STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

PRESIDENTIAL LIFE INSURANCE COMPANY

CONDITION: DECEMBER 31, 2009

DATE OF REPORT: APRIL 25, 2011

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AS OF

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| DATE OF REPORT: | APRIL 25, 2011 |
| EXAMINER: | JEFFREY GOOD, CFE, CIE, MCM |

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

Andrew M. Cuomo
Governor

James J. Wrynn
Superintendent

June 8, 2011

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 30573, dated August 3, 2010 and annexed hereto, an examination has been made into the condition and affairs of Presidential Life Insurance Company, hereinafter referred to as “the Company” or “PLIC,” at its home office located at 69 Lydecker Street, Nyack, New York 10960.

Wherever “Department” appears in this report, it refers to the State of New York Insurance Department.

## 1. EXECUTIVE SUMMARY

The significant comment contained in this report is summarized below.

- Beginning in 2009, the Company experienced a series of public stockholder and proxy challenges by former Chairman of the Board, Mr. Herbert Kurz. As a result, multiple changes to officers and directors occurred in 2010. (See Item 3E of this report)

## 2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the NAIC Financial Condition Examiners Handbook, 2009 Edition (the "Handbook"). The examination covers the three-year period from January 1, 2007 to December 31, 2009. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2009 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The results of this review are contained in item 7 of this report.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners ("NAIC"). The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the insurer's operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management's compliance with Department statutes and guidelines, Statutory Accounting Principles as adopted by the Department and annual statement instructions.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and management activities were evaluated incorporating the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic

- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2007 through 2009, by the accounting firm of BDO Seidman, LLP (“BDO”). The Company received an unqualified opinion in all the applicable years. The Company has an internal audit department and a separate internal control department which was given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 (“SOX”). The SOX program is designed to reinforce accountability/ownership within each business unit for meeting their SOX requirements. Maintenance of process documentation and testing of controls requires interaction between the business/staff groups and management. BDO's comprehensive approach to the audit includes SOX and audit work as well as documentation that originated from the Company's internal audit department. Where applicable, audit workpapers of BDO were reviewed and portions were relied upon in conjunction with this examination.

The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

## 3. DESCRIPTION OF COMPANY

### A. History

The Company was incorporated as a stock life insurance company under the laws of New York on May 17, 1965, and was licensed and commenced business on October 20, 1966. Initial resources of $2,850,000, consisting of common capital stock of $950,000 and paid in and contributed surplus of $1,900,000, were provided through the sale of 475,000 shares of common stock (with a par value of $2 each) for $6 per share. As of December 31, 2009, the Company reported common capital stock of $2,500,875, consisting of 475,000 shares at $5.265 per share, and gross paid in and contributed surplus of $34,349,125.

The Company cannot produce the stock certificate issued from PLIC to Presidential Life Corporation showing 475,000 shares issued in the amount of $5.265 per share.

