UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

ANEGADA MASTER FUND, LTD., et al.,	:	Civil Action No. 08-cv-10584
Plaintiffs,	:	SECOND AMENDED COMPLAINT FOR VIOLATIONS OF FEDERAL SECURITIES LAWS AND STATE LAW CLAIMS FOR COMMON LAW FRAUD AND NEGLIGENT MISREPRESENTATION
vs.	:	
PXRE GROUP LTD., et al.,	:	
Defendants.	:	JURY TRIAL DEMANDED

Plaintiffs make the following allegations, except as to allegations specifically pertaining to Plaintiffs and Plaintiffs' counsel, based upon the investigation undertaken by Plaintiffs' counsel (which investigation included analysis of publicly available news articles and reports, public filings, securities analysts' reports and advisories about PXRE Group Ltd. ("PXRE" or the "Company"), the Company's Convertible Offering Materials in connection with PXRE's Preferred Shares (defined below) offering, press releases and other public and private statements made by Defendants, and media reports about the Company, the pleadings filed in the action captioned *In re PXRE Group Ltd. Securities Litigation*, Civil Action No. 06-CV-3410 (KMK) (S.D.N.Y.), as well as interviews with former PXRE employees and industry experts) and believe that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

As set forth in Tolling and Standstill Agreements entered into between Plaintiffs and Defendants, the running of any statute of limitations, statute of repose, laches or other limitation period for the claims asserted herein has been tolled – from February 15, 2007, for claims against PXRE, and from February 14, 2008, for claims against the Individual Defendants (defined below), through and including December 4, 2008 (the date that the initial complaint was filed). Defendants have further agreed that in response to any claims that may be brought against them by Plaintiffs in this action, Defendants will not plead the statute of limitations, statute of repose, laches or other limitations defense based on the time period from the effective date of their respective Tolling and Standstill Agreement through and including December 4, 2008.

NATURE OF THE ACTION

1. This is an action by Plaintiffs (defined below), a group of hedge funds, who purchased Series D Perpetual Non-Voting Preferred Shares of PXRE ("Preferred Shares") in a stock

offering completed on or about October 7, 2005 (the "Convertible Offering"), following two of the major hurricanes of 2005, Hurricanes Katrina and Rita.[1]

2. As detailed herein, PXRE, a reinsurance company, suffered substantial losses following Hurricanes Katrina and Rita and needed to raise significant additional funds to pay out the claims that were being made by its policyholders, among other reasons. To accomplish this, PXRE sold shares of its common stock to the public in a secondary offering (the "Secondary Offering") and completed the Convertible Offering of PXRE Preferred Shares to Plaintiffs and other investors. However, instead of advising investors in the Secondary Offering and Convertible Offering of PXRE's true loss exposure from Hurricanes Katrina and Rita, PXRE and the Individual Defendants (defined below) materially downplayed PXRE's exposure and misrepresented the size of PXRE's losses. At all relevant times, Defendants either knew that PXRE's losses were much higher than represented or had no legitimate basis for representing the size of PXRE's losses as they did because they knew that their modeling system was flawed. PXRE and the Individual Defendants further represented to Plaintiffs that PXRE had a maximum possible loss that it could be exposed to from any single event. As detailed further below, Defendants provided Plaintiffs with a formula for calculating the maximum exposure that PXRE had to an event such as Hurricane Katrina. At all relevant times, Defendants knew that this was not true and that PXRE's losses could be, and were, higher than the maximum loss represented to Plaintiffs. In addition to making false and misleading statements in the Convertible Offering Materials, and in other public statements, the Individual Defendants also misrepresented the true scope of PXRE's losses and its maximum exposure to

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[1] Hurricanes Katrina and Rita made landfall on August 29, 2005 and September 24, 2005, respectively. Hurricane Katrina caused $81.2 billion of damage. Hurricane Rita caused $11.3 billion of damage.

Hurricanes Katrina and Rita directly to Plaintiffs during face-to-face and/or private telephonic meetings before the Convertible Offering closed.

3. Defendants represented both publicly and directly to Plaintiffs that they had considerable expertise in calculating PXRE's exposure to catastrophes. For example, in its Form 10-K for the year ending December 31, 2004 (the "2004 10-K"), which was filed with the Securities and Exchange Commission ("SEC") on March 1, 2005, PXRE described the Company's procedures for monitoring risk and exposure to losses from catastrophic events:

> We have developed systems and software tools to monitor and manage the accumulation of our exposure to [catastrophe] losses.
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> * * *
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> Our portfolio optimization system incorporates third-party catastrophe modeling software and internally developed models. Our software tools use exposure data provided by our ceding company clients to simulate catastrophic losses. We have high standards for the quality and level of detail of the exposure data that we require and have an expressed preference for data at the zip code or postal code level or finer.

4. Moreover, Defendants represented both publicly and directly to Plaintiffs that PXRE was well-prepared for timely assessing the losses from large catastrophes and that the amount of claims from these losses "tends to be readily determinable within a short period of time after the occurrence of the catastrophic event." In its 2004 10-K, PXRE stated:

> Catastrophe and risk excess business has been our primary focus since our predecessor company was formed in 1986. This means that we primarily focus on providing reinsurance in respect of events which do not tend to occur frequently, but when they do occur, have the potential to generate a large amount of losses per occurrence. The extent of claims due to losses stemming from such events, however, tends to be readily determinable within a short period of time after the occurrence of the catastrophic event. . . .

5. Thus, Defendants represented that they were well-prepared to timely assess the extent of the Company's loss risk and financial exposure.

6. On September 11, 2005, PXRE publicly announced an estimate of its net loss from Hurricane Katrina of approximately $235 million – hundreds of millions of dollars less than the true loss that was later disclosed in February 2006. Then, on September 28, 2005, the Company announced an estimate of the net impact from Hurricane Rita of $30 to $40 million – approximately half of the true loss later disclosed in February 2006.[2]

7. As a result of these losses, PXRE and the Individual Defendants knew that they needed hundreds of millions of dollars of new capital to pay the claims of their policyholders, avoid bankruptcy, and maintain their credit rating so that PXRE could continue to write new business. According to the terms of a shelf registration statement filed with the SEC on or about September 21, 2005, any public offering of the Company's stock was limited to 11,623,362 shares. Given the shares' trading range at the time, the sale of all of these shelf shares in a secondary offering would not provide the Company with sufficient funds for these purposes. As such, the Company sold preferred shares in the Convertible Offering to obtain the additional funds that it sorely needed. Thus, the Convertible Offering was integrated with, and nothing more than an extension of, the Secondary Offering.

8. PXRE and the Individual Defendants announced the sale of 8,843,500 shares of common stock through the Secondary Offering and 375,000 preferred shares sold through the Convertible Offering. In connection with the Secondary Offering, on or about October 5, 2005, PXRE filed a prospectus (the "Prospectus") with the SEC. In connection with the Convertible Offering, Plaintiffs were provided with materials concerning the offering (the "Convertible Offering

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[2] PXRE's losses from Hurricanes Katrina and Rita, as eventually disclosed in February 2006, were $602 million and $66 million, respectively, for a total of $668 million. PXRE began 2005 with $850 million of total capital. Thus, the losses amounted to almost 80% of PXRE's 2005 capital and were likely to bankrupt the Company.

Materials"). As detailed below, shares in the Convertible Offering were offered, marketed and sold to at least thirty-six (36) large institutional accredited investors (as such term is defined in Rule 501(a) of Regulation D of the Securities Act of 1933 (the "Securities Act")). The Secondary Offering and Convertible Offering closed on October 7, 2005 and PXRE collected proceeds of nearly $500 million. In order to make the shares sold in the Secondary Offering and Convertible Offering attractive to investors, PXRE and the Individual Defendants materially misled Plaintiffs about PXRE's exposure and materially misrepresented PXRE's losses.

9. As detailed more fully below, the shares sold in the Convertible Offering were an extension, and essentially an overflow, of the shares sold in the Secondary Offering. In fact, the Convertible Offering was contingent upon the completion of the Secondary Offering and included a mandatory exchange of preferred shares for common shares on December 12, 2005. In other words, the Convertible Offering amounted to a sale of common stock just like the Secondary Offering.

10. Moreover, the Prospectus and Convertible Offering Materials contained virtually the same misrepresentations about the Company and its hurricane losses and exposure. Both documents repeated PXRE's low estimates of those losses – $235 to $300 million from Hurricane Katrina and $30 to $40 million from Hurricane Rita. The Prospectus stated that these estimates were based on numerous sources, including industry estimates, loss notices, computer modeling, a review of exposed reinsurance contracts, discussions with clients, and a combination of the output of industry models, market share analyses and a preliminary review of in-force contracts. Although PXRE and the Individual Defendants knew (or recklessly disregarded) that the Company's actual losses from the hurricanes ***would be*** significantly greater than the estimates (as detailed below), the Prospectus and Convertible Offering Materials only purported to warn investors that the losses ***might be*** greater than the estimates. Further, the Prospectus and Convertible Offering Materials stated that PXRE's

maximum exposure was fixed and known. For example, Defendants stated that "our obligation to pay [our clients] claims is ***limited*** to a ***specified aggregate amount***." (emphasis added). As detailed below, these statements were false because: (i) the Company was unable to adequately estimate what its losses would be; and (ii) its maximum exposure was not limited.

11. In addition to misrepresenting and failing to disclose the Company's true hurricane losses publicly, before the Convertible Offering closed, the Individual Defendants made direct misrepresentations to the Plaintiffs to induce them to purchase preferred shares in the Convertible Offering. These meetings often took place in one-on-one sessions and/or at breakout gatherings during industry conferences. Plaintiffs took detailed handwritten contemporaneous notes during these discussions.

12. For example, on May 3, 2005, at a meeting at one of Plaintiffs' offices, Defendants Jeffrey L. Radke ("Radke") and John M. Modin ("Modin") represented that the pricing environment for premiums was robust because of storms in 2004 and that PXRE was expected to benefit from limited competition in the industry. Radke also stated that PXRE had procedures in place to ensure that it survived any big storms.

13. On September 7, 2005, at the Keefe, Bruyette & Woods ("KBW") Insurance Conference at the Pierre Hotel in New York (the "Pierre Conference"), Radke stated that PXRE's maximum exposure for any single event was 25% of capital at the beginning of the year plus the expected earnings for the year. Based on this calculation, ***PXRE's maximum exposure for any single event, according to Radke's formula, was approximately $350 million***.[3] Radke further stated

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[3] 25% of $850 million (PXRE's capital at the beginning of 2005), *i.e.*, $212.5 million, plus $140 million (PXRE's expected earnings for 2005) leads to a total maximum exposure from a single event of no more than $352.50 million. ***PXRE's actual losses from Katrina alone were $602 million, 70% more than what Plaintiffs were told was PXRE's maximum exposure***.

that Hurricane Katrina was not the worst-case event that PXRE had modeled for, and indeed, later that week, on September 11, 2005, PXRE publicly estimated its losses from Hurricane Katrina to be $235 million – less than the maximum loss according to Radke's formula. Based on the estimated loss and the maximum exposure calculation, Plaintiffs considered the PXRE preferred shares as a sound investment that was within their acceptable level of risk tolerance. During a September 9, 2005 telephone call between Radke and one of the Plaintiffs, Radke stated that while Hurricane Katrina was a very severe hurricane, he had not changed his view that it was "not a book-end event," *i.e.*, that it was not a threat to PXRE as a going concern.

14. During PXRE's presentation at a September 19, 2005 conference in Boston, Radke described the Company's Hurricane Katrina exposure as follows: "in every zone there is a maximum cap, and losses from an extreme event in that zone will lead to that limit," thereby implying that PXRE knew what its maximum exposure from Hurricane Katrina would be. Radke, Modin and Guy D. Hengesbaugh ("Hengesbaugh") also represented that the "Company [was] prepared for more or larger events." During a private discussion at the conference with certain of the Plaintiffs, Radke stated that PXRE's total exposure was less than he had thought and that it was a good time for investors to get into the Company's stock. On September 22, 2005, during a conference call with one of the Plaintiffs, Radke stated that all of PXRE's customers were issuing "precautionary loss notices" following Hurricane Katrina, which was forcing PXRE to be extremely ***conservative*** with loss estimates.

15. On September 24, 2005, Hurricane Rita made landfall. On September 28, 2005, Goldman Sachs & Co. ("Goldman Sachs") hosted a conference call with Radke, Modin and a group of potential investors regarding the Convertible Offering. With regard to PXRE's expected losses from Hurricanes Katrina and Rita, Modin represented that the range of losses would be between

$235 and $300 million for Hurricane Katrina and that the range of losses would be between $30 and $40 million for Hurricane Rita. In response to a question as to whether the Company anticipated any counterparty credit issues, Modin stated that "management [did] not anticipate problems." With regard to the Company's ability to maintain its A- rating from AM Best and Standard & Poor's ("S&P"), Modin stated that the Company expected that S&P would reaffirm the A- rating with a stable outlook following the capital raise. He stated that AM Best would downgrade its rating if the Company did not raise $550 million but further stated that any potential downgrade would be a "non-event," particularly since the other reinsurers would be downgraded as well. Modin also stated that PXRE would benefit from increased rates. Specifically, Modin stated that he expected rates in affected lines to increase 20-30% with catastrophe reinsurance rates above 20% and retrocessional rates above 30%. Moreover, Modin stated that there would not be any increased competition in the industry.

