

**REPORT ON EXAMINATION**  
**OF**  
**LAKEVIEW INSURANCE COMPANY**  
**BONITA SPRINGS, FLORIDA**  
**AS OF**  
**DECEMBER 31, 2010**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

|  |           |
|--|-----------|
| <b>LETTER OF TRANSMITTAL</b> .....   | <b>-</b>  |
| <b>SCOPE OF EXAMINATION</b> .....  | <b>1</b>  |
| <b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....   | <b>2</b>  |
| CURRENT EXAM FINDINGS .....  | 2         |
| PRIOR EXAM FINDINGS .....  | 2         |
| <b>HISTORY</b> .....   | <b>2</b>  |
| GENERAL .....  | 2         |
| DIVIDENDS TO STOCKHOLDERS .....  | 3         |
| CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....   | 4         |
| SURPLUS DEBENTURES .....   | 4         |
| ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH<br>REINSURANCE ..... | 4         |
| <b>CORPORATE RECORDS</b> .....   | <b>4</b>  |
| CONFLICT OF INTEREST .....   | 5         |
| <b>MANAGEMENT AND CONTROL</b> .....  | <b>5</b>  |
| MANAGEMENT .....   | 5         |
| AFFILIATED COMPANIES .....   | 6         |
| ORGANIZATIONAL CHART .....   | 7         |
| TAX ALLOCATION AGREEMENT .....   | 8         |
| COST ALLOCATION AGREEMENT.....   | 8         |
| MANAGING GENERAL AGENT AGREEMENT .....   | 9         |
| <b>FIDELITY BOND AND OTHER INSURANCE</b> .....   | <b>9</b>  |
| <b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....  | <b>10</b> |
| <b>TERRITORY AND PLAN OF OPERATIONS</b> .....  | <b>10</b> |
| TREATMENT OF POLICYHOLDERS.....  | 10        |
| <b>COMPANY GROWTH</b> .....  | <b>10</b> |
| PROFITABILITY OF COMPANY .....   | 11        |
| <b>REINSURANCE</b> .....   | <b>11</b> |
| ASSUMED .....  | 11        |
| CEDED .....  | 12        |
| <b>ACCOUNTS AND RECORDS</b> .....  | <b>12</b> |
| CUSTODIAL AGREEMENT .....  | 13        |
| INDEPENDENT AUDITOR AGREEMENT .....  | 13        |
| <b>INFORMATION TECHNOLOGY REPORT</b> .....   | <b>13</b> |
| <b>STATUTORY DEPOSITS</b> .....  | <b>14</b> |
| <b>FINANCIAL STATEMENTS PER EXAMINATION</b> .....  | <b>14</b> |
| ASSETS .....   | 15        |
| LIABILITIES, SURPLUS AND OTHER FUNDS .....   | 16        |

|  |           |
|--|-----------|
| STATEMENT OF INCOME .....                        | 17        |
| COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS ..... | 18        |
| <b>COMMENTS ON FINANCIAL STATEMENTS.....</b>     | <b>19</b> |
| LIABILITIES.....                                 | 19        |
| CAPITAL AND SURPLUS .....                        | 19        |
| <b>CONCLUSION.....</b>                           | <b>20</b> |

October 7, 2011

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2010, of the financial condition and corporate affairs of:

**LAKEVIEW INSURANCE COMPANY  
27599 RIVERVIEW CENTER BOULEVARD, SUITE 100  
BONITA SPRINGS, FLORIDA 34134**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2010, through December 31, 2010. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2009. This examination commenced with planning at the Office on June 21, 2011 to June 24, 2011. The fieldwork commenced on June 28, 2011, and concluded as of October 7, 2011.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

There were no material findings or exceptions noted during the examination as of December 31, 2010.

### **Prior Exam Findings**

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2009.

## **HISTORY**

### **General**

The Company was incorporated in Florida on April 23, 2009, and commenced business on June 10, 2009, as Lakeview Insurance Company.

The Company was party to Consent Order 103539-09-CO, filed April 7, 2009, regarding the application for the issuance of a Certificate of Authority. The Company complied with the provisions of this consent order:

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Homeowners multi peril  
Inland Marine

Allied Lines  
Fire

The Company had not written insurance coverage on a direct basis since its inception in 2009 in these lines of business. The Company assumed insurance in these lines of business and therefore was deemed to be in compliance with Section 624.430 (1), Florida Statutes.