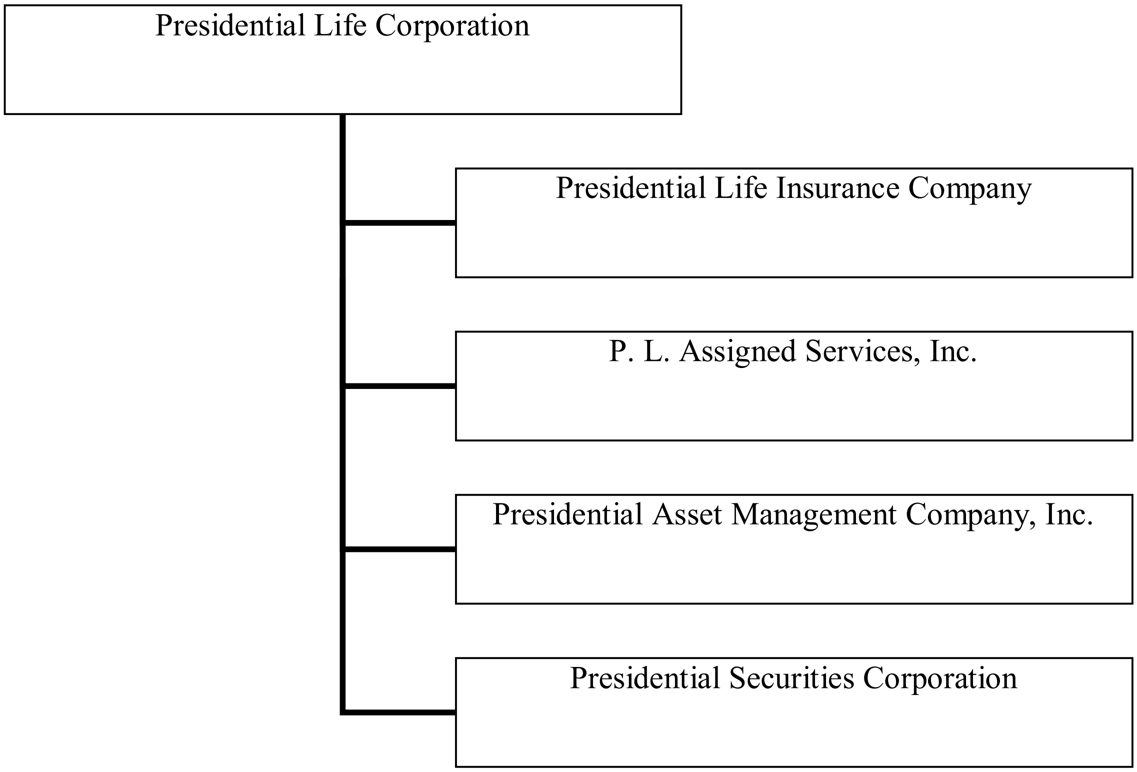
The examiner recommends that the Company obtain a legal stock certificate designating ownership of a specific number of shares and the price per share.

### B. Holding Company

The Company is a wholly owned subsidiary of Presidential Life Corporation ("PLC"), a Delaware corporation. In addition to PLIC, PLC has three additional subsidiaries, Presidential Securities Corporation ("PAC"), P.L. Assigned Services Corporation ("PLAS") and Presidential Asset Management Company, Inc. ("PAMC").

### C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2009 follows:




D. <u>Service Agreements</u>

The Company had two service agreements in effect during the examination period.

The Company reported the following information relating to inter-company transactions and services within the holding company system for the three year period under review:

| Type of Agreement | Effective Date | Provider(s) of Service(s) | Recipient(s) of Service(s) | Specific Service(s) Covered | Income/(Expense)* For Each Year of the Examination |
|---|---|---|---|---|---|
| Service agreement | 7/1/97 | PLIC | PLC | Management, investment mgt, accounting | 2009 $18,000<br>2008 $18,000<br>2007 $18,000 |
| | | | | | |
| Service agreement | 1/1/91 | PLIC | P.L. Assigned Services, Inc. | Management, collection & disbursement of monies, accounting | 2009 $0 **<br>2008 $0 **<br>2007 $0 ** |

* Amount of Income or (Expense) Incurred by the Company
** No services were provided under this agreement for the period under examination.

The Company participates in a federal income tax allocation agreement with its parent.

E. Management

The Company's by-laws provide that the Board of Directors ("directors") shall be comprised of not less than 13 and not more than 19 directors. The directors shall be elected at the annual meeting of stockholders held on the second Wednesday in May of each year and shall hold office until the next annual meeting of the stockholders and until their successors are elected and qualified. As of December 31, 2009, the Board of Directors consisted of 15 members.