16. On September 29, 2005, during another conference call hosted by Goldman Sachs for investors in the Convertible Offering, Radke, Modin and Hengesbaugh discussed the impact of Hurricane Rita, and Hengesbaugh stated that PXRE's risk controls had "worked." Discussing the S&P downgrade of PXRE to A-, Radke stated that PXRE "would not be materially affected." Radke, Modin and Hengesbaugh also stated that: (i) they were comfortable with the Company's Hurricane Katrina loss and risk controls; (ii) they expected PXRE to have several years of great business; and (iii) PXRE's capital adequacy was excellent. Radke stated that the current industry estimates for losses from the hurricanes were too high. To illustrate, he stated that initial estimates for losses from the September 11, 2001 terrorist attacks were $50 to $100 billion, well in excess of the actual losses.

17. On October 5, 2005, during a telephone conversation between Modin and one of the Plaintiffs, Modin stated that: (i) he had just left a meeting with a large UK-based insurance company

that was satisfied with PXRE's financial stability; (ii) he was very confident in placing the new capital that PXRE was raising through the Offerings; (iii) PXRE would be ceding more risk in 2006 to ease the balance sheet risk, but that PXRE could have net written premiums in 2006 of $450 to $500 million; (iv) the September 11, 2001 industry loss estimate of $75 billion was later reduced to $30 billion; and (v) PXRE would pay claims to preserve its franchise value even if its primary insurance company customers were making payments on claims that were excluded from their policies. The Secondary Offering and Convertible Offering closed two days later on October 7, 2005. Plaintiffs collectively invested approximately $50 million in PXRE through the Convertible Offering.

18. On October 24, 2005, Hurricane Wilma made landfall and caused tens of millions of dollars of damage. PXRE estimated that its losses from the three hurricanes combined would be $462 to $477 million. PXRE and the Individual Defendants, however, continued to downplay the hurricanes' effect on PXRE. On October 27, 2005, after the Company had issued a press release announcing its financial results for the third quarter of 2005, Radke stated that "the storms again demonstrated the strength of PXRE's risk management, as our losses were within our expectations for such major events." Radke stated that PXRE was confident that it would "thrive in the wake of Hurricanes Katrina and Rita, and [that] recent feedback from communications with brokers validate[d] that confidence." Radke continued: "Following our successful capital raising efforts, PXRE now has $914 million of pro-forma shareholders' equity and approximately $1.1 billion of pro-forma capital as of September 30, 2005, which represent the highest levels in our history."

19. Then, on February 16, 2006, PXRE issued a press release announcing that Hurricanes Katrina, Rita and Wilma would cost the Company $758 to $788 million on a net pre-tax basis in 2005, an increase of $296 to $311 million, or approximately 65%, over the Company's previous

estimate. Upon this news, shares of PXRE stock declined more than 65%, causing Plaintiffs to lose tens of millions of dollars of their investments in PXRE shares. Following the Company's announcement, AM Best downgraded PXRE's rating from A- to B++, thereby making it much more difficult for PXRE to attract and write new business.

JURISDICTION AND VENUE

20. The claims asserted herein arise under and pursuant to Sections 12(a)(2) and 15 of the Securities Act [15 U.S.C. §77l(a)(2) and 77o] and for violations of common law fraud and negligent misrepresentation.

21. This Court has subject matter jurisdiction pursuant to Section 22 of the Securities Act [15 U.S.C. §77v] and 28 U.S.C. §1331. This Court also has supplemental jurisdiction over the state law claims asserted herein pursuant to 28 U.S.C. §1367.

22. Venue is properly laid in this District pursuant to Section 22 of the Securities Act and 28 U.S.C. §1391(b) and (c). The acts and conduct complained of herein occurred in substantial part in this District and in California.

23. In connection with the acts and conduct alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including the mails and telephonic communications and the facilities of the New York Stock Exchange (the "NYSE"), a national securities exchange.

PARTIES

Plaintiffs

24. Plaintiffs are a group of hedge funds that were offered, marketed and sold PXRE Preferred Shares in connection with the Convertible Offering Materials dated September 28, 2005. At all relevant times, the nineteen (19) Plaintiffs listed herein were large institutional accredited

investors (pursuant to Rule 501(a)(8) of Regulation D of the Securities Act), with at least seven (7) of them having assets in excess of $100 million.

(a) Anegada Master Fund, Ltd. and Tonga Partners L.P. are two funds that are controlled by Cannell Capital LLC ("Cannell Capital"). These funds are referred to herein as the "Cannell Funds."

(b) Endicott Partners, L.P., Endicott Partners II, L.P., Endicott Offshore Investors, Ltd., Engineers Joint Pension Plan & Trust, International Bancshares Corporation Employees Profit Sharing Plan & Trust and EHL Endicott Limited are funds that are controlled by Endicott Management Company ("Endicott"). These funds are referred to herein as the "Endicott Funds."

(c) Royal Capital Value Fund, LP, Royal Capital Value Fund (QP), LP, RoyalCap Value Fund, Ltd. and Seneca Capital LP are funds that are controlled by Royal Capital Management, LLC ("Royal Capital"). These funds are referred to herein as the "Royal Funds."

(d) Scopia Partners LLC, Scopia Partners QP LLC, Scopia PX LLC, Scopia Long LLC, Scopia International Limited and Scopia PX International Limited are funds that are controlled by Scopia Capital LLC ("Scopia Capital"). These funds are referred to herein as the "Scopia Funds."

(e) The Coast Fund L.P. is a fund controlled by Coast Offshore Management (Cayman) Ltd. ("Coast") and is referred to herein as the "Coast Fund." The allegations made by Scopia Capital pertain to Coast as well.

25. In connection with the Convertible Offering, Plaintiffs purchased PXRE Preferred Shares as follows:

Name of Purchaser	Number of Series D Preferred Shares	Number of Common Shares Upon Exchange
Anegada Master Fund, Ltd.	7,000	1,363,636
Tonga Partners L.P.	13,000	1,181,818
Endicott Partners, L.P.	1,195	108,636
Endicott Partners II, L.P.	2,325	211,364
Endicott Offshore Investors, Ltd.	1,843	167,545
Engineers Joint Pension Plan & Trust	162	14,727
International Bancshares Corporation Employees Profit Sharing Plan & Trust	55	5,000
EHL Endicott Limited	2,420	220,000
Royal Capital Value Fund, LP	1,073	97,545
Royal Capital Value Fund (QP), LP	11,291	1,026,455
RoyalCap Value Fund, Ltd.	4,486	407,818
Seneca Capital LP	150	13,636
Scopia Partners LLC	261	23,727
Scopia Partners QP LLC	672	61,091
Scopia PX LLC	1,181	107,364
Scopia Long LLC	155	14,091
Scopia International Limited	1,628	148,000
Scopia PX International Limited	531	48,273
The Coast Fund L.P.	572	52,000
Total:	**50,000**	**5,272,726**

26. Subsequent to the Offering, and pursuant to the Convertible Offering Materials, on or about December 12, 2005, Plaintiffs' Preferred Shares were exchanged for PXRE common shares. As detailed herein, Plaintiffs were damaged as a result of Defendants' false and misleading statements during the relevant time period.

Non-Party Investors

27. In addition to Plaintiffs, the Convertible Offering was also offered, marketed and sold to at least seventeen (17) other institutional investors, who, upon information and belief, qualify as

large, institutional accredited investors, as that term is defined in Rule 501(a) of Regulation D of the Securities Act. Those investors are as follows:

Name of Purchaser	Number of Series D Preferred Shares	Number of Common Shares Upon Exchange	Number of Class B Convertible Common Shares Upon Exchange
Anchorage Capital Master Offshore, Ltd.	15,000	1,363,636	0
CapZ PXRE Holdings, LLC	19,894	1,808,545	0
CapZ PXRE Holdings Private, LLC	106	9,636	0
D.E. Shaw Investment Group, L.L.C	4,225	384,091	0
D.E. Shaw Valence Portfolios, L.L.C.	60,775	5,525,000	0
Eton Park Master Fund, Limited	39,000	3,545,455	0
Eton Park Fund, L.P.	21,000	1,909,091	0
OZ Master Fund, Ltd.	60,000	5,454,545	0
Perry Partners, L.P.	7,883	716,636	0
Perry Partners International, Inc.	17,117	1,556,091	0
Reservoir Capital Partners, L.P.	7,648	0	695,273
Reservoir Capital Investment Partners, L.P.	9,862	0	896,545
Reservoir Capital Master Fund, L.P.	556	0	50,545
Reservoir Capital Master Fund II, L.P.	1,934	0	175,818
SAB Capital Partners, L.P.	29,102	2,645,636	0
SAB Capital Partners II, L.P.	540	49,091	0
SAB Overseas Master Fund, L.P.	30,358	2,759,818	0
Total:	**325,000**	**27,727,271**	**1,818,181**

Defendants

28. (a) Defendant PXRE, now known as Argo Group International Holdings, Ltd. ("Argo Group"), provides reinsurance products and services to a worldwide marketplace. The Company's primary focus is providing property catastrophe reinsurance and retrocessional coverage. The Company also provides marine, aviation and aerospace products and services.

(b) Defendant Argo Group is the successor in interest to PXRE. On March 14, 2007, PXRE and Argonaut Group, Inc. ("Argonaut Group") entered into a merger agreement pursuant to which Argonaut Group became a wholly-owned subsidiary of PXRE on August 7, 2007. XRE changed its name to Argo Group, with Argonaut Group's pre-merger shareholders holding approximately 73% of Argo Group's shares and PXRE's pre-merger shareholders retaining approximately 27% of Argo Group's shares.

(c) Defendant Jeffrey L. Radke ("Radke") was, at all relevant times, Chief Executive Officer and President of PXRE. As detailed herein, Radke was the primary contact at the Company for the Plaintiffs and, on multiple occasions, met with representatives of Plaintiffs to discuss PXRE and its exposure to the Hurricanes.

(d) Defendant Guy D. Hengesbaugh ("Hengesbaugh") was, at all relevant times, Chief Operating Officer and Head of Underwriting Operations of PXRE.

(e) Defendant John M. Modin ("Modin") was, from September 9, 2002 to January 6, 2006, Chief Financial Officer of PXRE.

(f) Defendants Radke, Hengesbaugh and Modin are collectively referred to herein as the "Individual Defendants."

29. By reason of their management positions and their ability to make public statements in the name of PXRE, the Individual Defendants were and are controlling persons, and had the power and influence to cause (and did cause) PXRE to engage in the conduct complained of herein.

SUBSTANTIVE ALLEGATIONS

Background

30. PXRE, now known as Argo Group, provides reinsurance products and services to a worldwide marketplace through subsidiary operations in Bermuda, the United States and Europe. Its

primary focus is providing property catastrophe reinsurance and retrocessional coverage to a worldwide group of clients.

31. Reinsurance is insurance by one insurance company of all or part of a risk accepted by it with another insurance company which agrees to reimburse the insurance company for the portion of the claim insured.[4]

32. Retrocessional reinsurance is purchased by reinsurers looking to spread risks they have taken on from primary insurance companies. Retrocessional reinsurance is often referred to as reinsurance for reinsurers.

33. The retrocessional reinsurance business is considered one of the riskiest in the insurance industry, but, with great risk, comes the potential for great rewards.

34. Since retrocessional reinsurance payments are only triggered after regular insurance coverage payments and subsequent reinsurance payments are paid in full, retrocessional reinsurers are generally able to keep all of the premiums they receive without any offsetting payments on their policies. However, when large catastrophes occur, retrocessional reinsurers, such as PXRE, are usually exposed to large losses.

35. PXRE purported to be well-prepared for timely assessing the losses from these large catastrophes and advised investors that the amount of claims from these losses "tends to be readily determinable within a short period of time after the occurrence of the catastrophic event." More specifically, in its 2004 10-K, the Company provided:

> Catastrophe and risk excess business has been our primary focus since our predecessor company was formed in 1986. This means that we primarily focus on providing reinsurance in respect of events which do not tend to occur frequently, but when they do occur, have the potential to generate a large amount of losses per

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[4] *See* http://www.allenins.com/Insurance_Definitions.html#R

> occurrence. ***The extent of claims due to losses stemming from such events, however, tends to be readily determinable within a short period of time after the occurrence of the catastrophic event (i.e. have a short tail). This focus on short-tail, high-severity, low frequency lines of business exposes us to short term volatility***. We have been able to successfully underwrite these products over the long term, as evidenced by our cumulative average catastrophe and risk excess loss ratio of 50.9% for the period from 1987 to December 31, 2004. [Emphasis added.]

36. The 2004 10-K also described the Company's procedures for monitoring risk and exposure to losses from catastrophic events:

> Reinsurance treaties are reviewed for compliance with our general underwriting standards and certain treaties are evaluated in part based upon our internal actuarial analysis. We manage our risk of loss through a combination of aggregate exposure limits, underwriting guidelines that take into account risks, prices and coverage and retrocessional agreements. As we underwrite risks from a large number of clients based on information generally supplied by reinsurance brokers, there is a risk of developing a concentration of exposure to loss in certain geographic areas prone to specific types of catastrophes. ***We have developed systems and software tools to monitor and manage the accumulation of our exposure to such losses***. We have established guidelines for maximum tolerable losses from a single or multiple catastrophic events based on historical data. However, no assurance can be given that these maximums will not be exceeded in some future catastrophe.
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> We utilize a two-tier approach to risk management, including both overall risk limits and a portfolio optimization system. ***Our portfolio optimization system incorporates third-party catastrophe modeling software and internally developed models. Our software tools use exposure data provided by our ceding company clients to simulate catastrophic losses. We have high standards for the quality and level of detail of the exposure data that we require and have an expressed preference for data at the zip code or postal code level or finer***. [Emphasis added.]