The Articles of Incorporation and Bylaws were not amended during the period covered by this examination.

### **Dividends to Stockholders**

The Company did not declare or pay any dividends during the period of this examination.

## **Capital Stock and Capital Contributions**

As of December 31, 2010, the Company's capitalization was as follows:

|   |             |
|---|-------------|
| Number of authorized common capital shares        | 6,000,000   |
| Number of authorized preferred capital shares     | 10,000,000  |
| Number of common shares issued and outstanding    | 273,915     |
| Number of preferred shares issued and outstanding | 0           |
| Total common capital stock                        | \$2,739,150 |
| Par value per share                               | \$10.00     |

Control of the Company was maintained by its parent, Emery Holding, Inc. (Emery), who owned 100% of the stock issued by the Company, who in turn was 100% owned by Florida Family Insurance Services, LLC (FFIS), a Delaware limited liability company. FFIS in turn was 100% owned by Barrington Capital, LLC, a Delaware limited liability company.

## **Surplus Debentures**

The Company did not have any surplus debentures during the period of this examination.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

## **CORPORATE RECORDS**

The recorded minutes of the shareholder, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by Section 625.304, Florida Statutes.

## **Conflict of Interest**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## **MANAGEMENT AND CONTROL**

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

#### **Directors**

| <b>Name and Location</b>                           | <b>Principal Occupation</b>                                  |
|--|--|
| Walter Dale Hardy<br>Naples, Florida               | CEO Lakeview Insurance Company                               |
| William Tuttle Montei<br>Middleton, Wisconsin      | Director, Echo Ridge Partners                                |
| William Henry Wiggs<br>Arlington Heights, Illinois | CFO Lakeview Insurance Company                               |
| David Paul Behnke<br>Roselle, Illinois             | Director, CPA  |
| Amy Houghton Bash<br>Barrington, Illinois          | Director, Clinical Social Worker                             |
| Timothy James McKay<br>Glen Ellyn, Illinois        | Director, Wilson, Elser, Moskowitz, Edelman<br>& Dicker, LLP |

The Board in accordance with the Company's bylaws appointed the following senior officers:

### Senior Officers

| <b>Name</b>           | <b>Title</b>            |
|-----------------------|-------------------------|
| Walter Dale Hardy     | Chief Executive Officer |
| Peter Joseph Corrigan | President               |
| William Henry Wiggs   | Chief Financial Officer |
| Robert Allen Liggett  | Controller              |

Following were the principal internal board committees and their members as of December 31, 2010:

#### **Audit Committee**

William Tuttle Montei <sup>1</sup>  
David Paul Behnke  
Amy Houghton Bash  
Timothy James McKay

#### **Investment Committee**

David Paul Behnke<sup>1</sup>  
Amy Houghton Bash  
Timothy James McKay  
William Tuttle Montei  
Walter Dale Hardy  
William Henry Wiggs