The 15 board members and their principal business affiliation, as of December 31, 2009, were as follows:

| Name and Residence | Principal Business Affiliation | Year First Elected |
|---|---|---|
| Mark Abrams<br>Irvington, NY | Executive Vice President and Chief Investment Officer<br>Presidential Life Insurance Company | 2003 |
| Mitchell Anderson<br>Yorktown, NY | Senior Vice President<br>Presidential Life Insurance Company | 2009 |
| Donald Barnes<br>Nyack, NY | President and Chief Executive officer<br>Presidential Life Insurance Company | 1997 |
| Kathleen Dash<br>South Nyack, NY | Vice President and Secretary<br>Presidential Life Insurance Company | 2009 |
| Ronald Delgrosso<br>Mount Vernon, NY | Vice President – Director of IT<br>Presidential Life Insurance Company | 2009 |
| William A. DeMilt *<br>Rockville Centre, NY | Retired | 2009 |
| Donna Jones<br>Nanuet, NY | Vice President -Director of New Business and Life<br>Presidential Life Insurance Company | 2009 |
| W. Thomas Knight*<br>Edgartown, MA | Retired | 1993 |
| Leonard Kurz<br>Piermont, NY | Director<br>Kurz Family Foundation | 2008 |
| John D. McMahon*<br>Bronxville, NY | Executive Vice President<br>Con Edison | 2009 |

| Name and Residence | Principal Business Affiliation | Year First Elected |
|---|---|---|
| Lawrence Read *<br>Palm Desert, CA | President and Chief Executive Officer<br>Lube Management Corporation | 2002 |
| Lawrence Rivkin*<br>New York, NY | Retired | 2009 |
| Stanley Rubin *<br>Monmouth Beach, NJ | Retired | 2000 |
| Jerold Scher<br>Suffern, NY | Senior. Vice President and Chief Actuary<br>Presidential Life Insurance Company | 1999 |
| William Trust, Jr. *<br>New City, NY | Principal<br>Innovative Management Consulting | 2009 |

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The Company's By-laws call for the board to establish one or more committees comprised solely of directors who are not officers or employees of the Company. The By-laws state each committee must have at least five members.

The examiner's review revealed that beginning in 2009 the Audit Committee only had three members.

The Examiner recommends that the Company amend its By-laws to allow for an Audit Committee with a minimum membership of three persons or increase the Audit Committee members to five.

The following is a listing of the principal officers of the Company as of December 31, 2009:

| Name | Title |
| --- | --- |
| Donald Barnes | President and Chief Executive Officer |
| Dominic D'Adamo | Acting Chief Financial Officer |
| Jerold Scher | Chief Actuary |
| Mark Abrams | Executive Vice President – Chief Investment Officer |
| Mitchell Anderson | Senior Vice President – Chief Marketing Officer |
| Ronald Delgrosso | Vice President – Director of Information Technology |
| Donna Jones | Vice President - Director of New Business and Life |
| Maria Kramer | Director of Human Resources |
| Kathleen Dash* | Vice President and Secretary |

*Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

On April 18, 2008, the Company adopted a succession plan, whereby Herbert Kurz, former CEO of the Company and Chairman of the Board, would resign as CEO of the Company effective May 12, 2009. In accordance with such plan Herbert Kurz resigned as CEO of the Company on May 12, 2009. In October 2009, Herbert Kurz filed a Schedule 13-D amendment with the Securities and Exchange Commission ("SEC") indicating his intention to commence a consent solicitation to replace members of the Company's Board of Directors. In December 2009, Herbert Kurz commenced a solicitation of stockholder consents, to replace all of the current directors and electing in their place a slate of nominees proposed by Herbert Kurz. Further, upon their election, the proposed directors would re-install Herbert Kurz as CEO. The independent directors of the Company determined that it was in the best interests of the Company's stockholders to oppose Herbert Kurz's consent solicitation.

On February 12, 2010, Herbert Kurz notified the Company of his intention to nominate for election at the next annual shareholders' meeting, the same slate of nominees as proposed in the previous unsuccessful consent solicitation.