37. Beginning in late August 2005, a series of these large catastrophes did occur, arriving in the form of Hurricanes Katrina, Rita and Wilma. When these hurricanes hit, the losses for the entire industry were massive.

38. Hurricane Katrina first formed in mid-August over the Bahamas. By August 24, 2005, it had become a tropical storm, reaching hurricane intensity before making landfall in south Florida as a minimal hurricane. A few hours later, the storm entered the Gulf of Mexico and

intensified rapidly into a Category 5 hurricane[5] while crossing the Loop Current on August 28, 2005. Hurricane Katrina made landfall on August 29, 2005, near the mouth of the Mississippi River as an extremely large Category 3 hurricane.

39. On September 11, 2005, PXRE announced that its preliminary estimate of its net loss from Hurricane Katrina would be "approximately $235 million, after tax, reinsurance recoveries on its outwards reinsurance program and the impact of inwards and outwards reinstatement and additional premiums." Based on this estimate, the Company advised that it expected to report a net loss of $85 to $100 million for 2005, "assuming no additional material catastrophes occur during the rest of 2005."

40. Slightly more than a week later, on September 19, 2005, the Company revised its earlier statement. The Company now said that, based on insured industry losses of $30 to $40 billion, it estimated its net impact from Hurricane Katrina to be in the range of $235 to $300 million, after tax, reinsurance recoveries on its outwards reinsurance program and the impact of inwards and outwards reinstatement and additional premiums. Based on this updated preliminary estimate, PXRE stated that it expected to report a net loss of $85 to $165 million for 2005, "assuming no additional material catastrophes occur during the rest of 2005."

41. On September 18, 2005, Hurricane Rita struck. Hurricane Rita formed as a tropical storm over the Turks and Caicos Islands. The storm reached Category 2 intensity as it moved south of the Florida Keys on September 20, 2005. Rapid intensification ensued as Hurricane Rita moved into the Gulf of Mexico, and became a Category 5 hurricane on September 21, 2005. At that time,

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[5] Hurricanes are rated in different categories, ranging from Category 1 to Category 5, by the intensity of their wind speed, barometric pressure, and resultant destructive potential. *See* http://www.weatherclassroom.com/encyclopedia/hurricanes_and_tropical_systems/tropical_terms.php

Hurricane Rita was the third most intense hurricane ever recorded in the Atlantic Basin. Hurricane Rita made landfall near the Texas-Louisiana border on September 24, 2005.

42. PXRE had exposure to Hurricane Rita as well. In a press release issued September 28, 2005, the Company announced that its "preliminary estimate of the net impact from Hurricane Rita is between $30 million and $40 million, after tax, reinsurance recoveries on its outwards reinsurance program and the impact of reinstatement premiums." Based on the Company's preliminary estimate of loss from Hurricane Rita and its previously announced preliminary range of loss from Hurricane Katrina, the Company stated that it now expected to report a net loss of $125 to $220 million for fiscal 2005, "assuming no additional material catastrophes occur during the rest of 2005." Moreover, for the quarter ending September 30, 2005, the Company expected a net loss of between $230 to $320 million, which is expected to result in a diluted book value range of $13.10 to $15.75 per share as of September 30, 2005.

43. The last of the threesome was Hurricane Wilma, which formed on October 17, 2005 in the western Caribbean southwest of Jamaica and rapidly strengthened. On October 19, 2005, it became the strongest tropical cyclone on record in the Atlantic basin, with 185 mph (295 km/h) winds and a central pressure of 882 mbar (hPa). The hurricane struck Quintana Roo on October 22, 2005 as a Category 4 hurricane, causing very heavy damage to Cancún and Cozumel. After emerging into the Gulf of Mexico, Hurricane Wilma passed north of Cuba before striking southern Florida on October 24, 2005 as a Category 3 storm.

**The Company Raises Money
Through a Convertible Offering and a Public Offering**

44. Shortly after Hurricane Katrina first hit, sophisticated investors, which included Plaintiffs, knew that PXRE would now need to raise money. As prior owners of PXRE stock who

had previously spoken directly with management, Plaintiffs were in a position to, and did, directly contact the Company to inquire about participating in any securities offering.

45. According to the terms of a shelf registration statement filed with the SEC on or about September 21, 2005 on Form S-3/A, any public offering of the Company's stock was limited to 11,623,362 shares. With shares trading in the range of $15.55 - $19.83 per share at this time, even the sale of all of these shelf shares would not provide the Company with sufficient funds to pay the claims made by its policyholders and with sufficient capital to maintain its credit rating. As such, the Company needed to raise money from the Secondary Offering, in addition to raising money through the Convertible Offering. Thus, the shares sold in the Convertible Offering were an extension of, and essentially an overflow to, the shares sold in the Secondary Offering.

46. On October 7, 2005, the Company announced that it had completed the public offering of 8,843,500 shares of its common stock, which included 1,153,500 shares sold upon exercise of the underwriter's over-allotment option in full, at a price of $13.25 per share. Net proceeds to the Company were approximated at $114.7 million.

47. On October 7, 2005, the Company issued a press release announcing that it had also completed the sale of 375,000 of its series D Perpetual Preferred Shares in an offering pursuant to Section 4(2) of the Securities Act of 1933. The gross proceeds to the Company from the Convertible Offering were $375 million, of which $50 million was received from Plaintiffs. The press release continued, in pertinent part, as follows:

> The series D perpetual preferred shares have a liquidation preference of $1,000 and an $11.00 per common share exchange price. At the exchange price of $11.00 per common share, each series D perpetual preferred share will be mandatorily exchangeable for approximately 90.9 of the Company's common shares immediately upon an affirmative vote of the Company's shareholders (i) authorizing an additional 300 million common shares; and (ii) approving the exchange of the series D perpetual preferred shares into common shares. A Special General Meeting of the

Company's shareholders has been called for November 18, 2005, to consider and approve these matters.

48. In connection with the public offering, on or about October 5, 2005, PXRE filed a prospectus (the "Prospectus") with the SEC.

49. In connection with the Convertible Offering, Plaintiffs were provided with a copy of the Convertible Offering Materials which, among other things, described the value attributed to the Preferred Shares being sold in the Convertible Offering. Concerning this value, the Convertible Offering Materials provided:

> Mandatory Exchange
>
> The Perpetual Preferred Shares shall be mandatorily exchangeable for XX.X Common Shares (the "Exchange Ratio") immediately upon satisfaction of the Exchange Conditions Precedent. The "Exchange Conditions Precedent" are the affirmative vote of the Company's existing shareholders: (i) authorizing an additional 300 million common shares; and (ii) approving the exchange of the Perpetual Preferred Shares into Common Shares.
>
> We will deliver the required number of Common Shares in return for the delivery by each holder of its outstanding Perpetual Preferred Shares and will cancel the Perpetual Preferred Shares upon receipt. We covenant and agree to file with the Securities and Exchange Commission ("SEC"), within 10 business days of the execution of definitive legal documents, a proxy statement regarding a special general meeting of the shareholders (the "Special Shareholders' Meeting") to be held for the purpose of approving this transaction.

50. The Convertible Offering Materials also contained a description of the value of the Preferred Shares in the event that the Preferred Shares were not exchanged for common shares. In that regard, the Convertible Offering Materials provided:

> Offer to Repurchase
>
> If a mandatory exchange has not occurred prior to December 31, 2006, the Company shall use its reasonable best efforts, subject to the conditions set forth below, in each calendar year beginning with 2007 so long as no such mandatory exchange has occurred and Perpetual Preferred Shares remain outstanding, to issue and sell in a public offering a number of Common Shares sufficient to produce net proceeds in an amount at least equal to $100 million, shall make an offer to holders of outstanding Perpetual Preferred Shares to purchase, on a pro rata basis, Perpetual Preferred

> Shares having up to $100 million in Liquidation Preference and shall purchase such Perpetual Preferred Shares from holders responding to such offer to purchase at a price equal to the greater of (i) the Perpetual Preferred Liquidation Preference and (ii) the product of the Exchange Ratio multiplied by the price per Common Share realized by the Company in such public offering. However, the Company will not be required to sell any Common Shares for that purpose if (i) such use of proceeds from the sale of the Common Shares would have a negative impact on the Company's then-current credit ratings or (ii) the price per share of any of the Common Shares would be less than 75% of the then existing market price per share of the Common Shares.
>
> * * *
>
> Dividends
>
> (i) For so long as the Perpetual Preferred Shares remain outstanding, the Company may not make, declare or pay any dividends or distributions on, or redeem, purchase, acquire or make liquidation payment with respect to (collectively, "Capital Distributions"), the Common Shares, unless the Company simultaneously declares and pays a cash dividend or distribution ("Perpetual Capital Distributions") on the Perpetual Preferred Shares in an amount equal to such Capital Distribution multiplied by the Dividend Allocation Ratio as of the Adjustment Date immediately preceding such Capital Distribution.
>
> (ii) If the Exchange Conditions Precedent are not met by April 1, 2006, then, retroactively commencing on the date of issuance, additional dividends on the Perpetual Preferred Shares shall begin to accrue at a rate of 15% per annum, increasing to 17% per annum on April 1, 2007 and 19% per annum on April 1, 2008. Such additional dividends shall be paid on a quarterly basis with all retroactive payments being made on June 30, 2006 in additional Perpetual Preferred Shares with a Liquidation Preference as of the immediately preceding Adjustment Date equal to the amount of the dividend to be paid ("PIK Dividends"). The term "Adjustment Date" shall mean, commencing with December 31, 2005, the last day of each calendar quarter.

51. Both the Prospectus and Convertible Offering Materials contained numerous representations concerning the Company's exposure to Hurricanes Katrina and Rita. As discussed more fully below, prior to the distribution of the Convertible Offering Materials, Goldman Sachs, who coordinated the Convertible Offering, hosted a conference call with investors, including Plaintiffs and the non-party investors, to discuss the Convertible Offering.

**The Prospectus and Convertible Offering Materials
Were Materially False and Misleading**

52. The Prospectus and Convertible Offering Materials contained numerous representations about the Company and its exposure to Hurricanes Katrina and Rita.

53. In positively describing the Company's business, the Convertible Offering Materials provided, in pertinent part, as follows:

> PXRE Group Ltd. is an insurance holding company organized in Bermuda. We provide reinsurance products and services to a worldwide marketplace through subsidiary operations in Bermuda, the United States and Europe. Our primary focus is providing property catastrophe reinsurance and retrocessional coverage to a worldwide group of clients. Property catastrophe reinsurance generally covers claims arising from large catastrophes such as hurricanes, windstorms, hailstorms, earthquakes, volcanic eruptions, fires, industrial explosions, freezes, riots, floods and other man-made or natural disasters. Substantially all of our non-finite reinsurance products have been, and will continue to be, offered on an excess-of-loss basis with aggregate limits on our exposure to losses. ***This means that we do not begin to pay our clients' claims until their claims exceed a certain specified amount and our obligation to pay those claims is limited to a specified aggregate amount.*** [Emphasis added.]

54. Similarly, the Prospectus provided:

> We provide reinsurance products and services to a worldwide marketplace through subsidiary operations in Bermuda, the United States and Europe. Our primary focus is providing property catastrophe reinsurance and retrocessional coverage to a worldwide group of clients. Property catastrophe reinsurance generally covers claims arising from large catastrophes such as hurricanes, windstorms, hailstorms, earthquakes, volcanic eruptions, fires, industrial explosions, freezes, riots, floods and other man-made or natural disasters. Substantially all of our non-finite reinsurance products have been, and will continue to be, offered on an excess-of-loss basis with aggregate limits on our exposure to losses. ***This means that we do not begin to pay our clients' claims until their claims exceed a certain specified amount and our obligation to pay those claims is limited to a specified aggregate amount***. [Emphasis added.]

55. The statements referenced above in ¶¶53-54 were materially false and misleading because: (i) the Company's obligation to pay claims was not limited and would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the

Company ultimately reported from Hurricanes Katrina and Rita; and (ii) the Company's maximum exposure was dramatically greater than Plaintiffs had been told by Defendants that it could be.