<sup>1</sup> Chairman

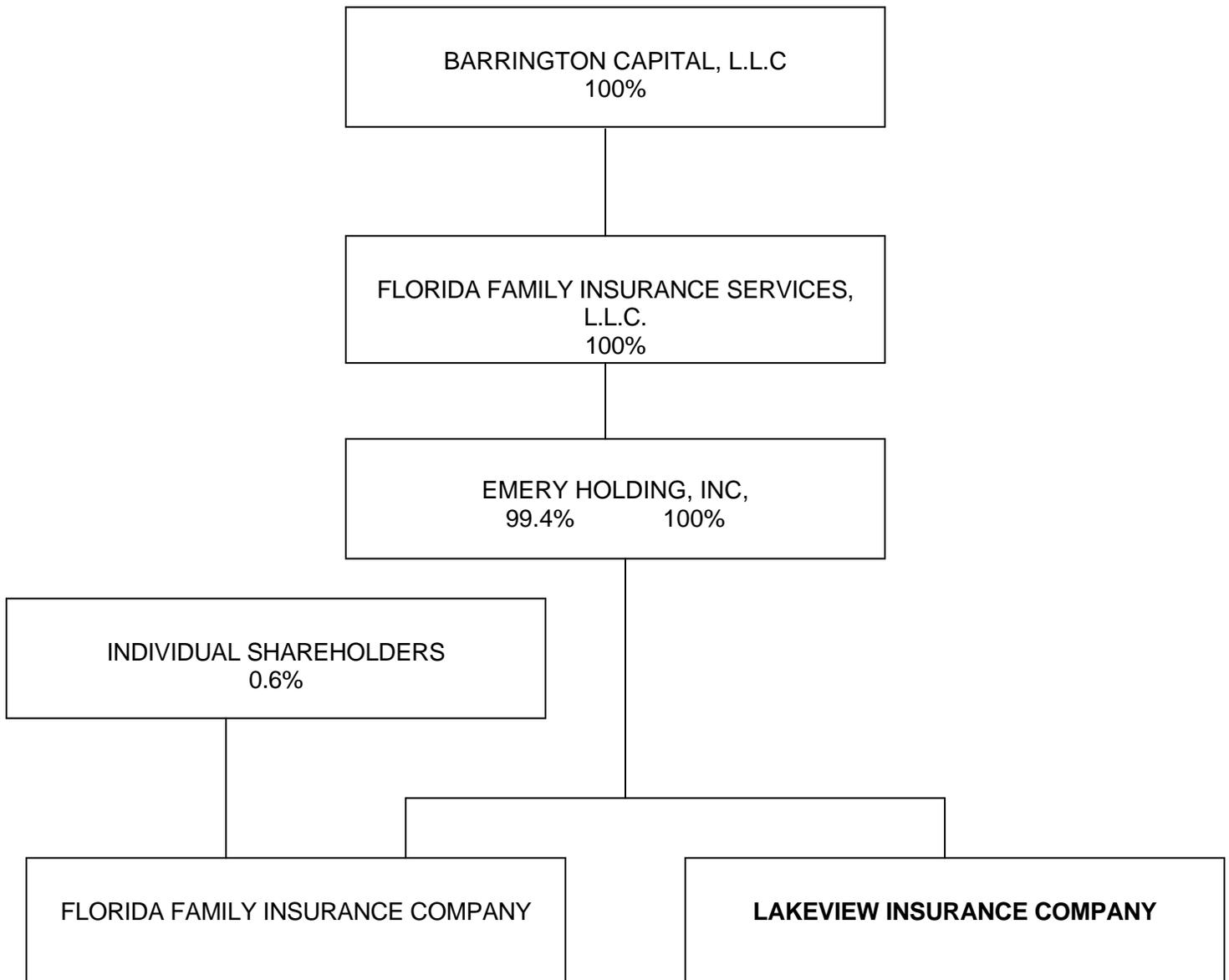
### **Affiliated Companies**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on August 11, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown below. Schedule Y of the Company's 2010 annual statement provided a list of all related companies of the holding company group.

**LAKEVIEW INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2010**



The following agreements were in effect between the Company and its affiliates:

### **Tax Allocation Agreement**

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2010, the method of allocation between the Company and its parent was based on a determination of separate return tax liability or tax savings. On or before April 30 of such taxable year, the Company shall estimate its Separate Return Tax Liability, Tax Savings or the Tax Increase for such taxable year. To the extent that the amounts paid are subsequently determined to be different when the final Consolidated Return of the Insurance Company affiliated Group for the taxable year is filed, the difference shall be paid to the appropriate Member within 30 days from the date such return is filed.

### **Cost Allocation Agreement**

The Company entered into a Cost sharing Agreement with FFIS and its wholly-owned subsidiaries, Halogen Software, LLC (Halogen), Barrington Insurance Group, LLC (BIG), and Lakeview Underwriting Managers, LLC (Lakeview), Emery and Emery's majority owned Subsidiary, Florida Family Insurance Company (FFIC) on May 19, 2009. The agreement indicates that the allocations and charges will be determined on the basis of generally accepted cost accounting principles. Fees incurred under this agreement during 2010 amounted to \$4,855,537.

### **Managing General Agent Agreement**

The Company entered into a Managing General Agency (MGA) Agreement with its affiliate, FFIS on May 19, 2009. The agreement continues in force for a term of five years and will automatically renew for successive five-year periods, unless otherwise terminated within the guidelines of the agreement. MGA fees were based on 18% of direct written premium and included the \$25 policy fee. Claims administration services were included in the agreement. Claims administration fees are paid on a flat dollar amount per claim for the work performed by the MGA's field adjusters adjusting and settling claims. Fees incurred under this agreement during 2010 amounted to \$0.00 as the Company did not write any direct premiums.