On June 3, 2010, the Department informed the lawyers for Herbert Kurz that the application of the Kurz Family Foundation for acquisition of control of the Company was disapproved. Additionally, Mr. Kurz could no longer serve as an officer, director or controlling person of the Company.

As a result of the public stockholder and proxy challenges by Herbert Kurz, multiple changes to the officers and directors of the Company occurred in 2010.

During 2010, changes to the directors were as follows:

Leonard Kurz – Resigned as Director effective as of January 9, 2010
Dominic D'Adamo – Elected Director effective January 9, 2010
Jerold Scher – Resigned as Director effective as of August 18, 2010
Paul Pheffer – Elected Director effective as of August 18, 2010
Duncan Szeto – Elected Director effective as of August 18, 2010
Paul Marsico – Elected Director effective as of August 18, 2010
Tara Munderville – Elected Director effective as of August 18, 2010

During 2010, changes to the officers were as follows:

Dominic D'Adamo – Resigned effective June 11, 2010
Paul Pheffer - Appointed CFO effective June 14, 2010
Jerold Scher – Resigned as Chief Actuary effective August 18, 2010
Appointed Sr. Vice President Actuary effective August 18, 2010
Duncan Szeto – Appointed Chief Actuary effective August 18, 2010
Maria Kramer – Retired effective June 5, 2010
Paul Marsico – Appointed Vice President Director of Human Resources effective April 5, 2010

## 4. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

As of December 31, 2009, the Company is domiciled in the State of New York, and is licensed in all states except New Hampshire and the District of Columbia. Policies are written on a non-participating basis. Effective January 4, 2010, the Company became licensed in the state of New Hampshire.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2009:

| Life Insurance Premiums | |
|---|---|
| New York | 23.2% |
| California | 8.0 |
| Florida | 7.2 |
| New Jersey | 5.5 |
| North Carolina | 4.7 |
| Subtotal | 48.6% |
| All others | 51.4 |
| Total | 100.0% |

| Annuity Considerations | |
|---|---|
| New York | 59.6% |
| Pennsylvania | 9.7 |
| Florida | 7.9 |
| New Jersey | 3.0 |
| Ohio | 2.2 |
| Subtotal | 82.4% |
| All others | 17.6 |
| Total | 100.0% |

| Accident and Health Insurance Premiums | |
|---|---|
| New York | 65.4% |
| Texas | 5.3 |
| Ohio | 5.1 |
| Kentucky | 4.6 |
| Illinois | 4.0 |
| Subtotal | 84.4% |
| All others | 15.6 |
| Total | 100.0% |

| Deposit Type Funds | |
|---|---|
| Florida | 24.4% |
| New York | 16.5 |
| Pennsylvania | 9.8 |
| Texas | 5.7 |
| Ohio | 4.2 |
| Subtotal | 60.6% |
| All others | 39.4 |
| Total | 100.0% |

A. Statutory and Special Deposits

As of December 31, 2009, the Company had $2,284,376 of United States Treasury Bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. In addition, the Company maintained aggregate deposits of $3,156,199 with the following states:

| | |
|---|---|
| Arkansas | $ 99,641 |
| Florida | 1,259,416 |
| Georgia | 35,264 |
| Massachusetts | 99,641 |
| New Mexico | 110,707 |
| North Carolina | 410,554 |
| Oklahoma | 10,075 |
| South Carolina | 597,847 |
| Virginia | 533,054 |
| Total | $3,156,199 |

B. Direct Operations

The Company is engaged in the sale of insurance products with three primary lines of business: individual annuities, individual life insurance and group accident and health.

The Company's primary business strategy consists of marketing its single-premium deferred annuity and single-premium immediate annuity business. Each of these products is designed to meet the needs of increasingly sophisticated consumers for supplemental retirement income and estate planning. As of December 31, 2009, the single premium annuity line represents approximately ninety percent of new business.