56. The Convertible Offering Materials also purported to warn investors of the financial impact of Hurricanes Katrina and Rita, stating, in pertinent part, as follows:

> Recent Developments
>
> ***On September 19, 2005, we announced that, based on updated information, we had increased our earlier estimate of our potential losses due to the net impact of Hurricane Katrina to the range of $235 million to $300 million***, after tax, reinsurance recoveries on our outwards reinsurance program and the impact of inwards and outwards reinstatements and additional premiums. Accordingly, losses from Hurricane Katrina will materially negatively impact our third quarter financial results and our shareholders' equity and we expect to have a net loss for calendar 2005. ***Our updated estimates were based on insured industry loss estimates in the range of $30 billion to $40 billion.*** These industry loss estimates may increase as the loss adjustment process continues.
>
> At the time of making our estimates, we had received preliminary loss indications and formal loss advices from only a limited number of clients. Accordingly, the estimates were based mainly on modeling, a review of exposed reinsurance contracts and discussions with certain clients. Actual losses may vary materially from these estimates.
>
> In addition, our estimates are subject to a high level of uncertainty arising out of extremely complex and unique causation and coverage issues, including the appropriate attribution of losses to flood as opposed to other perils such as wind, fire or riot and civil commotion. The underlying policies generally contain exclusions for flood damage; however, water damage caused by wind may be covered. We expect that causation and coverage issues may not be resolved for a considerable period of time and may be influenced by evolving legal and regulatory developments.
>
> Our actual losses from Hurricane Katrina may exceed our estimates as a result of, among other things, the receipt of additional information from clients, the attribution of losses to coverages that for the purpose of our estimates we assumed would not be exposed, and inflation in repair costs due to the limited availability of labor and materials, in which case our financial results could be further materially adversely affected.
>
> On September 24, 2005, Hurricane Rita struck Texas and Louisiana, causing significant destruction in portions of those states. Because this event is so recent and assessments of damages are so preliminary, we are unable to estimate with any accuracy our net losses related to Hurricane Rita. However, based on early industry

> loss predictions ranging from $2.5 billion to $6.0 billion, a combination of the output of industry models, market share analyses and a preliminary review of in-force contracts, our preliminary assessment is that our net losses related to Hurricane Rita will be substantially less than our estimated net losses from Hurricane Katrina. However, our actual losses from Hurricane Rita may ultimately differ materially from our preliminary assessment of losses. After taking into account our estimated losses from Hurricane Katrina and our preliminary assessment of losses from Hurricane Rita, at this time we are unable to determine the amount of our consolidated operating losses for the 2005 calendar year. See "Risk Factors – Our business, results of operations and financial condition could be adversely affected by losses, related to Hurricane Katrina and Rita" elsewhere in this Memorandum.

57. Similarly, the Prospectus purported to warn investors of the financial impact of Hurricanes Katrina and Rita, stating, in pertinent part, as follows:

> On September 19, 2005, ***we announced that, based on updated information, we had increased our earlier estimate of our potential losses due to the net impact of Hurricane Katrina to the range of $235 million to $300 million***, after tax, reinsurance recoveries on our outwards reinsurance program and the impact of inwards and outwards reinstatements and additional premiums. Accordingly, losses from Hurricane Katrina will materially negatively impact our third quarter financial results and our shareholders' equity and we expect to have a net loss for calendar 2005. ***Our updated estimates were based on insured industry loss estimates in the range of $30 billion to $40 billion***. These industry loss estimates may increase as the loss adjustment process continues.
>
> We have begun to receive loss notices with respect to Hurricane Katrina, but most of these notices are precautionary in nature with no supporting loss information. Accordingly, the estimates were based mainly on modeling, a review of exposed reinsurance contracts and discussions with certain clients. Actual losses may vary materially from these estimates.
>
> In addition, our estimates are subject to a high level of uncertainty arising out of extremely complex and unique causation and coverage issues, including the appropriate attribution of losses to wind or flood damage as opposed to other perils such as fire, business interruption or civil commotion. The underlying policies generally contain exclusions for flood damage; however, water damage caused by wind may be covered. We expect that causation and coverage issues may not be resolved for a considerable period of time and may be influenced by evolving legal and regulatory developments.
>
> Our actual losses from Hurricane Katrina may exceed our estimates as a result of, among other things, the receipt of additional information from clients, the attribution of losses to coverages that for the purpose of our estimates we assumed would not be exposed, and inflation in repair costs due to the limited availability of labor and

> materials, in which case our financial results could be further materially adversely affected.
>
> On September 24, 2005, Hurricane Rita struck Texas and Louisiana, causing significant destruction in portions of those states. Our preliminary estimate of the net impact from Hurricane Rita is currently between $30 million and $40 million, after tax, reinsurance recoveries on our outwards reinsurance program and the impact of inwards reinstatement premiums. This preliminary estimate is primarily based on early industry loss predictions ranging from $2.5 billion to $6.0 billion, a combination of the output of industry models, market share analyses and a preliminary review of in-force contracts. Our actual losses from Hurricane Rita may ultimately differ materially from our preliminary assessment of losses.
>
> Based on our preliminary estimate of loss from Hurricane Rita and our preliminary range of loss from Hurricane Katrina, we now expect to report a net loss of $125 million to $220 million for 2005, assuming no additional material catastrophes occur during the rest of 2005. For the quarter ending September 30, 2005, we expect to report a net loss of between $230 million to $320 million.
>
> See "Risk Factors – The destruction caused by Hurricane Katrina and Hurricane Rita will produce claims that will have a material adverse effect on our financial position and results of operations. The uncertainty related to the scope of insured losses caused by Hurricane Katrina and Hurricane Rita may increase the number of claims and may further impact our financial results." [Emphasis in Original.]

58. The statements referenced above in ¶¶56-57 were materially false and misleading because the Company had no legitimate basis for providing loss estimates since its procedure for estimating loss estimates from Hurricanes Katrina and Rita was fundamentally flawed and inaccurate. Moreover, given the Company's representations that it was being very conservative in its estimates, it should have included loss estimates for flooding damage and wind damage, but it did not.

59. Specifically, PXRE used three methods to generate an estimate of PXRE's losses in comparison to industry-wide losses: (i) software from outside risk modelers; (ii) its own internal software; and (iii) a contract-by-contract analysis of its exposure to a specific geographic area.

60. However, PXRE's loss modeling system had several flaws: (i) the software from outside risk modelers and its own software were incapable of including damages arising from river

flooding, which was a material portion of the damages caused by Hurricane Katrina; and (ii) it aggressively estimated insurance industry losses at $35 billion. Accordingly, PXRE's loss estimates would need to be significantly adjusted upward because they failed to: (i) include the $15-$25 billion in damages caused by the river flooding as a result of the broken levees in New Orleans; and (ii) conservatively estimate insurance industry losses at $40-$60 billion like most of its competitors, who utilized Risk Management Solutions, Inc.[6] ("RMS") or RMS's estimate of insurance industry loss which included the $15-$25 billion component for river flooding.

61. In light of the limitations of the Company's loss modeling system, PXRE and the Individual Defendants would have been able to obtain a more accurate picture of PXRE's exposure to New Orleans by using a contract-by-contract analysis of the Company's losses. However, Defendants did not do so. Thus, despite representations that PXRE was able to successfully and accurately calculate its loss estimates, it failed to do so in this instance.

62. In reporting its loss estimates, PXRE excluded damages from river flooding, even though it knew that, prior to the Convertible Offering, there were widespread reports that such damages would more than likely not be excluded from coverage since the damage was the result of structural defects in the walls of the levees and not from storm waters overtopping the levees. For example, *The Washington Post*, on September 21, 2005, reported that "Katrina's subsequent surge from the north was several feet shy of the height that would have been necessary to overtop the 17th Street and London Avenue floodwalls. It was the failures of those floodwalls that emptied the lake into the rest of the city, filling most of New Orleans like a soup bowl." Similarly, *The New York Times* on that same day reported "concrete flood walls installed over the last several decades along

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[6] According to its website (www.rms.com), RMS is the "world's leading provider of products and services for the quantification and management of catastrophe risks."

the drainage and barge canals cutting into New Orleans were built in a way that by Army Corps of Engineers standards left them potentially unstable in a flood." Thus, there was no legitimate basis for PXRE to exclude flooding or wind damage from its loss estimates, especially since Defendants repeatedly represented that they were being very conservative in reporting their estimated loss exposure.

63. The Convertible Offering Materials further purported to warn that PXRE's performance and growth was subject to certain risks. In this regard, the Convertible Offering Materials stated in pertinent part as follows:

> ***Because of exposure to catastrophes, our financial results may vary significantly from period to period.***
>
> As a reinsurer of property catastrophe-type coverages in the worldwide marketplace, our operating results in any given period depend to a large extent on the number and magnitude of natural and man-made catastrophes such as hurricanes, windstorms, hailstorms, earthquakes, volcanic eruptions, fires, industrial explosions, freezes, riots and floods. For example, the four Florida hurricanes in the third quarter of 2004 resulted in pre-tax losses of $143.7 million, net of reinsurance recoverables and reinstatement premiums as of June 30, 2005. While we may, depending on market conditions, purchase catastrophe retrocessional coverage for our own protection, the occurrence of one or more major catastrophes in any given period could nevertheless have a material adverse impact on our results of operations and financial condition and result in substantial liquidation of investments and outflows of cash as losses are paid.
>
> ***The unprecedented destruction caused by Hurricane Katrina and Hurricane Rita will produce claims that will have a material adverse effect on our financial position and results of operations. The uncertainty related to the scope of insured losses caused by Hurricane Katrina may increase the number of claims and may further impact our financial results.***
>
> On September 19, 2005, we announced that, based on updated information, we had increased our earlier estimate of our potential losses due to the net impact of Hurricane Katrina to the range of $235 million to $300 million, after tax, reinsurance recoveries on our outwards reinsurance program and the impact of inwards and outwards reinstatements and additional premiums. Accordingly, losses from Hurricane Katrina will materially negatively impact our third quarter financial results and our shareholders' equity and we expect to have a net loss for calendar 2005. Our updated estimates were based on insured industry loss estimates in the range of $30

billion to $40 billion. These industry loss estimates may increase as the loss adjustment process continues.

At the time of making our estimates, we had received preliminary loss indications and formal loss advices from only a limited number of clients. Accordingly, the estimates were based mainly on modeling, a review of exposed reinsurance contracts and discussions with certain clients. Actual losses may vary materially from these estimates.

In addition, our estimates are subject to a high level of uncertainty arising out of extremely complex and unique causation and coverage issues, including the appropriate attribution of losses to flood as opposed to other perils such as wind, fire or riot and civil commotion. The underlying policies generally contain exclusions for flood damage; however, water damage caused by wind may be covered. We expect that causation and coverage issues may not be resolved for a considerable period of time and may be influenced by evolving legal and regulatory developments.

Our actual losses from Hurricane Katrina may exceed our estimates as a result of, among other things, the receipt of additional information from clients, the attribution of losses to coverages that for the purpose of our estimates we assumed would not be exposed, and inflation in repair costs due to the limited availability of labor and materials, in which case our financial results could be further materially adversely affected. See "PXRE Group Ltd. – Recent Developments."

On September 24, 2005, Hurricane Rita struck Texas and Louisiana, causing significant destruction in portions of those states. Because this event is so recent and assessments of damages are so preliminary, we are unable to estimate with any accuracy our net losses related to Hurricane Rita. However, based on early industry loss predictions ranging from $2.5 billion to $6.0 billion, a combination of the output of industry models, market share analyses and a preliminary review of in-force contracts, our preliminary assessment is that our net losses related to Hurricane Rita will be substantially less than our estimated net losses from Hurricane Katrina. However, our actual losses from Hurricane Rita may ultimately differ materially from our preliminary assessment of losses and, these losses are expected to have a material adverse effect on our results of operations for 2005.

* * *

We have exhausted our retrocessional coverage with respect to Hurricane Katrina, leaving us exposed to further losses.

Based on our current estimate of losses related to Hurricane Katrina, we believe we have exhausted our retrocession protection with respect to this event, meaning that we have no further retrocession coverage available should our Hurricane Katrina losses prove to be greater than currently estimated. We cannot be sure that retrocessional coverage will be available to us on acceptable terms, or at all, in the

future. Our business, results of operation and financial condition could be adversely impacted by losses related to Hurricane Katrina.

***We may be overexposed to losses in certain geographic areas for certain types of catastrophe events*.**

As we underwrite risks from a large number of insurers based on information generally supplied by reinsurance brokers, we may develop a concentration of exposure to loss in certain geographic areas prone to specific types of catastrophes. For example, we are significantly exposed to losses arising from hurricanes in the southeastern United States, earthquakes in California, the midwest United States and Japan, and to windstorms in northern Europe. We have developed systems and software tools to monitor and manage the accumulation of our exposure to such losses and have established guidelines for maximum tolerable losses from a single event or multiple catastrophic events based on historical data. However, no assurance can be given that these maximums will not be exceeded by actual losses resulting from Hurricane Katrina or by some future catastrophe.

* * *

***Reserving for losses includes significant estimates, which are subject to inherent uncertainties*.**

Our success is dependent upon our ability to assess accurately the risks associated with the businesses that we insure and reinsure. Claim reserves represent estimates involving actuarial and statistical projections, at a given point in time, of our expectations of the ultimate settlement and administration costs of claims incurred. We utilize actuarial models as well as historical insurance industry loss development patterns to assist in the establishment of appropriate claim reserves. In our casualty and finite business, given our limited experience we do not have established historical loss development patterns that can be used to establish these loss liabilities. For these lines of business, we rely on loss development patterns that have been estimated from industry or client data, which may not accurately represent the true development pattern for the business we wrote. For property lines of business, reserves may differ from ultimate settlement values due to the infrequency of some types of catastrophe losses, the incompleteness of information in the wake of a major catastrophe and delay in receiving that information. We may also seek to commute certain exited lines of reinsurance contracts, which could result in additional losses. Actual claims and claim expenses paid may deviate, perhaps substantially, from the reserve estimates reflected in our financial statements.

If our claim reserves are determined to be inadequate, we will be required to increase claim reserves at the time of such determination with a corresponding reduction in our net income in the period in which the deficiency is rectified. It is possible that claims in respect of events that have occurred could exceed our claim reserves and have a material adverse effect on our results of operations, in a particular period, or our financial condition in general. As a compounding factor, although most

insurance contracts have policy limits, the nature of property and casualty insurance and reinsurance is that losses can exceed policy limits for a variety of reasons and could significantly exceed the premiums received on the underlying policies, thereby further adversely affecting our financial condition. [Emphasis in Original.]

