regulations governing captive insurance companies in the State of Montana. There can be no assurance that PCIC RRG’s investments will be profitable or that its investment portfolio will not suffer losses.
Availability of Additional Capital

Although it is anticipated that the existing capital of PCIC RRG, together with the net proceeds from the offering of shares, premiums, interest and other income, will be sufficient to cover the liabilities of PCIC RRG, there can be no assurance that additional funds will not be required. Should PCIC RRG need additional funds, there can be no assurance that such additional funds will be available or that they will be available on acceptable terms. If PCIC RRG requires additional capital but is unable to attain it, it may need to cease operations and you may lose your entire investment.

No Guarantee of Insurance, Premium Stability or Policy Renewal

There can be no assurance that PCIC RRG will offer to insure a risk for which an insurance application has been submitted or that, if coverage is written, that the policy will be renewed or not canceled. Each subscriber whose application is approved will receive a quotation letter stating the premium for the first year of coverage. There can be no assurance that premiums will be consistent from year to year. Future premiums are dependent, in part, on claims experience and the financial performance of PCIC RRG.

PCIC RRG is under no obligation to continue to provide insurance to any member of PCIC RRG based on such member’s ownership of PCIC RRG shares. Members of PCIC RRG who are determined in the future to be unacceptable underwriting risks due to claims and loss experience, financial condition or other factors may not continue to receive insurance from PCIC RRG and will become subject to PCIC RRG’s right to cancel such member’s share as provided in the Operating Agreement.

Changes in Law Could Adversely Effect PCIC RRG

The operation of PCIC RRG will be affected by changes in applicable law, whether statutory or otherwise, on either the federal level or by the government of the State of Montana. There can be no assurances that the Liability Risk Retention Act will not be amended in the future or that the states in which PCIC RRG conducts business will continue to allow risk retention groups such as PCIC RRG to issue insurance policies within their territorial limits.

Unavailability of State Insolvency Guaranty Funds

Under the Liability Risk Retention Act, states may neither require nor permit a risk retention group to participate in an insurance insolvency guaranty association. Accordingly, the benefits of the funds of such an association will not be available to the insureds of PCIC RRG in the event of its insolvency.

Determination of Offering Price

Management of PCIC RRG has determined the offering price for PCIC RRG shares. The offering price may not reflect the fair market value of the shares and is not based on the value as determined by ordinary negotiations.

TERMS OF THE OFFERING

Shares may be purchased only by homebuilders and controlled artisan contractors that (1) apply and are approved for general liability insurance coverage from PCIC RRG and (2) meet any other criteria that may be determined from time to time by the Managers.
All subscribers must purchase a single share equal to 33-1/3% of their first year’s annual premium. For example, if your first year’s insurance premium is $10,000, then you must purchase a single share at a total purchase price of $3,333.

Payment for the single share in PCIC RRG shall be in the form of a personal, corporate or bank check delivered to PCIC RRG or its agent. The Managers may adjust the purchase price per share in the future based on changes in the book value per share of PCIC RRG.

**Purchaser Suitability**

The shares of PCIC RRG are being offered and sold under an exemption from the registration provisions of federal and state securities laws provided by the Liability Risk Retention Act. PCIC RRG shares are not transferable, may not be pledged or encumbered and will not trade in any market. In light of the fact that an investment in PCIC RRG shares is not liquid, each potential subscriber should assure itself that it has no need for liquidity in the investment represented by its purchase of the PCIC RRG share and that its investment in the single share is not disproportionate to its net worth.

Each subscriber should also assure itself that it has been furnished with and has reviewed carefully this Information Circular (including the attachments) and in evaluating the suitability of an investment in PCIC RRG, the subscriber has not relied upon any representations or information (whether oral or written) other than as set forth herein or in answers furnished in writing by PCIC RRG to questions posed by the subscriber.

PCIC RRG shall be the sole judge of whether a subscriber meets the qualifications set forth above. In addition, PCIC RRG or its agents will review each subscriber’s insurance application and will offer insurance to subscribers only upon completion of such review to its satisfaction. PCIC RRG reserves the absolute right to reject any insurance application.

**Share Purchase Required for Insurance Coverage**

Each subscriber must purchase a single share in PCIC RRG before it may purchase insurance from PCIC RRG. PCIC RRG will issue a letter to each subscriber stating the purchase price for the share it will be required to purchase based on the amount of the subscriber’s annualized first year premium.