Due to the competitive nature of the term, whole life and universal life insurance business and the negative impact of that competition on profits from the business, management decided to exit the traditional life market in 2004. The Company continues to service the inforce business and continues to issue a graded benefit life product, which is designed for the senior market and is a simplified issue whole life product. The graded benefit life product was introduced in April 2009 for customers who would not qualify for standard risk rates.

The Company issues statutory short-term disability contracts to employers with an unlimited number of employees in New York State. In addition to short-term disability, the

Company offers medical stop loss, group dental, individual impaired risk disability, hospital indemnity products, accident products and group life insurance. These products combined contributed only 1.4% to the total premiums in 2009. The majority of these products, excluding dental, are reinsured and the administration of these products is handled by third party administrators.

The Company issues only non-participating life insurance policies, which do not pay dividends to policyholders from the insurer's earnings.

The independent general agency system is the Company's primary product distribution system. The Company distributes its annuity contracts and life insurance policies through 823 independent General Agents of which 338 are located in New York State. These General Agents, in turn, distribute the Company's products through their 13,103 licensed insurance agents or brokers throughout the United States.

C. Reinsurance

As of December 31, 2009, the Company had reinsurance treaties in effect with fourteen companies, of which eleven were authorized or accredited. The Company's life, accident and health business is reinsured on a coinsurance, and/or yearly renewable term basis.

Reinsurance is provided on an automatic and/or facultative basis.

The maximum amount of individual life insurance retained on any one life is $50,000 per policy and $100,000 per life. The total face amount of life insurance ceded as of December 31, 2009, was $9.0 million, which represents 4.3% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies and reinsurance recoverables from unauthorized companies, totaling $3,200,643, was supported by letters of credit and trust agreements.

The total face amount of life insurance assumed as of December 31, 2009, was $1.6 billion, all of which was related to the assumption of Servicemen's Group Life Insurance ("SEGLI") business from the Prudential Life Insurance Company.

## 5. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

| | December 31, 2009 | December 31, 2006 | Increase (Decrease) |
|---|---|---|---|
| Admitted assets | $3,613,889,672 | $4,277,307,476 | $(663,417,804) |
| Liabilities | $3,344,113,020 | $3,945,195,255 | $(601,082,235) |
| Common capital stock | $2,500,875 | $2,500,875 | $0 |
| Gross paid in and contributed surplus | 34,349,125 | 45,641,953 | (11,292,828) |
| Additional admitted deferred tax asset | 14,329,801 | 51,019 | 14,278,782 |
| Unassigned funds (surplus) | 218,596,851 | 281,910,165 | (63,313,314) |
| Total capital and surplus | $ 269,776,652 | $ 330,104,012 | $ (60,327,360) |
| Total liabilities, capital and surplus | $3,613,889,672 | $4,277,307,476 | $(663,417,804) |

The Company's invested assets as of December 31, 2009 were mainly comprised of bonds 82.8%, cash and short-term investments 8.2%, other invested assets 5.5%, stocks 2.9% and policy loans 0.5%.

The majority 93.6% of the Company's bond portfolio, as of December 31, 2009, was comprised of investment grade obligations. NAIC rated 3 and 4 bonds consisted of 5.1% and 0.9%, respectively.

As of December 31, 2009, approximately $196.2 million (5.5%) of the Company's investment portfolio consisted of other invested assets, including interests in over seventy limited partnerships which are engaged in a variety of investment strategies.

The Company reported admitted assets of $3.6 billion in 2009 compared to $4.3 in 2006, a decrease of $661.4 million or 15%.