64. Similar representations were made in the Prospectus:

Because of exposure to catastrophes, our financial results may vary significantly from period to period.

As a reinsurer of property catastrophe–type coverages in the worldwide marketplace, our operating results in any given period depend to a large extent on the number and magnitude of natural and man – made catastrophes such as hurricanes, windstorms, hailstorms, earthquakes, volcanic eruptions, fires, industrial explosions, freezes, riots and floods. For example, the four Florida hurricanes in the third quarter of 2004 resulted in pre-tax losses of $143.7 million, net of reinsurance recoverables and reinstatement premiums as of June 30, 2005. While we may, depending on market conditions, purchase catastrophe retrocessional coverage for our own protection, the occurrence of one or more major catastrophes in any given period could nevertheless have a material adverse impact on our results of operations and financial condition and result in substantial liquidation of investments and outflows of cash as losses are paid.

The unprecedented destruction caused by Hurricane Katrina will produce claims that will have a material adverse effect on our financial position and results of operations. The uncertainty related to the scope of insured losses caused by Hurricane Katrina may increase the number of claims and may further impact our financial results.

On September 19, 2005, we announced that, based on updated information, we had increased our earlier estimate of our potential losses due to the net impact of Hurricane Katrina to the range of $235 million to $300 million, after tax, reinsurance recoveries on our outwards reinsurance program and the impact of inwards and outwards reinstatements and additional premiums. Accordingly, losses from Hurricane Katrina will materially negatively impact our third quarter financial results and our shareholders' equity and we expect to have a net loss for calendar 2005. Our updated estimates were based on insured industry loss estimates in the range of $30 billion to $40 billion. These industry loss estimates may increase as the loss adjustment process continues.

At the time of making our estimates, we had received preliminary loss indications and formal loss advices from only a limited number of clients. Accordingly, the estimates were based mainly on modeling, a review of exposed reinsurance contracts and discussions with certain clients. Actual losses may vary materially from these estimates.

In addition, our estimates are subject to a high level of uncertainty arising out of extremely complex and unique causation and coverage issues, including the appropriate attribution of losses to flood as opposed to other perils such as wind, fire or riot and civil commotion. The underlying policies generally contain exclusions for flood damage; however, water damage caused by wind may be covered. We expect that causation and coverage issues may not be resolved for a considerable period of time and may be influenced by evolving legal and regulatory developments.

Our actual losses from Hurricane Katrina may exceed our estimates as a result of, among other things, the receipt of additional information from clients, the attribution of losses to coverages that for the purpose of our estimates we assumed would not be exposed, and inflation in repair costs due to the limited availability of labor and materials, in which case our financial results could be further materially adversely affected. See "PXRE Group Ltd. – Recent Developments."

We have exhausted our retrocessional coverage with respect to Hurricane Katrina, leaving us exposed to further losses.

Based on our current estimate of losses related to Hurricane Katrina, we believe we have exhausted our retrocession protection with respect to this event, meaning that we have no further retrocession coverage available should our Hurricane Katrina losses prove to be greater than currently estimated. We cannot be sure that retrocessional coverage will be available to us on acceptable terms, or at all, in the future.

We may be overexposed to losses in certain geographic areas for certain types of catastrophe events.

As we underwrite risks from a large number of insurers based on information generally supplied by reinsurance brokers, we may develop a concentration of exposure to loss in certain geographic areas prone to specific types of catastrophes. For example, we are significantly exposed to losses arising from hurricanes in the southeastern United States, earthquakes in California, the midwest United States and Japan, and to windstorms in northern Europe. We have developed systems and software tools to monitor and manage the accumulation of our exposure to such losses and have established guidelines for maximum tolerable losses from a single event or multiple catastrophic events based on historical data. However, no assurance can be given that these maximums will not be exceeded by actual losses resulting from Hurricane Katrina or by some future catastrophe

* * *

Reserving for losses includes significant estimates, which are also subject to inherent uncertainties.

Our success is dependent upon our ability to assess accurately the risks associated with the businesses that we insure and reinsure. Claim reserves represent estimates

> involving actuarial and statistical projections, at a given point in time, of our expectations of the ultimate settlement and administration costs of claims incurred. We utilize actuarial models as well as historical insurance industry loss development patterns to assist in the establishment of appropriate claim reserves. In our casualty and finite business, given our limited experience we do not have established historical loss development patterns that can be used to establish these loss liabilities. For these lines of business, we rely on loss development patterns that have been estimated from industry or client data, which may not accurately represent the true development pattern for the business we wrote. For property lines of business, reserves may differ from ultimate settlement values due to the infrequency of some types of catastrophe losses, the incompleteness of information in the wake of a major catastrophe and delay in receiving that information. We may also seek to enter into commutations of reinsurance contracts of exited lines businesses. Actual claims and claim expenses paid, including commutations, may deviate, perhaps substantially, from the reserve estimates reflected in our financial statements.
>
> If our claim reserves are determined to be inadequate, we will be required to increase claim reserves at the time of such determination with a corresponding reduction in our net income in the period in which the deficiency is rectified. It is possible that claims in respect of events that have occurred could exceed our claim reserves and have a material adverse effect on our results of operations, in a particular period, or our financial condition in general. As a compounding factor, although most insurance contracts have policy limits, the nature of property and casualty insurance and reinsurance is that losses can exceed policy limits for a variety of reasons, including, for example, mishandling of claims or adverse judicial decisions and could significantly exceed the premiums received on the underlying policies, thereby further adversely affecting our financial condition.

65. The statements referenced above in ¶¶63-64 were materially false and misleading because they failed to disclose that there were several significant flaws with the methods used to obtain PXRE's loss exposure estimates. Specifically, PXRE's loss modeling system used software that Defendants knew was incapable of including damages arising from river flooding, which Defendants knew was a material portion of the damages caused by Hurricane Katrina. Moreover, while purporting to be conservative, PXRE aggressively estimated insurance industry losses at $35 billion, which failed to include the $15-$25 billion in river flooding damages caused by the broken levees in New Orleans.

66. All Plaintiffs assert claims under Sections 12(a)(2) and 15 of the Securities Act for the above-referenced false and misleading statements made in the Convertible Offering Materials.

Additional Misrepresentations Were Made to the Individual Plaintiffs to Induce them to Purchase Preferred Shares in the Convertible Offering

Endicott

67. At all relevant times, the primary contacts for Endicott concerning its investment in PXRE were Mahir T. Vora ("Vora"), Rob Usdan ("Usdan") and Wayne Goldstein ("Goldstein"). In addition to the aforementioned materially false and misleading statements that Endicott relied on in purchasing Preferred Shares of PXRE in the Convertible Offering, the Individual Defendants also met personally with these representatives of Endicott and made additional false and misleading statements to them concerning, among other things, PXRE's losses caused by the Hurricanes and its maximum exposure to the Hurricanes.

68. Vora met with Defendants Radke and Modin at the KBW Insurance Conference on September 8, 2004. During their conversations, the parties spoke about the Company's business strategy and maximum exposures. At that time, Defendants Radke and Modin represented that PXRE's maximum loss from any one event would be no more than 25% of beginning year capital (the "25% Maximum Loss"). In reaction to this claim by Radke and Modin, Vora sought clarification and asked: "So if you have a big earthquake in California and it falls into the ocean, the maximum loss you expect is 25% of capital?" In response, Defendants Radke and Modin stated "yes."

69. Shortly thereafter, on or about November 16, 2004, Usdan and Vora met with Defendants Radke, Modin and Hengesbaugh at a breakfast meeting as part of a roadshow for an equity offering by the Company, which was scheduled to take place in November 2004.

70. Then, on May 3, 2005, Goldstein, Usdan and Vora met with Defendants Radke and Modin at Endicott's offices in New York. At this meeting, the parties discussed the Company's strategy and industry dynamics and Radke and Modin represented that: (i) the pricing environment

for premiums was robust because of the storms in 2004; and (ii) the Company expected to benefit from the limited competition in the industry.

71. Defendant Radke also assured Goldstein, Usdan and Vora that the Company had been in business a long time and that PXRE had all of the procedures in place to ensure that it survived any big storms.

72. Following Hurricane Katrina, on or about September 7, 2005, Usdan and Vora attended the Company's presentation at the Pierre Conference. During the presentation, Defendant Radke discussed the 25% Maximum Loss, which he had spoken about at the same conference one year prior. This time, however, he now stated that the Company's maximum exposure would be 25% of beginning year capital ***plus expected earnings for the year***. Based on this interpretation of the Company's 25% maximum loss exposure calculation, Vora estimated that the Company's maximum loss exposure was therefore approximately $350 million.[7] When questioned about this new definition of Maximum Loss, Radke replied that this is what was intended all along as the definition. ***Radke further stated that Katrina was not the worst case event that they model for***.

73. These statements referenced above in ¶¶68-72 were materially false and misleading because Defendants knew or recklessly disregarded that the Company's maximum exposure was not limited and that its losses would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the Company ultimately reported from Hurricanes Katrina and Rita.

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[7] The maximum exposure was calculated as follows: $212.5 million (25% of $850 million, which represents capital at the start of the year) plus $140 million, which represents expected earnings), resulting in a maximum exposure of approximately $352.5 million.

74. Then, in mid-late September 2005, Hurricane Rita hit. At around the same time, on or about September 19, 2005, Usdan and Vora attended a PXRE presentation at the Fox-Pitt, Kelton "Bermuda in Boston" Conference. During PXRE's presentation, Defendant Radke described the Company's exposure, stating that "***in every zone there is a maximum cap and losses from an extreme event in that zone will lead to that limit***." This meant that the Company knew what its maximum exposure would be in the Gulf of Mexico region. Defendants Radke, Modin and Hengesbaugh also represented that Hurricanes Katrina and Rita would not ruin PXRE and that the "Company is prepared for more or larger events."

75. These statements referenced above in ¶74 were materially false and misleading because Defendants knew or recklessly disregarded that the Company's maximum exposure was not limited and that its losses would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the Company ultimately reported from Hurricanes Katrina and Rita. Moreover, contrary to their statements, Defendants knew or recklessly disregarded that the Company was not prepared for "more or larger events" than Hurricanes Katrina and Rita, as evidenced by the serious credit downgrades the Company experienced after it reported its full exposure to Hurricanes Katrina and Rita.

76. During a private discussion at the conference, Defendant Radke told Usdan and Vora that PXRE's total exposure was not as bad as he had thought and that it was a good time for Endicott to get in. At or about that time, Usdan inquired about Endicott's possible participation in any offerings and was directed by Defendants Radke, Modin and Hengesbaugh to call Goldman Sachs.

77. On or about September 29, 2005, Vora participated in a group conference call, which included Defendant Radke, concerning the Convertible Offering. During the call, Defendants disclosed the impact of Hurricane Rita. ***With regard to the Company's risk controls, Defendants***

Radke, Modin and Hengesbaugh stated positively that they had "worked." Defendant Radke also spoke about the S&P downgrade to A- and stated that, while such a downgrade would impact other companies, PXRE "would not be materially impacted."

78. These statements referenced above in ¶¶76-77 were materially false and misleading because Radke knew or recklessly disregarded: that (i) the Company's risk controls had not "worked" and the Company was unable to accurately assess its loss estimates; and (ii) that PXRE's losses were going to be much higher than disclosed or, alternatively, knew that PXRE lacked a legitimate basis for accurately estimating PXRE's total exposure.

79. On or about October 6, 2005, Endicott, through the Endicott Funds, purchased $8 million, or 2%, of the Convertible Offering.

80. Hurricane Wilma hit on October 17, 2005. Approximately two weeks later, on November 2, 2005, Usdan and Vora met for one hour with Defendants Radke and Modin at Endicott's offices in New York. At the meeting, the parties discussed the property-catastrophe environment in the post-Katrina world and PXRE's ability to take advantage of that environment. In that regard, Defendants Radke and Modin stated that the rating agencies were looking more favorably on diversified insurance companies like PXRE. Radke and Modin further confirmed their earlier assumptions about the impact of the three recent hurricanes for PXRE and said that next year was looking very positive.

81. On December 12, 2005, Endicott's Preferred Shares were converted into common shares of PXRE stock.

82. On February 16, 2006, PXRE disclosed the truth about its exposure to the Hurricanes and its stock price declined sharply. From February 17, 2006 to February 26, 2006, Endicott sold its

shares of common stock that had been converted from the Convertible Offering at a substantial multi-million dollar loss.

Scopia Capital

83. At all relevant times, the primary contacts for Scopia Capital concerning its investment in PXRE were Matthew Sirovich ("Sirovich") and Patrick T. White ("White"). In addition to the aforementioned materially false and misleading statements that Scopia relied on in purchasing its Preferred Shares of PXRE in the Convertible Offering, the Individual Defendants also met personally with these representatives of Scopia Capital and made additional false and misleading statements to them concerning, among other things, PXRE's losses caused by the Hurricanes and its maximum exposure to the Hurricanes.

84. On or about September 7, 2005, Sirovich attended the presentation made by Defendants Radke and Modin at the Pierre Conference at which Defendant Radke stated that PXRE's maximum exposure was 25% of beginning year capital plus expected earnings for the year, which was approximated to be $350 million. While no one from Scopia Capital attended the "Bermuda in Boston" Conference that was held on September 19, 2005, Sirovich received a newsletter by Defendants which summarized the events.