**Subscription and Operating Agreements**

A subscriber wishing to purchase a single share in PCIC RRG and insurance on the terms stated in this Information Circular must also complete and submit copies of the Operating Agreement contained herein as Attachment A and the Subscription Agreement contained herein as Attachment B. A subscriber’s obligation to purchase and PCIC RRG’s obligation to sell shares of PCIC RRG under the Subscription Agreement are subject to the condition that PCIC RRG and each subscriber have agreed to all material terms and conditions of the insurance to be provided, including, without limitation, premiums, retentions, exclusions and per occurrence and aggregate liability coverages and the subscriber’s execution of the Operating Agreement.

**MANAGEMENT**

Ultimate responsibility for the management of PCIC RRG is vested in the Managers. PCIC RRG presently has three Managers. However, the number of Managers may be increased at any time by a resolution adopted by the Managers then in office.
The following individuals currently serve as the Managers of PCIC RRG in the capacity indicated:

David E. Pike  Representative of a Member/Chairman of the Managers
John Huth  Resident of Montana
Jeffrey Lee Livingston  Member Representative

Preferred Contractors Association, Inc., a Montana corporation formed in 2007, provides eligible PCIC RRG members with certain benefits that include, but are not limited to, discounts on equipment, auto rental, travel, restaurants and professional services.

PCIC RRG may reimburse the Managers for reasonable out of pocket expenses incurred in connection with the performance of their duties as Managers. With the exception of Managers serving in the capacity as a resident of Montana, PCIC RRG does not compensate individuals for their service as a Manager of PCIC RRG.

The following individuals currently serve as officers of PCIC RRG as indicated:

Phillip Salvagio  President
Richard C. Goff  Secretary

PCIC RRG does not compensate its officers.

Substantially all of the day-to-day operational and overall management of PCIC RRG is provided by third parties. For more information on the services provided and the companies that provide them, see the section captioned “Management Agreements” in this Information Circular.

Related Party Transactions

PCIC RRG has entered into a Managing General Agency Agreement with SIS. Under this agreement, SIS will have responsibilities that focus on underwriting applications, policy issuance, billing, collection of premiums, policyholder services, execution of PCIC RRG’s required Subscription Agreement and the collection of supporting funds. Phillip Salvagio is the owner of SIS.

PCIC RRG has entered into a quota share agreement with Pacific Re, Inc. pursuant to which PCIC RRG currently cedes 80% of its $250,000 maximum retained loss exposure per occurrence to effectively reduce its maximum retained risk per occurrence to $50,000. Pacific Re, Inc. is a Montana protected cell captive insurance company that is indirectly owned by insurance producers for PCIC RRG,

MANAGEMENT AGREEMENTS

PCIC RRG relies substantially upon the expertise and experience of third parties to administer its operations.

Management Agreement

PCIC RRG has entered into a Management Services Agreement with W.A. Taft & Company (MT) LLC.  W.A. Taft & Company (MT) LLC is sometimes referred to herein as the “Captive Manager,” and the Management Services Agreement is sometimes referred to as the “Management Agreement.”
W.A. Taft & Company (MT) LLC will have all oversight responsibilities for the operation of PCIC RRG. These responsibilities include the areas of administration, accounting/financial, investment management, regulatory compliance, claims handling and management reporting.

Under the Management Services Agreement, the Captive Manager’s services include, among other things, the following:

- Providing all of the employees to staff PCIC RRG, which essentially will have no employees other than officers who will serve as liaisons between PCIC RRG and the Captive Manager;
- Providing all logistical functions such as office space, equipment, stationary and communications;
- Serving as custodian of PCIC RRG’s official records;
- Preparing and maintaining all required accounting records and external reports, including statutory financial reports to regulators and periodic reports to PCIC RRG;
- Reviewing and paying PCIC RRG expenses;
- Coordinating an annual review by PCIC RRG’s independent certified public accountant and tax advisor;
- Monitoring compliance with PCIC RRG’s investment policy;
- Ensuring PCIC RRG meets all regulatory requirements;
- Filing all forms and reports required by the Montana Department of Insurance and other state regulatory bodies;
- Coordinating efforts of Bartlett Actuarial Group as the actuary appointed by PCIC RRG to establish the ultimate expected loss and adjustment expense reserve; and
- Providing management reports on a periodic and ad hoc basis.

Managing General Agency Agreement

PCIC RRG has entered into a Managing General Agency Agreement with SIS. Under this Managing General Agency Agreement, SIS will have responsibilities that focus on underwriting applications, policy issuance, billing, collection of premiums, policyholder services, execution of the required Subscription Agreement, and the collection of supporting funds. SIS compensation for such services will amount to 25% of direct written premiums. As a part of this compensation, SIS will be required to compensate its established producer network and pay for inspection and audit services.