The Company's reported net operating income declined during the period under examination. Results in 2009, 2008 and 2007 primarily reflect a decrease in investment income. The Company's short-term investments and fixed maturities as well as investment losses from the limited partnerships all contributed to lower revenues. The Company had net realized capital losses in 2008 totaling $27.7 million.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Ordinary: | | | |
| Life insurance | $ 1,330,323 | $ 6,789,758 | $ (1,237,039) |
| Individual annuities | 21,977,559 | 36,224,557 | 54,539,399 |
| Supplementary contracts | (171,221) | 723,172 | 1,309,954 |
| Total ordinary | $23,136,661 | $43,737,487 | $54,612,314 |
| Group: | | | |
| Life | $ (141,599) | $ (7,329) | $ 1,390 |
| Annuities | (518,275) | 972,414 | 1,491,890 |
| Total group | $ (659,874) | $ 965,085 | $ 1,493,280 |
| Accident and health: | | | |
| Group | $ 518,343 | $ (27,917) | $ 61,446 |
| Other | 15,456 | 300 | 1,085 |
| Total accident and health | $ 533,799 | $ (27,617) | $ 62,531 |
| Total | $23,010,586 | $44,674,955 | $56,168,125 |

## 6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2009, as contained in the Company's 2009 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2009 filed annual statement.

### A. Independent Accountants

The firm of BDO was retained by the Company to audit the Company's combined statutory basis statements of financial position for the Company as of December 31$^{st}$ for each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

BDO concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

The Company received an unqualified opinion in all the applicable years. BDO's comprehensive approach to the audit includes SOX and audit work as well as documentation that originated from the Company's internal audit department. The examiner found that the BDO staff has been on the Company's engagement for five years or more. The Company should request that BDO rotate the engagement staff at the Company on a periodic basis. A revised BDO SOX staff, while losing some familiarity, would provide a desired fresh view of the client.

The examiner recommends that the Company management request its external auditor to rotate SOX staff members.

### B. Internal Audit Department

The Company has consolidated the functions of Internal Audit and SOX compliance into one department, Internal Audit Department ("IAD"). At PLIC, IAD is responsible for establishing and overseeing the Company's SOX program. The SOX program is designed to reinforce accountability/ownership within each business unit for meeting the Company's SOX requirements. Maintenance of process documentation and testing of controls requires interaction between the business/staff groups.

C. Net Admitted Assets

| | |
|---|---|
| Bonds | $2,928,992,788 |
| Stocks: | |
| Preferred stocks | 101,146,617 |
| Common stocks | 1,376,557 |
| Real estate: | |
| Properties occupied by the company | 379,599 |
| Cash, cash equivalents and short term investments | 288,626,146 |
| Contract loans | 18,959,037 |
| Other invested assets | 196,189,092 |
| Payor options | 389,970 |
| Investment income due and accrued | 41,208,325 |
| Premiums and considerations: | |
| Uncollected premiums and agents' balances in the course of collection | 1,024,377 |
| Deferred premiums, agents' balances and install booked but defer and not yet due | 2,087,898 |
| Reinsurance: | |
| Amounts recoverable from reinsurers | 434,045 |
| Other amounts receivable under reinsurance contracts | 273,379 |
| Net deferred tax asset | 32,714,785 |
| Electronic data processing equipment and software | 180,578 |
| Reinsurance balances | (93,521) |
| Total admitted assets | $3,613,889,672 |

D. Liabilities, Capital and Surplus

| | |
|---|---|
| Aggregate reserve for life policies and contracts | $3,070,048,757 |
| Aggregate reserve for accident and health contracts | 1,045,979 |
| Liability for deposit-type contracts | 197,870,294 |
| Contract claims: | |
| Life | 8,297,390 |
| Accident and health | 690,058 |
| Premiums and annuity considerations for life and accident and health contracts received in advance | 59,777 |
| Contract liabilities not included elsewhere: | |
| Other amounts payable on reinsurance | 5 |
| Interest maintenance reserve | 68,219,146 |
| Commissions to agents due or accrued | 250,123 |
| General expenses due or accrued | 1,125,864 |
| Taxes, licenses and fees due or accrued, excluding federal income taxes | 204,228 |
| Current federal and foreign income taxes | (18,345,960) |
| Unearned investment income | 92,130 |
| Amounts withheld or retained by company as agent or trustee | 706,117 |
| Amounts held for agents' account | 141,493 |
| Remittances and items not allocated | 1,905,123 |
| Asset valuation reserve | 10,697,598 |
| Interest on policy and contract claims | 673,299 |
| Reserve for unpresented checks | 431,599 |
| Total liabilities | $3,344,113,020 |
| Common capital stock | $2,500,875 |
| Gross paid in and contributed surplus | 34,349,125 |
| Additional admitted deferred tax asset | 14,329,801 |
| Unassigned funds (surplus) | 218,596,851 |
| Surplus | $ 267,275,777 |
| Total capital and surplus | $ 269,776,652 |
| Total liabilities, capital and surplus | $3,613,889,672 |