85. Also in September, Sirovich called Defendant Radke to express his desire to invest in the Convertible Offering. Subsequent to that conversation, Goldman Sachs then called Sirovich to inform him of the September 29, 2005 conference call.

86. Prior to the September 29, 2005 conference call, Defendant Radke told Sirovich that he was comfortable with the Company's risk controls following Hurricane Katrina, that "the Company will do great," and that investors had nothing to worry about since losses from Katrina were less than they had previously thought.

87. These statements referenced above in ¶¶84-86 were materially false and misleading because Radke knew or recklessly disregarded: (i) that the Company's maximum exposure was not limited and that its losses would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the Company ultimately reported from Hurricanes Katrina and Rita; (ii) the Company's risk controls were inadequate; and (iii) accordingly, there was no legitimate basis for estimating PXRE's total exposure, saying that the Company "will do great," or telling the representatives of Scopia Capital that they had nothing to worry about since losses from Katrina were less than they had previously thought.

88. On September 29, 2005, Sirovich participated in a conference call with Defendants Radke, Modin and Hengesbaugh regarding the Convertible Offering. During the call, Defendants disclosed that: (i) they were comfortable with the Hurricane Katrina loss and risk controls; (ii) within 60 days of the Convertible Offering, the Company will convert the Preferred Shares to common stock; (iii) looking forward, the Company expected to have several years of great business; (iv) the Company's capital adequacy was excellent; and (v) the loss from Hurricane Katrina could not be much worse than the industry estimates.

89. These statements referenced above in ¶88 were materially false and misleading because: (i) Defendants knew or recklessly disregarded that the Company's risk controls were inadequate; and (ii) accordingly, there was no legitimate basis for Defendants: (a) to state that they were comfortable with the loss and risk from Katrina; (b) to state that they were expecting the Company to have several years of great business going forward; and (c) to downplay the Company's exposure to Katrina.

90. On or about October 6, 2005, Scopia Capital, through the Scopia Funds, purchased $4.428 million, or 1.18% of the Convertible Offering.

91. On December 12, 2005, PXRE Preferred Shares were converted into common stock.

Cannell Capital

92. At all relevant times, the primary contacts for Cannell Capital concerning its investment in PXRE were J. Carlo Cannell ("Cannell") and Julian Allen ("Allen"). In addition to the aforementioned materially false and misleading statements that Cannell Capital relied on in purchasing its Preferred Shares of PXRE in the Convertible Offering, the Individual Defendants also communicated personally with Allen by telephone and made additional false and misleading statements to him concerning, among other things, PXRE's exposure to the Hurricanes.

93. From September 13, 2005 to September 28, 2005, Cannell Capital began acquiring shares of PXRE common stock through the open markets. The traders responsible for the purchases were Cannell and Chris Bade. By September 28, 2005, Cannell Capital had accumulated shares of PXRE common stock with a value of approximately $16 million.

94. On or about September 13, 2005, Allen emailed Brad Cooper, a member of PXRE's board of directors, to express Cannell Capital's interest in participating in any additional capital raise by the Company.

95. On or about September 15, 2005, Allen spoke by telephone from San Francisco, California with Defendant Modin concerning PXRE. On that same day, Allen also spoke by telephone from San Francisco, with Cliff Brokaw ("Brokaw") of Goldman Sachs.

96. On or about September 27, 2005, Cannell Capital executed a confidentiality agreement.

97. On or about September 28, 2005, Allen spoke by telephone from San Francisco, with Defendant Modin. During that phone call, Defendant Modin represented that a "1-in-250 year event should result in a loss of no more than 20% of capital." At that time, PXRE had approximately $1.06 billion in capital and thus Defendant Modin implied that the Company's maximum loss would be

$212 million, which was equal to the estimated losses from Hurricanes Katrina and Rita at that time. Defendant Modin also represented that a "10-15% increase was possible" and that the "worst case scenario was a loss of $350 million."

98. These statements referenced above in ¶97 were materially false and misleading because Defendants knew or recklessly disregarded that the Company's maximum exposure was not limited and that its losses would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the Company ultimately reported from Hurricanes Katrina and Rita.

99. On or about September 28, 2005, Allen participated in a conference call with Defendants Radke and Modin, which was hosted by Goldman Sachs. In advance of the conference call, Allen e-mailed a series of questions to Defendant Modin.

100. With regard to the Company's expected losses from Hurricanes Katrina & Rita, Defendant Modin represented that the range of losses for Hurricane Katrina would be between $235 million and $300 million and that the range of losses for Hurricane Rita would be between $30 million and $40 million. Defendant Modin also stated that the combined losses for both Hurricanes would be equal to 34.7% to 44.5% of the Company's equity as of June 30, 2005.

101. These statements referenced above in ¶100 were materially false and misleading because Defendants knew or recklessly disregarded that the Company's maximum exposure was not limited and that its losses would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the Company ultimately reported from Hurricanes Katrina and Rita. Moreover, Defendant Modin lacked a legitimate basis for estimating PXRE's total exposure at that time.

102. In response to whether the Company anticipated any counter party credit issues, Defendant Modin stated that "management does not anticipate problems."

103. With regard to the Company's ability to maintain its A-rating from AM Best and S&P, Defendant Modin stated that the Company expects that S&P would reaffirm the A- rating with a stable outlook following the capital raise. Moreover, Defendant Modin stated that AM Best would downgrade its rating if the Company did not raise $550 million. However, Defendant Modin stated that any potential downgrade would be a "non-event," particularly since the other reinsurers would be downgraded as well. Lastly, although Defendant Modin admitted that a downgrade would allow customers to exercise early termination clauses in some contracts, he did not anticipate any cancellations unless the Company's rating was downgraded to below A-.

104. These statements referenced above in ¶¶102-103 were materially false and misleading because Defendants knew or recklessly disregarded that the Company's maximum exposure was not limited and that its losses would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the Company ultimately reported from Hurricanes Katrina and Rita. As a result, Defendant Modin had no legitimate basis for stating that any potential downgrade would be a "non event." In fact, following the Company's February 16, 2006 announcement, PXRE was hit with several downgrades which paralyzed the Company from writing new business and caused the Company's stock to fall precipitously.

105. In comparing the insurance industry post-September 11, 2001 and how Defendant Modin viewed the insurance industry post Hurricane Katrina, Defendant Modin stated the Company would benefit from increased rates. Specifically, Defendant Modin expected rates in affected lines to increase 20% to 30% with catastrophe reinsurance rates above 20% and retrocessional reinsurance

rates above 30%. Moreover, Defendant Modin stated that there would not be any increased competition in the industry.

106. These statements referenced above in ¶105 were materially false and misleading because Defendants knew or recklessly disregarded that, based on the scope of PXRE's exposure, the Company would have difficulty existing in a post-Katrina environment, as evidenced by the serious credit downgrades the Company experienced after it reported its full exposure to Hurricanes Katrina and Rita.

107. With regard to the Company's maximum expected loss from a single event, Defendant Modin stated that $350 million is the maximum expected loss and that the losses from Hurricanes Katrina and Rita would be near that maximum. Moreover, Defendant Modin described the probability of a Hurricane Katrina-like event as "extremely rare, less than 1-in-250 years."

108. These statements referenced above in ¶107 were materially false and misleading because Defendants knew or recklessly disregarded that the Company's maximum exposure was not limited and that its losses would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the Company ultimately reported from Hurricanes Katrina and Rita. Moreover, Defendants knew or recklessly disregarded that Hurricane Katrina was worse than a "1-in-250 year event" and would cripple the Company's present and future, as evidenced by the serious credit downgrades the Company experienced after it reported its full exposure to Hurricanes Katrina and Rita.

109. On or about September 29, 2005, Allen participated by telephone from San Francisco, in a second conference call hosted by Goldman Sachs.

110. On or about October 2, 2005, Cannell Capital executed the documents with regard to the preferred stock offering in San Francisco, California.

111. On or about October 6, 2005, Cannell Capital, through the Cannell Funds, purchased $20 million, or 5.33%, of the Convertible Offering.

112. On December 12, 2005, Cannell Capital's Preferred Shares were converted into common shares of PXRE stock.

Royal Capital

113. At all relevant times, the primary contacts for Royal Capital concerning its investment in PXRE were Yale M. Fergang ("Fergang") and John S. Lancefield ("Lancefield"). In addition to the aforementioned materially false and misleading statements that Royal Capital relied on in purchasing its Preferred Shares of PXRE in the Convertible Offering, the Individual Defendants also met personally with these representatives of Royal Capital and made additional false and misleading statements to them concerning, among other things, PXRE's exposure to the Hurricanes.

114. On or about September 7, 2005, Royal Capital attended the PXRE presentation at the Pierre Conference at which Defendant Radke stated that PXRE's maximum exposure was 25% of beginning year capital plus expected earnings for the year, or approximately $350 million. During the presentation, Defendants Radke and Modin represented that the Company was "currently assessing [its] exposure" to Hurricane Katrina, but that it was "too early to provide a meaningful estimate or range."

115. These statements referenced above in ¶114 were materially false and misleading because: (i) Defendants knew or recklessly disregarded that the Company's maximum exposure was not limited and that its losses would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the Company ultimately reported from Hurricanes Katrina and Rita; and (ii) it was not "too early to provide a meaningful estimate or range" because Defendants knew or recklessly disregarded that the Company had already conducted or had the

ability to conduct a contract by contract analysis of the Company's total exposure to the New Orleans area.

116. On or about September 9, 2005, Lancefield and Fergang spoke by telephone with Defendant Radke to discuss the magnitude of Hurricane Katrina and its impact on PXRE. With regard to Hurricane Katrina, which Defendant Radke described as a "1-in-250 event," Radke claimed that Hurricane Katrina would cause an after-tax loss of "25% of the beginning statutory capital plus all of the current year's increase in book value." In addition to the foregoing, Radke made some other comments about Hurricane Katrina. He said that, "unless Q4 is the most benign quarter in history, we will probably have a loss this year." The implication of this statement was that PXRE's loss from Hurricane Katrina would not be substantially more than the forecasted net income for the Company. Radke further stated that, on the prior day, he had returned the Standard & Poor's questionnaire concerning the Company's loss estimate. Lastly, Radke stated that, while Hurricane Katrina was a very severe hurricane, he had not changed his view that "it's not a bookend event." Lancefield and Fergang understood this to mean that that there was no going concern threat to PXRE.

117. These statements referenced above in ¶116 were materially false and misleading because Defendants knew or recklessly disregarded that the Company's maximum exposure was not limited and that its losses would be much greater than what had been represented to Plaintiffs, as evidenced by the shocking $668 million loss that the Company ultimately reported from Hurricanes Katrina and Rita. Moreover, based on the true scope of the Company's exposure, Defendants knew or recklessly disregarded that Hurricane Katrina was worse than a "1-in-250 year event," was a "bookend event" and would cripple the Company's present and future, as evidenced by the serious

credit downgrades the Company experienced after it reported its full exposure to Hurricanes Katrina and Rita.

118. On or about September 22, 2005, Lancefield and Fergang spoke by telephone with Defendant Radke to discuss the impending threat of Hurricane Rita. Defendant Radke responded by saying that if Hurricane Rita hit "anywhere but King Ranch," the Company would be forced to do a non-discretionary capital raise, or get small enough to become an attractive acquisition target. However, if Hurricane Rita hit King Ranch or Mexico, the Company would proceed with a discretionary capital raise. Moreover, Defendant Radke also represented that all of PXRE's customers were issuing "precautionary loss notices" following Hurricane Katrina, which forced management to be ***extremely conservative*** with loss estimates.

119. These statements referenced above in ¶118 were materially false and misleading because, contrary to Defendants' statements, PXRE management was not conservative in their loss estimates. Specifically, the software from outside risk modelers and its own software were incapable of including damages arising from river flooding, which Defendants knew or should have known was a material portion of the damages caused by Hurricane Katrina. Moreover, Defendants knew or recklessly disregarded that PXRE's loss estimates would need to be significantly adjusted upward because it failed to: (i) include the $15-$25 billion in damages caused by the river flooding caused by the broken levees in New Orleans; and (ii) conservatively estimate insurance industry losses at $40-$60 billion like most of its competitors, who utilized RMS's estimate of insurance industry loss which included the $15-$25 billion component for river flooding.

120. On or about September 28, 2005, at the direction of Defendant Radke, Lancefield and Fergang spoke by telephone with Brokaw of Goldman Sachs. During the conversation, the parties discussed the Convertible Offering and Common Stock offering.

121. On or about September 29, 2005, Royal Capital participated in a conference call hosted by Goldman Sachs and led by Defendant Radke. During the conference call, Royal Capital was led to believe that current industry loss estimates were too high based on comments made by Defendant Radke that: (i) initial estimates for the September 11, 2001 terrorist attacks were $50 to $100 billion, well in excess of the actual losses; (ii) the $60 billion upper limit of RMS's estimates was unrealistic; and (iii) the upper end of RMS's industry loss estimate, *i.e.*, $60 billion, was 90% greater than PXRE's model's estimate, which was estimated as a loss of $31.6 billion.

122. On or about September 29, 2005, representatives from Royal Capital spoke by telephone with Defendant Modin concerning PXRE and the hurricanes. During the conversation, Defendant Modin stated that RMS's $40 billion low-end industry loss estimate, as well as its $60 billion high-end estimate, was "ridiculous." Defendant Modin indicated that AIR's[8] estimate of $34 billion was more realistic.