The Managing General Agency Agreement provides that the services SIS perform for PCIC RRG include, among other things, the following:
• Processing insurance applications, including the issuance of insurance policies;

• Performing normal policyholder maintenance functions (i.e., endorsements, policy changes, responding to questions);

• Invoicing and collecting insurance premiums and other receivables;

• Coordinating the collection of insurance premiums with insureds; and

• Coordinating the execution of PCIC RRG’s Subscription Agreement and the collection of associated funds.

Other Service Providers

Bartlett Actuarial Group Ltd annually reviews the adequacy of loss reserves and provides their opinion on the adequacy of these loss reserves to the Montana Department of Insurance. Their fee for these services is based upon time spent and billing rates.

Saslow, Lufkin, & Buggy, LLP performs audits of the PCIC RRG’s financial statements presented on the basis of generally accepted accounting principles. Their opinion on the fairness of these financial statements will be provided to the Montana Department of Insurance. Their fee for these services is based upon time spent and billing rates.

Moulton, Bellingham P.C. functions as legal counsel on behalf of PCIC RRG. As such, they assisted in the formation of PCIC RRG and provide ongoing counsel in Montana as needed. Their fee for these services is based upon time spent and billing rates.

W.A. Taft & Company (MT) LLC has selected a panel of defense attorneys from which counsel will be appointed for claims filed by California homebuilders. Their fees will be determined on a claim-by-claim basis and will be determined by the hourly rate.

PCIC RRG has entered into a claim service agreement with a Third Party Administrator (TPA) to provide claims administration services to PCIC RRG. Their fee for these services is based upon time spent and billing rates.

DESCRIPTION OF SHARES

General

All subscribers must purchase a single share equal to 33-1/3% of their first year’s annual premium. Each share in PCIC RRG will have the same relative rights as, and will be identical in all respects with, all other shares. Payment for the initial purchase of each share shall be in the form of a personal, corporate or bank check delivered to PCIC RRG or its agent. No share shall be issued by PCIC RRG to a subscriber until all of the following conditions have been satisfied: (i) PCIC RRG has determined that the subscriber meets the underwriting and other eligibility criteria adopted by PCIC RRG; (ii) the subscriber has executed and delivered the Subscription Agreement and Operating Agreement to PCIC RRG; (iii) the subscriber is covered under a policy of insurance issued by PCIC RRG; and (iv) the subscriber has paid the purchase price for the shares to PCIC RRG.
After the initial year’s 33 1/3% capital contribution members shall continue to pay 33 1/3% of their annual premium upon time of renewal as an additional capital contribution and for membership privileges in PCA. One percent of the additional capital contribution will help to build the capital of PCIC RRG and the remainder of the additional capital contribution will go towards annual PCA dues, which will give each member full access to all PCA benefits, including but not limited to discounts on equipment, auto rental, travel, restaurants and professional services. For more information, see the section captioned “Subscription Agreement” in this Information Circular.

Distributions

Any distribution by PCIC RRG shall be made only to PCIC RRG members and only on a per-share basis. These distributions shall be made at such times and in such amounts as may be determined in the sole discretion of the Managers, subject to the prior approval of the Montana Department of Insurance. All distributions must also be otherwise lawful under the laws of the State of Montana.

Voting Rights

Although PCIC RRG’s business and affairs shall be managed by the Managers, the following actions shall require the approval of members holding at least a majority of PCIC RRG’s outstanding shares: (a) any amendment to PCIC RRG’s Operating Agreement that would adversely affect the limited liability of members under the Montana LLC Act or other applicable law; or (b) the merger or consolidation of PCIC RRG with any other entity. Each holder of PCIC RRG shares will be entitled to one vote per share.

Liquidation

Upon the liquidation, dissolution or winding up of PCIC RRG, the holders of PCIC RRG shares would be entitled to all remaining assets of PCIC RRG available for distribution to members after the payment or the provision of payment of all of its debts and liabilities.

Preemptive Rights

Holders of PCIC RRG shares are not entitled to preemptive rights with respect to any shares that may be issued.

Restrictions on Transfer

PCIC RRG shares are subject to restrictions on transfer pursuant to the terms of the Operating Agreement. For more information, see the section captioned “Operating Agreement” in this Information Circular.

Cancellation

PCIC RRG shares are also subject to cancellation by PCIC RRG pursuant to the terms of the Operating Agreement. For more information, see the section captioned “Operating Agreement” in this Information Circular.
OPERATING AGREEMENT

Each subscriber for PCIC RRG shares will be required to become a party to the Operating Agreement of PCIC RRG. The following is a summary of the Operating Agreement. The complete form of Operating Agreement is attached as Attachment A.