E. Condensed Summary of Operations

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Premiums and considerations | $211,242,425 | $165,988,584 | $147,368,909 |
| Investment income | 183,352,317 | 258,635,039 | 283,376,027 |
| Commissions and reserve adjustments on reinsurance ceded | 2,836,187 | 3,060,252 | 1,510,608 |
| Miscellaneous income | 113,331 | 160,723 | 94,550 |
| Total income | $397,544,260 | $427,844,598 | $432,350,094 |
| Benefit payments | $325,342,954 | $443,729,080 | $689,354,974 |
| Increase in reserves | 9,693,021 | (110,487,082) | (359,840,186) |
| Commissions | 8,572,055 | 7,593,062 | 7,857,021 |
| General expenses and taxes | 21,023,484 | 19,755,860 | 19,626,616 |
| Increase in loading on deferred and uncollected premium | (109,776) | (584,216) | 670,742 |
| Net transfers to or (from) Separate Accounts net of reinsurance | 0 | 0 | (1,849,160) |
| Decrease in mortality reserve – variable annuity | 0 | 0 | (96,973) |
| Total deductions | $364,521,738 | $360,006,704 | $355,723,034 |
| Net gain (loss) | $ 33,022,522 | $ 67,837,894 | $ 76,627,060 |
| Federal and foreign income taxes incurred | 10,011,937 | 23,162,939 | 20,458,935 |
| Net gain (loss) from operations before net realized capital gains | $ 23,010,586 | $ 44,674,955 | $ 56,168,125 |
| Net realized capital gains (losses) | 13,018,114 | (27,742,719) | 2,973,149 |
| Net income | $ 36,028,699 | $ 16,932,236 | $ 59,141,274 |

F. Capital and Surplus Account

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Capital and surplus, December 31, prior year | $329,039,318 | $360,372,542 | $330,104,012 |
| Net income | $ 36,028,699 | $ 16,932,236 | $ 59,141,274 |
| Change in net unrealized capital gains (losses) | (52,466,757) | (29,205,962) | 10,104,622 |
| Change in net deferred income tax | (344,335) | 527,620 | 866,602 |
| Change in non-admitted assets and related items | (48,817,973) | 10,226 | (64,577) |
| Change in asset valuation reserve | 31,137,700 | 16,102,656 | (7,779,391) |
| Dividends to stockholders | (24,800,000) | (35,700,000) | (32,000,000) |
| Net change in capital and surplus for the year | $ (59,262,666) | $ (31,333,224) | $ 30,268,530 |
| Capital and surplus, December 31, current year | $269,776,652 | $329,039,318 | $360,372,542 |

## 7. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

### A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

### B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

### C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Section 409 of the New York Insurance Law states, in part:

> "(a) Every insurer….file with the superintendent a plan for the detection, investigation and prevention of fraudulent insurance activities in this state and those fraudulent insurance activities affecting policies issued or issued for delivery in this state."

The examiner's review revealed that the Company was using a plan for the detection, investigation and prevention of fraudulent insurance activities which was not filed with the Superintendent.

The Company violated Section 409(a) of the New York Insurance when it failed to file its plan for the detection, investigation and prevention of fraudulent insurance activities with the Superintendent.