123. These statements referenced above in ¶¶121-122 were materially false and misleading because Defendants knew, or recklessly disregarded, that RMS's estimate of insurance industry loss, which included the $15-$25 billion component for river flooding, was legitimate and well-founded and was not "ridiculous." In fact, insurance industry losses were $60 billion – the high end of RMS's estimates.

124. On or about October 5, 2005, Royal Capital conducted a telephone conversation with Defendant Modin. During the conversation, Defendant Modin made several representations: (i) he had just left a meeting with a large UK-based insurance company that was satisfied with PXRE's

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[8] According to its website (www.air-worldwide.com), AIR is the "world's premier risk modeling and technology firm specializing in risks associated with natural and man-made catastrophes, weather and climate."

financial stability; (ii) he was very confident in placing the new capital that the Company had just raised through the two offerings; (iii) PXRE would be ceding more risk in 2006 to ease the balance sheet risk, but that the Company could have net written premiums in the following year of $450 to $500 million; (iv) that the September 11, 2001 industry loss estimate of $75 billion was later reduced to $30 billion; (v) that Hurricane Katrina-related news may affect the Company's reported losses, up or down, for the next 7 to 8 quarters; (vi) that the industry loss estimate of $34.4 billion for Katrina, plus $6 to $7 billion in offshore oil and energy losses (which PXRE was not exposed to), resulted in an industry loss of $40 billion and was considered by most in the industry as a reasonable estimate; and (vii) that PXRE would pay claims to preserve its franchise value even if its primary insurance company customers were making payments on claims that were excluded from their policies.

125. These statements referenced above in ¶124 were materially false and misleading because Defendant Modin knew or recklessly disregarded that the Company would have difficulty existing in a post-Katrina environment as evidenced by the serious credit downgrades the Company experienced after it reported its full exposure to Hurricanes Katrina and Rita.

126. On or about October 6, 2005, Royal Capital, through the Royal Funds, purchased $17 million, or 4.53% of the Convertible Offering.

127. On October 27, 2005, one day prior to PXRE's announcement of its third quarter 2005 financial results, Royal Capital spoke by telephone with Defendant Radke. During the conversation, Defendant Radke said that the price of PXRE shares was undervalued and that PXRE would either "educate" investors about the attractive opportunity that the Company's stock represented, or repurchase shares.

128. On October 28, 2005, following PXRE's third quarter 2005 conference call with analysts, Defendant Radke told Lancefield and Fergang : (i) that PXRE's estimate for the Hurricane

Katrina industry loss was $30-40 billion, and excluded $8-10 billion of marine losses; (ii) that RMS, which had forecasted industry losses at $40 to $60 billion, typically had the highest, most conservative loss estimates and had the cheapest insurance cost statistics; (iii) that the best way to get a good estimate of industry loss was to take an average of the ranges suggested by AIR and RMS; (iv) that PXRE's business would remain strong because retrocessional rates for 2006 had increased by 50-100%, risk excess rates were up 100-150%, and U.S. catastrophe reinsurance was up over 25%; (v) that a 24 to 25% return on equity was possible for 2006; (vi) that the rate environment was very strong; and (vii) that PXRE was generally less exposed to massive losses than other companies because the Company underwrote more retrocessional policies, whereas its competitors were generally more exposed to catastrophe reinsurance.

129. On or about October 31, 2005, upon the request of Lancefield, Defendant Radke e-mailed a PowerPoint schedule titled "Converging Industry Loss Estimates" which showed the industry loss estimates for Hurricane Katrina as of September 19, 2005. The PowerPoint presentation illustrated Radke's earlier statement that the best way to get a good estimate of industry loss was to take an average of the estimates used by AIR and RMS.

130. On or about November 16, 2005, Defendant Radke made a presentation at the Credit Suisse First Boston Insurance Conference ("CSFB"). At the conference, Radke handed out materials, which included estimated rate increases for 2006. The presentation materials also provided that the Company's $330 million loss from Hurricane Katrina was based on a property industry loss of $40 billion. Radke explained that PXRE had used the most conservative of three methodologies (stochastic event model, discussions with underwriters, and discussions with customers) for estimating its loss. Radke further stated that the Company's biggest risk was catastrophe reinsurance, not retrocessional or risk excess lines.

131. On December 12, 2005, PXRE Preferred Shares were converted into common stock.

132. On or about December 22, 2005, representatives from Royal Capital spoke by telephone with Defendant Radke. During the conversation, Defendant Radke represented that the Company had not started any preliminary review of its ongoing fourth quarter 2005 results, but that there was no smoking gun apparent.

133. On January 31, 2006, representatives from Royal Capital spoke with Radke by telephone. On the call, Radke described the market as remaining very "hard." Radke further stated that he was so surprised by the strength of the market, as manifested both in price as well as supply and terms, that he saw little to no risk to terms as far out as 2007.

134. After PXRE disclosed its revised estimates for the Hurricanes on February 16, 2006, representatives from Royal Capital telephoned Radke to discuss the Company's shocking announcement. Radke told them that the direct and facultative policies, which had been 57% reserved previously, had "exploded" as a result of Hurricane Katrina. Moreover, and contrary to his comments on November 16, 2005 at the CSFB conference, retrocessional policies had also been under-reserved at 65%. All of these lines, based on the updated loss information provided in the release earlier in the day, were now 97-98% reserved. Radke further said that he had essentially been told that "no amount of capital" would appease the rating agencies in light of the revised losses, and speculated that half of PXRE's customers might walk.

Post-Offering Events

135. On October 27, 2005, the Company issued a press release announcing its financial results for the third quarter of 2005, the period ended September 30, 2005. For the quarter, the Company reported a net operating loss per adjusted diluted share of $9.46 per share and a net loss of $317.3 million. The Company also announced that it "has withdrawn its previously disclosed

guidance for the year and will not be providing revised guidance for 2005. . . ." Defendant Radke, commenting on the results, stated, in pertinent part, as follows:

> Hurricanes Katrina and Rita will make the third quarter of 2005 the most costly quarter in history for the reinsurance industry in terms of insured catastrophe loss. PXRE's loss for the quarter is correspondingly large ***but the storms again demonstrated the strength of PXRE's risk management, as our losses were within our expectations for such major events.***
>
> ***The strategic market position we have earned over the past 23 years through our dedication to customer service and prompt claims payment gives us confidence in our ability to thrive in the wake of Hurricanes Katrina and Rita, and recent feedback from communications with brokers validates that confidence***. Indeed, our recent success in raising $474 million of equity capital reflects investors' belief in the strength of PXRE's franchise, which flows from our focused strategy and proven risk management.
>
> Following our successful capital raising efforts, PXRE now has $914 million of pro-forma shareholders' equity and approximately $1.1 billion of pro-forma capital as of September 30, 2005, which represent the highest levels in our history. ***Our increased size positions us well to take advantage of both the expected substantial increases in rates and improved terms and conditions for each of the lines of business we write***. We expect the scope of these changes to be at least as pronounced in our lines of business as those experienced after other market-changing events such as the World Trade Center disaster in 2001 and Hurricane Andrew in 1992. [Emphasis added.]

136. On November 18, 2005, the Company issued a press release announcing that the Company's shareholders approved the mandatory exchange of the Company's 375,000 Series D Perpetual Non-Voting Preferred Shares into approximately 34.1 million PXRE Common Shares.

137. On December 22, 2005, the Company issued a press release announcing that Defendant Modin would resign in order to "pursue other opportunities."

138. Then, on February 16, 2006, the Company issued a press release announcing that Hurricanes Katrina, Rita and Wilma would cost the Company $758 million to $788 million on a net pre-tax basis in 2005, an increase of $281 million to $311 million – or approximately 65% - higher than the Company's previous estimates. The Company also announced that it had been notified that

these developments would likely have a negative impact on the Company's current "A-" financial strength ratings. The press release continued, in pertinent part, as follows:

> Jeffrey L. Radke, President & Chief Executive Officer of PXRE Group, commented, "Our fourth quarter results will reflect the severe losses associated with Hurricane Wilma, as well as significant development on Hurricanes Katrina and Rita. The scope of these storms, our clients' difficulty in estimating and adjusting their claims, particularly those in our Retrocessional and Direct & Facultative business lines, together with the combination of wind and flood damage from Hurricane Katrina, dramatically increased the challenge of accurately estimating losses immediately following the events."
>
> Mr. Radke continued, "PXRE has taken steps that substantially improve our risk profile, including increased reinsurance coverage, reducing our peak zone exposure and reducing our exposure to certain large events and second events through catastrophe bond transactions. In light of these steps and our strong track record, we are disappointed by the expected rating agency action. Although the agencies have acknowledged that we have dramatically reduced the risk in our portfolio, they are of the view that our book of business may be too volatile for a rating in the 'A' range."
>
> Mr. Radke concluded, "We believe that our strong 23 year track record of managing risk, paying claims and providing underwriting service for our Catastrophe, Retrocessional and Direct and Facultative clients has built a level of trust and confidence in PXRE. We were very pleased with the success of our franchise during the January renewals and the firmer pricing that we achieved. We believe this and the strength of our franchise will allow us to continue trading with many of our clients and brokers without ratings in the 'A' range."
>
> However, in light of the potential negative impact that adverse rating actions would have on the Company's future business, PXRE has decided to explore strategic alternatives for the Company and it has retained Lazard as a financial advisor to assist it in this process.
>
> Given the potential negative impact that adverse rating actions would have on the Company's future business, the Company is also assessing its ability to fully utilize the tax benefits relating to its net operating losses as of December 31, 2005. As of September 30, 2005, the Company had income tax recoverables of $47.8 million.

139. Following the Company's announcement, A.M. Best downgraded PXRE Group's financial strength rating to B++ (Very Good) from A-(Excellent). Ratings of at least "A-" are crucial for reinsurers to attract new business. If ratings drop below that level, potential customers

are less likely to place risks with reinsurers because they worry that the company is not financially strong enough to pay future claims.

140. In response to this announcement, on February 17, 2006, the price of PXRE common stock declined to $4.05 per share, a loss of $7.84 per share or over 65% from the previous trading day's close.

141. On February 17, 2006, Fitch Ratings downgraded its rating on PXRE's lead operating subsidiaries, PXRE Reinsurance Ltd. and PXRE Reinsurance Co., to BB+ from BBB+. The agency also downgraded its long-term rating on PXRE to BB-from BB+, as well as its rating on PXRE Capital Trust I's preferred securities to B+ from BB.

142. On February 23, 2006, the Company issued a press release announcing its financial results for the fourth quarter of 2005, the period ended December 31, 2005. For the quarter, the Company reported a net loss before convertible preferred share dividends of $446.5 million. The press release continued, in pertinent part, as follows:

> The net loss in the fourth quarter of 2005 principally reflects losses from Hurricane Wilma and increased estimates of losses from Hurricanes Katrina and Rita. On a fully diluted basis, book value per share decreased to $6.01 at December 31, 2005 from $13.01 per share at September 30, 2005. Fully diluted Preferred Shares outstanding as of December 31, 2005 are approximately 77.4 million. The Company's shareholders' equity was $465.3 million as of December 31, 2005.
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> Jeffrey L. Radke, President & Chief Executive Officer of PXRE Group, commented, "As we indicated last week, our fourth quarter results reflect the severe losses associated with Hurricane Wilma and significant development on Hurricanes Katrina and Rita. Although the fourth quarter loss and recent rating actions are extremely disappointing, PXRE remains financially sound and able to meet all of our obligations to clients. We also have sufficient liquidity to meet all currently foreseen needs and have taken a number of steps to even further improve our liquidity in order to meet contingencies that may arise."
>
> Mr. Radke continued, "We have built a 23-year track record of promptly paying claims and providing superior underwriting services to our clients. We are hopeful that our financial soundness and strong service track record will allow us to continue trading with our clients and brokers. Nevertheless, more than 75% of our current reinsurance clients, as measured by the premium volume, have the right to cancel

their reinsurance contracts as a result of either the recent ratings downgrade or reduction of our capital, which, if such rights were exercised, could cause a substantial loss in premium volume. We are therefore continuing to explore a range of strategic alternatives for the Company."

As of September 30, 2005, the Company had income tax recoverables of $47.8 million. The recent downgrade of the Company's credit ratings below the "A-" level has created uncertainty with regard to the ultimate realization of the Company's income tax recoverables. As a result, the Company has recorded a valuation allowance against certain of these assets, which reduced the income tax recoverable to $6.3 million as of December 31, 2005. Such amount represents expected tax refunds related to prior periods that are expected to be received in 2006. A result of the recording of this valuation allowance is the reversal of approximately $30.9 million of tax benefits that had previously reduced the net impact of Hurricanes Katrina and Rita on the Company's results at September 30, 2005.

A summary of the gross and net impact of Hurricanes Katrina, Rita and Wilma as of and for the year ended December 31, 2005 is set forth below:

	Gross Impact(1) ($000's)	Net Impact(2) ($000's)
Hurricane Katrina	$771,010	$602,606
Hurricane Rita	68,894	66,329
Hurricane Wilma	174,602	138,005
	$1,014,506	$806,940

(1) Before reinsurance recoveries on our outwards reinsurance program and the impact of inwards and outwards reinstatements and additional premiums.

(2) Net of reinsurance recoveries on our outwards reinsurance program and after the impact of inwards and outwards reinstatements and additional premiums. No tax benefit was recorded with respect to the losses incurred from Hurricanes Katrina, Rita and Wilma as of December 31, 2005.