Restrictions on Transfers of Shares

The Operating Agreement provides that no shares of PCIC RRG may be sold, exchanged, assigned, transferred, gifted, pledged, encumbered, hypothecated or otherwise disposed of in any manner, whether voluntarily or by operation of law without the prior written consent of the Managers. However, the Operating Agreement states that a member may transfer its shares to any successor in interest to the member whether by operation of law or otherwise if the transferee expressly agrees in writing to assume all obligations of the member under, and to be bound by the terms of, the Operating Agreement. Any transfer made in violation of the Operating Agreement shall be void and of no force and effect.

Disassociation Upon Termination of Insurance Coverage

A member may withdraw from PCIC RRG at any time by sending notice to the Managers that the member desires to terminate or non-renew coverage under all policies of insurance issued by PCIC RRG providing current and ongoing coverage to the member, effective as of the expiration of the policy period which occurs not less than six months following the date of such notice. As of the date on which a member ceases to be covered under policies of insurance issued by PCIC RRG (the “Termination Date”), the member shall cease to be a member of PCIC RRG, the share held by the member shall be cancelled and the member shall have no further rights or obligations as a member of PCIC RRG, regardless of whether or not the member has received the distribution, if any, to which it is entitled under the Operating Agreement. Notwithstanding the foregoing, a member shall continue to be liable for unpaid premiums and any other obligations owed to PCIC RRG.

Distribution Upon Withdrawal

If a member’s Termination Date occurs within three years following the date on which the member became a member of PCIC RRG, the member shall not be entitled to receive any payment or distribution in connection with the cancellation of the member’s share. If the Termination Date occurs on or after three years from the date on which the member became a member, the member shall be entitled to receive a distribution equal to the lesser of (1) the member’s capital contribution or (2) the result obtained when the value of the company, as defined in the following sentence, is multiplied by a fraction, the numerator of which is the number of shares of PCIC RRG held by the member and the denominator of which is the total number of shares of PCIC RRG held by all members as of the Termination Date. The “value of the company” shall be equal to the book value of PCIC RRG determined as of the last day of the fiscal year of PCIC RRG in which the Termination Date falls in accordance with accounting principles generally accepted in the United States of America.

Payment of Distribution

The Operating Agreement allows for payment of a member distribution in three equal annual installments bearing no interest, with the first such installment payment due within 90 days following the end of the fiscal year of PCIC RRG in which the Termination Date falls, unless the Managers approve a shorter payment period with equal periodic payments. The subsequent installment payments shall be due within the same time period in subsequent years. Notwithstanding the foregoing, no payment may be made by PCIC RRG pursuant to the Operating Agreement if such payment would (i) render PCIC RRG
insolvent or materially impair or threaten its financial stability, as determined by the Managers; (ii) reduce
PCIC RRG’s capital below the amount needed to provide adequate surplus or reserves; (iii) jeopardize
PCIC RRG’s licensure by the Montana Department of Insurance; (iv) be opposed or otherwise not
approved by the Montana Department of Insurance; or (v) otherwise be prohibited by law. The
distribution owed to the member shall be subordinated to all legal debts, obligations and liabilities of the
Company.

INCOME TAX CONSIDERATIONS

Prospective insureds and members should consult with their tax advisors regarding tax
considerations that may be relevant to the purchase or cancellation of PCIC RRG shares or the payment
of insurance premiums to PCIC RRG.

PCIC RRG anticipates that it will be treated as an insurance company under the Internal Revenue
Code. PCIC RRG does not, however, plan on seeking an advance ruling from the Internal Revenue
Service to this effect, and cannot guarantee this result. Assuming that PCIC RRG is deemed to have
adequate risk shifting and risk distribution, payment of premiums by insureds should be deductible as a
business expense.

The foregoing description is not intended to be a complete statement of the tax consequences of
an investment in or payment of premiums to PCIC RRG, nor does it address state or local income tax
issues arising with respect to an investment in or the payment of premiums to PCIC RRG. Each
subscriber should consult with its own advisor as to the tax consequences of the purchase or cancellation
of PCIC RRG shares or its payment of premiums to PCIC RRG.

REGULATION OF PCIC RRG

Liability Risk Retention Act of 1986

The Liability Risk Retention Act is intended to encourage alternatives to the traditional liability
insurance markets. A risk retention group, formed under the Liability Risk Retention Act, is a state
chartered and licensed liability insurance company organized for the primary purpose of assuming and
spreading the liability exposures of its group members. In order for PCIC RRG to meet the requirements
of the Liability Risk Retention Act, (i) each insured must be a member of PCIC RRG, (ii) each member
must purchase insurance from PCIC RRG, and (iii) all insureds must, through their businesses or
activities, be exposed to similar or related liability exposures. As a risk retention group, PCIC RRG
benefits from the Liability Risk Retention Act’s provisions limiting insurance regulation by states other
than its state of domicile and provisions granting exemptions from regulation under state and certain
federal securities laws.