## 8. SUBSEQUENT EVENTS

In August 2010, the Securities and Exchange Commission (the “SEC”) provided a comment letter to the PLC following the SEC’s review of the PLC’s 2009 Form 10-K and June 2010 Form 10-Q, which were filed in accordance with U. S. Generally Accepted Accounting Principles.

On March 7, 2011, the PLC Board of Directors determined, upon advice of management, that PLC’s 2008 and 2009 financial statements included in PLC’s Annual Report on Form 10-K for the year ended December 31, 2009 and the financial statements contained in PLC’s Quarterly Reports on Form 10-Q for the periods ended March 31, 2010, June 30, 2010 (the “June 2010 Form 10-Q”) and September 30, 2010 should be restated.

The restated Form 10-K reflects PLC's Consolidated Financial Statements for the years ended December 31, 2008 and 2009 to incorporate a change in the way PLC accounts for certain investments. Approximately 5% of PLC’s overall investment portfolio is invested in private limited partnerships, with respect to which PLC has historically applied the equity method of accounting. After extensive discussions with the staff of the SEC, PLC has determined that it should apply either the equity method or the fair value method of accounting to such investments depending upon the level of influence the Company has on the underlying policies of such limited partnerships. PLC now applies the fair value method of accounting for investments in limited partnerships in which PLC has less than a 5% interest and has virtually no influence over the operating and financial policies of the partnership, and applies the equity method of accounting where PLC has either a 5% or greater interest or in the case where there is less than a 5% interest, but PLC has some influence over the operating and financial policies of the partnership.

## 9. SUMMARY AND CONCLUSIONS

Following are the recommendations and violation contained in this report:

| Item | Description | Page No(s). |
| --- | --- | --- |
| A | The examiner recommends that the Company obtain a legal stock certificate designating ownership of a specific number of shares and the price per share. | 5 |
| B | The Examiner recommends that the Company amend its By-laws to allow for an Audit Committee with a minimum membership of three persons or increase the Audit Committee members to five. | 8 |
| C | The examiner recommends that the Company's management request its external auditor to rotate SOX staff members. | 16 |
| D | The Company violated Section 409(a) of the New York Insurance when it failed to file its plan for the detection, investigation and prevention of fraudulent insurance activities with the superintendent. | 22 |

Respectfully submitted,

__________________________
Jeffrey Good, CFE, CIE, MCM

STATE OF NEW YORK )
)SS:
COUNTY OF NEW YORK )

Jeffrey Good, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

__________________________
Jeffrey Good, CFE, CIE, MCM

Subscribed and sworn to before me

this__________ day of ___________________

*APPOINTMENT NO. 30573*

### *STATE OF NEW YORK*

# *INSURANCE DEPARTMENT*

*I, **JAMES J. WRYNN**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

***JEFFREY GOOD***

*as a proper person to examine into the affairs of the*

***PRESIDENTIAL LIFE INSURANCE COMPANY***

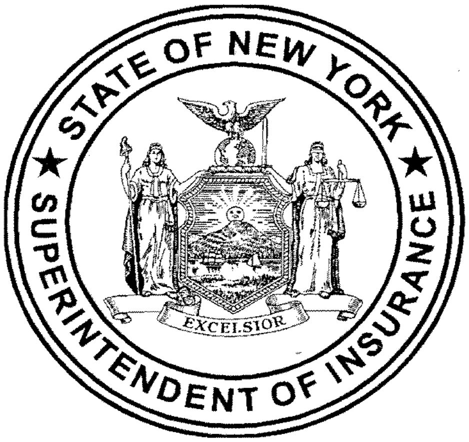
*and to make a report to me in writing of the condition of the said*

***COMPANY***

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by name*
*and affixed the official Seal of the Department*
*at the City of New York*

*this 3rd day of August, 2010*




*JAMES J. WRYNN*
*Superintendent of Insurance*

*Superintendent*