The following table summarizes the change in the gross and net impact of Hurricanes Katrina and Rita from September 30, 2005, and the change in gross and net impact for Hurricane Wilma as compared to the high end of the Company's previously released range of losses for this fourth quarter event.

	Change in Gross Impact(1) ($000's)	Change in Net Impact(2) ($000's)
Hurricane Katrina	$214,619	$238,118
Hurricane Rita	48,058	48,177
Hurricane Wilma	63,053	44,005
	$325,730	$330,300
Reversal of Tax Benefit(3)		30,933
	$325,730	$361,233

(1) Before reinsurance recoveries on our outwards reinsurance program and the impact of inwards and outwards reinstatements and additional premiums.

(2) Net of reinsurance recoveries on our outwards reinsurance program and after the impact of inwards and outwards reinstatements and additional premiums.

(3) Reflects the reversal of tax benefits recorded as of September 30, 2005 with respect to Hurricanes Katrina and Rita following the Company's determination to record a valuation allowance against income tax recoverables for all but $6.3 million of such recoverables as of December 31, 2005. This was done due to the uncertainty with regard to the ultimate realization of the Company's income tax recoverables following the Company's recent ratings downgrades.

The $330.3 million increase in the estimated pre-tax net impact for Hurricanes Katrina, Rita and Wilma reflected in the foregoing table brings the estimated losses for these hurricanes above the high end of the range announced by the Company on February 16, 2006. The new loss estimate results from the Company's assessment of recent loss reports, as well as notifications received by the Company subsequent to the recent downgrades from two counterparties exercising their rights under certain of the Company's reinsurance contracts to cancel and commute retrocessional coverage based on ratings downgrades and material changes to the Company.

As a result of the losses arising from Hurricanes Katrina, Rita and Wilma during the second half of 2005, PXRE has an accumulated deficit of $527.3 million at December 31, 2005. Under Bermuda company law, even if a company is solvent and able to pay its liabilities as they become due, it cannot declare or pay dividends or make distributions if, after such payment, the realizable value of its assets would thereby be less than the sum of its liabilities, its issued share capital (par value) and its share premium account, a defined term in Bermuda company law. Due to the size of the Company's share premium account ($550.0 million as of December 31, 2005), it is currently prohibited under Bermuda company law from paying dividends or making distributions from its contributed surplus to its shareholders. In order for PXRE to continue to have the flexibility to pay dividends, the Board of Directors has determined that it is in the best interests of PXRE to reduce the share premium account to zero and allocate $550.0 million to the Company's contributed surplus as permitted under Bermuda company law. This reduction of the share premium account and reallocation to the Company's contributed surplus requires the approval of PXRE's shareholders at a General Meeting. If shareholders approve the foregoing proposal, the Board of Directors will evaluate whether to resume paying dividends and the appropriate level of such dividends as part of its evaluation of strategic alternatives. [Emphasis added.]

143. On February 24, 2006, A.M. Best Co. further downgraded the financial strength rating of the Company to B+ (Very Good) from B++ (Very Good) and the issuer credit ratings

("ICR") to "bbb-" from "bbb" for the reinsurance subsidiaries of the PXRE Group. The rating actions apply to PXRE Reinsurance Ltd. (Bermuda) and PXRE Reinsurance Co. (Hartford, Conn.). A.M. Best has also downgraded PXRE Group's ICR to "bb-" from "bb" and all its existing and indicative debt ratings. All ratings have been placed under review with negative implications.

COUNT I

Against All Defendants for Violations of Section 12(a)(2) of the Securities Act

144. Plaintiffs repeat and reallege each and every allegation contained above.

145. This Count is brought pursuant to Section 12(a)(2) of the Securities Act on behalf of Plaintiffs, against all Defendants.

146. Defendants were sellers and offerors and/or solicitors of purchasers of the Preferred Shares offered pursuant to the Convertible Offering Materials.

147. The Convertible Offering Materials contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and concealed and failed to disclose material facts. In order to induce the Plaintiffs to purchase shares in the Convertible Offering, Defendants made numerous oral statements which were untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and concealed and failed to disclose material facts. The Individual Defendants' actions of solicitation included participating in the preparation of the false and misleading Convertible Offering Materials and in actively soliciting Plaintiffs to purchase shares in the Convertible Offering as set forth in detail herein.

148. Defendants owed Plaintiffs the duty to make a reasonable and diligent investigation of the statements contained in the Convertible Offering Materials, to ensure that such statements were true and that there was no omission to state a material fact required to be stated in order to

make the statements contained therein not misleading. Defendants knew of, or in the exercise of reasonable care should have known of, the misstatements and omissions contained in the Convertible Offering materials as set forth above.

149. Plaintiffs purchased or otherwise acquired PXRE Preferred Shares pursuant to the misleading Convertible Offering Materials. Plaintiffs did not know, or in the exercise of reasonable diligence could not have known, of the untruths and omissions contained in the Convertible Offering Materials.

150. Plaintiffs hereby offer to tender to Defendants those securities which Plaintiffs continue to own in return for the consideration paid for those securities together with interest thereon. Plaintiffs are entitled to rescissory damages.

151. By reason of the conduct alleged herein, Defendants violated, and/or controlled a person who violated, §12(a)(2) of the Securities Act. Accordingly, Plaintiffs who hold PXRE shares purchased in the Convertible Offering have the right to rescind and recover the consideration paid for their PXRE Preferred Shares and hereby elect to rescind and tender their PXRE Preferred Shares to the Defendants sued herein. Plaintiffs who have sold their PXRE shares are entitled to rescissory damages.

COUNT II

Violations of Section 15 of the Securities Act
Against the Individual Defendants

152. Plaintiffs repeat and reallege each and every allegation contained above.

153. This Count is brought pursuant to Section 15 of the Securities Act against the Individual Defendants.

154. Each of the Individual Defendants was a control person of PXRE by virtue of his position as a director and/or senior officer of PXRE. The Individual Defendants each had a series of

direct and/or indirect business and/or personal relationships with other directors and/or officers and/or major shareholders of PXRE.

155. Each of the Individual Defendants was a culpable participant in violation of Section 12(a)(2) of the Securities Act alleged in Count I above, based on the fact that Defendants were sellers and offerors and/or solicitors of purchasers of the Preferred Shares offered pursuant to the Convertible Offering Materials.

COUNT III

For Common Law Fraud Against All Defendants

156. This cause of action is brought against all Defendants based on common law principles of fraud and deceit, scheme, aiding and abetting, conspiracy and fraudulent course of business.

157. As alleged herein, Defendants each made or participated in making material misrepresentations, or omitted to disclose material facts, to Plaintiffs and their agents regarding PXRE's losses caused by the Hurricanes and its maximum exposure to the Hurricanes. Each of the Defendants knowingly participated in the making, issuance and publication of the statements in the Prospectus and Convertible Offering Materials which were false in material respects. The Individual Defendants also knowingly made direct statements to Plaintiffs and their agents regarding PXRE and its exposure to the Hurricanes, among other statements, which were false in material respects.

158. In addition, Plaintiffs bring fraud claims on statements made to them as follows: Plaintiff Endicott Funds brings claims for common law fraud as set forth in ¶¶67-82; Plaintiff Scopia Funds brings claims for common law fraud, as set forth in ¶¶83-91; Plaintiff Cannell Funds brings claims for common law fraud, as set forth in ¶¶92-112; Plaintiff Royal Funds brings claims for common law fraud, as set forth in ¶¶113-134; Plaintiff Coast Fund brings claims for common law fraud, as set forth in ¶¶83-91.

159. Defendants each participated in the fraud and deceit by way of conspiracy to commit these wrongs, by materially aiding and abetting the same and/or by participating in a scheme to defraud Plaintiffs or their agents, regarding PXRE's losses caused by the Hurricanes and its maximum exposure to the Hurricanes, and each committed overt acts, including the making of false and misleading statements, in furtherance of such scheme, conspiracy or fraudulent course of conduct.

160. Defendants' misrepresentations and omissions were made intentionally or recklessly or with no reasonable ground for believing them to be true, to induce reliance thereon by Plaintiffs and their agents when making investment decisions.

161. The aforesaid misrepresentations and omissions by Defendants constitute fraud and deceit.

162. Plaintiffs and/or their agents reasonably relied on Defendants' representations and statements when deciding to purchase Preferred Shares in the Convertible Offering.

163. At the time that Plaintiffs purchased their Preferred Shares in the Convertible Offering, neither Plaintiffs nor their agents knew of any of the false and/or misleading statements and omissions.

164. As a direct and proximate result of the fraud and deceit of Defendants, Plaintiffs suffered damages in connection with their purchases of the Preferred Shares in the Convertible Offering.

COUNT IV

For Negligent Misrepresentation by Plaintiff Cannell Funds Against All Defendants

165. This cause of action is brought by Plaintiff Cannell Funds against all Defendants based on negligent misrepresentation.

166. Defendants owed Plaintiff Cannell Funds a duty of reasonable care in connection with the provision of information concerning PXRE's losses caused by the Hurricanes and its maximum exposure to the Hurricanes.

167. Defendants breached these duties knowingly, wantonly, recklessly, or at least negligently, by including untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in the Convertible Offering Materials and in discussion with Plaintiff Cannell Funds and its agents.

168. At the time of the misrepresentations and omissions of material facts by Defendants, Plaintiff Cannell Funds and its agents were ignorant of their falsity and believed them to be true. Plaintiff Cannell Funds and its agents relied upon the representations made by Defendants. Had Plaintiff Cannell Funds and/or its agents been aware of the true facts, they would not have purchased PXRE shares.

169. Plaintiff Cannell Funds also brings claims for negligent misrepresentation as set forth in ¶¶92-112**.**

170. Neither Plaintiff Cannell Funds nor its agents knew of any of the falsity and/or misleading nature of Defendants' statements and omissions and relied upon the representations made by Defendants.

171. Defendants' conduct constitutes the making of negligent misrepresentations (including negligent omissions to state facts in connection with statements that were made) under applicable state law. As a direct and proximate results of the negligent misrepresentations (and omissions) by Defendants, and in reliance thereon, Plaintiff Cannell Funds has suffered damages in connection with its purchases of Preferred Shares in the Convertible Offering.

COUNT V

For Negligent Misrepresentation by Plaintiffs Endicott Funds, Scopia Funds, Royal Funds and Coast Fund Against All Defendants

172. This cause of action is brought by Plaintiffs Endicott Funds, Scopia Funds, Royal Funds and Coast Fund against all Defendants based on negligent misrepresentation.

173. Defendants owed Plaintiffs Endicott Funds, Scopia Funds, Royal Funds and Coast Fund a duty of reasonable care in connection with the provision of information concerning PXRE's losses caused by the Hurricanes and its maximum exposure to the Hurricanes.

174. Defendants breached these duties knowingly, wantonly, recklessly, or at least negligently, by including untrue statements of material facts and/or omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading in the Convertible Offering Materials and in discussion with Plaintiffs Endicott Funds, Scopia Funds, Royal Funds and Coast Fund and their agents.

175. At the time of the misrepresentations and omissions of material facts by Defendants, Plaintiffs Endicott Funds, Scopia Funds, Royal Funds and Coast Fund and their agents were ignorant of their falsity and believed them to be true. Plaintiffs Endicott Funds, Scopia Funds, Royal Funds and Coast Fund and their agents relied upon the representations made by Defendants. Had Plaintiffs Endicott Funds, Scopia Funds, Royal Funds and Coast Fund and/or their agents been aware of the true facts, they would not have purchased PXRE shares.

176. In addition, Plaintiff Endicott Funds brings claims for negligent misrepresentation as set forth in ¶¶67-82. Plaintiff Scopia Funds brings claims for negligent misrepresentation as set forth in ¶¶83-91. Plaintiff Royal Funds brings claims for negligent misrepresentation as set forth in ¶¶113-134. Plaintiff Coast Fund brings claims for negligent misrepresentation as set forth in ¶¶83-91.

177. Neither Plaintiffs Endicott Funds, Scopia Funds, Royal Funds and Coast Fund nor their agents knew of any of the falsity and/or misleading nature of Defendants' statements and omissions and relied upon the representations made by Defendants.

178. Defendants' conduct constitutes the making of negligent misrepresentations (including negligent omissions to state facts in connection with statements that were made) under applicable state law. As a direct and proximate results of the negligent misrepresentations (and omissions) by Defendants, and in reliance thereon, Plaintiffs Endicott Funds, Scopia Funds, Royal Funds and Coast Fund have suffered damages in connection with their purchases of Preferred Shares in the Convertible Offering.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for judgment as follows:

A. Awarding restitution to Plaintiffs of any monies of which they were defrauded;

B. Awarding compensatory damages in favor of Plaintiffs against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiffs rescission on Count I to the extent they still hold PXRE, now known as Argo Group, common stock, or if sold, awarding rescissory damages in accordance with Section 12(a)(2) of the Securities Act;

D. Awarding Plaintiffs their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

E. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiffs hereby demand a trial by jury.

DATED: February 22, 2010

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CERTIFICATE OF SERVICE

I, David A. Rosenfeld, hereby certify that on February 22, 2010, I caused a true and correct copy of the attached:

> Second Amended Complaint for Violations of Federal Securities Laws and State Law Claims for Common Law Fraud and Negligent Misrepresentation

to be: (i) filed by hand with the Clerk of the Court; and (ii) served by first-class mail to all counsel on the attached service list.

David A. Rosenfeld

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