Pursuant to the provisions of the Liability Risk Retention Act, PCIC RRG is largely exempt from
the insurance regulatory jurisdiction of jurisdictions other than the State of Montana to the extent that the
laws, rules, regulations or orders of such states would make unlawful, or regulate, directly or indirectly,
the operations of PCIC RRG. Thus, PCIC RRG is not required to be admitted as an insurer in a particular
state in order to issue insurance on sites or to insureds within the state.

However, risk retention groups are subject to certain requirements of state regulation. A risk
retention group must provide the insurance commissioner in each state where it is doing business with a
plan of operation or feasibility study, which includes coverages, deductibles, limits, rates and rating
classification systems. A state insurance commissioner is permitted to require PCIC RRG to submit to a
financial examination in the unlikely event that the Montana Department of Insurance has not examined
or refuses to examine PCIC RRG, but such examinations must be coordinated to avoid unnecessary duplication. Similarly, PCIC RRG must comply with a lawful order of a state insurance commissioner in a state delinquency proceeding where financial impairment of PCIC RRG has been shown or such an order in a voluntary dissolution proceeding or an injunction issued by a court of competent jurisdiction upon a petition by a state insurance commissioner alleging financial impairment or hazardous financial condition.

Risk retention groups may be required to comply with other types of state regulation such as unfair claims practice laws and laws regarding deceptive, false or fraudulent acts or practices. In addition, they may also be required to comply with nondiscriminatory regulations such as the payment of premium taxes levied on all insurers, brokers or policyholders or to participate in state mechanisms, such as assigned risk pools, for the equitable apportionment among insurers of liability insurance losses and expenses incurred on policies written through such mechanisms. Risk retention groups may also be required to appoint state insurance commissioners as their agents for service of process in that state. However, under the Liability Risk Retention Act, neither the State of Montana nor any other state may require or permit a risk retention group to participate in any insurance insolvency guaranty association, or require any insurance policy issued to a participant to be counter-signed by an insurance agent or broker residing in the state.

The Liability Risk Retention Act requires the following notice to appear on any policy issued by a risk retention group in ten-point type:

THIS POLICY IS ISSUED BY YOUR RISK RETENTION GROUP.
YOUR RISK RETENTION GROUP MAY NOT BE SUBJECT TO
ALL OF THE INSURANCE LAWS AND REGULATIONS OF YOUR
STATE. STATE INSURANCE INSOLVENCY GUARANTY FUNDS
ARE NOT AVAILABLE FOR YOUR RISK RETENTION GROUP.

The Liability Risk Retention Act confers broad exemptions from federal and state securities laws on the ownership interests in risk retention groups. Under the Liability Risk Retention Act, shares of PCIC RRG are considered to be exempt securities for purposes of the registration provisions of Section 5 of the Securities Act of 1933 (the “1933 Act”) and exempt securities for purposes of any state securities laws. In addition, a risk retention group is not considered to be an investment company for purposes of the Investment Company Act of 1940. However, the Liability Risk Retention Act expressly provides that the ownership interests in a risk retention group shall be considered securities for purposes of the anti-fraud provisions of Section 17 of the 1933 Act and Section 10 of the Securities Exchange Act of 1934.

Montana Insurance Regulation

As a captive insurance company organized under the insurance laws of the State of Montana, PCIC RRG is subject to regulation and supervision by the Montana Department of Insurance. The Montana Department of Insurance has broad administrative powers relating to the granting and revocation of licenses to transact business, the form and content of mandatory financial statements, reserve requirements, advertising, and the types and quality of investments which may be made. PCIC RRG will be required to file annual reports with the Montana Department of Insurance in a form approved by the Department. PCIC RRG will also have to file annual financial statements, which must contain an opinion of a certified public accountant, a report of evaluation of internal controls, a management comment letter and a certification of loss reserves and loss expense reserves. The Montana Department of Insurance has broad authority to examine the books and records of PCIC RRG, and is required to perform periodic examinations.
Other Regulation

PCIC RRG will operate as a risk retention group pursuant to the Liability Risk Retention Act and will be subject to certain limited regulations in jurisdictions other than the State of Montana.
ATTACHMENT B

SUBSCRIPTION AGREEMENT