### **Reinsurance and Pooling Agreement**

The Company entered into a Reinsurance and Pooling Agreement (Agreement) with FFIC on July 1, 2009. The Agreement requires the Company to Cede 100% of policies written by the Company to FFIC. The Company's policies and policies written by FFIC are ceded 75% to FFIC and 25% to the Company. FFIC reinsures the net outstanding insurance business of the Company and FFIC agrees to serve as the lead entity of the Pooling Plan without any form of additional compensation.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$50,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$2,000,000 and a deductible of \$50,000 as well as an Insurance Company Professional Liability Policy (E&O) with limits of \$2,000,000 and a deductible of \$250,000.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees and therefore no pension, stock ownership or insurance plans.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance only in the State of Florida.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) (3a), Florida Statutes.

## **COMPANY GROWTH**

The Company had not written any direct business since inception. The Company assumed 25% of the policies written by FFIC. The Company plans to write direct business once they obtain approval for the rates and forms filed with the Office. The Company was profitable in its first two years of operations and also increased surplus in both years.

## Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.

|                                  | <b>2010</b> | <b>2009</b> |
|----------------------------------|-------------|-------------|
| Premiums Earned                  | 8,033,172   | 3,436,265   |
| Net Underwriting Gain/(Loss)     | (50,874)    | (34,338)    |
| Net Income                       | 394,356     | 64,535      |
| Total Assets                     | 25,983,931  | 24,825,790  |
| Total Liabilities                | 14,080,773  | 13,415,433  |
| Surplus As Regards Policyholders | 11,903,158  | 11,410,357  |

## REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

### Assumed

The Company assumed risk from FFIC under a Reinsurance and Pooling Agreement which became effective on July 1, 2009. Under the Reinsurance and Pooling Agreement, the Company cedes 100% of its direct written business to FFIC. FFIC Pools the ceded policies with the direct

written business of FFIC and cedes to the Company 25% of the pooled policy premiums, losses, commissions and expenses.

### **Ceded**

The Company ceded risk on a quota share basis to an unrelated reinsurer under a Multi-line Quota-Share Reinsurance Contract (QSA) which was amended June 1, 2010, to reduce the QSA from 60% to 50%. Under the Reinsurance and Pooling Agreement, the Company's net unearned premium reserves are covered under the FFIC catastrophe reinsurance. FFIC purchases catastrophe reinsurance from unrelated private reinsurers and the Florida Hurricane Catastrophe Fund. FFIC follows a practice of purchasing levels of catastrophe reinsurance that, in conjunction with the QSA, limit FFIC and the Companies' losses net of reinsurance to \$1,000,000.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Bonita Springs, Florida.

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

The Company's accounting records were maintained on a computerized system.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with U.S. Bank National Association executed on May 20, 2009. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code. The Company received approval to file audited Consolidated Financial Statements with Florida Family Insurance Company.

## **INFORMATION TECHNOLOGY REPORT**

ParenteBeard LLC IT Examiners performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411,

Florida Statutes:

| STATE                  | Description            | Par Value        | Market Value     |
|------------------------|------------------------|------------------|------------------|
| FL                     | Certificate of Deposit | <u>\$300,000</u> | <u>\$300,000</u> |
| TOTAL SPECIAL DEPOSITS |                        | <u>\$300,000</u> | <u>\$300,000</u> |

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**LAKEVIEW INSURANCE COMPANY**

**Assets**

**DECEMBER 31, 2010**

|   | <b>Per Company</b> | <b>Examination<br/>Adjustments</b> | <b>Per Examination</b> |
|---|--------------------|------------------------------------|------------------------|
| Bonds   | \$18,943,322       |                                    | \$18,943,322           |
| Cash and Short-Term Investments                         | 4,330,639          |                                    | 4,330,639              |
| Investment income due and accrued                       | 98,331             |                                    | 98,331                 |
| Agents' Balances:                                       |                    |                                    |                        |
| Uncollected premium                                     | 596,302            |                                    | 596,302                |
| Reinsurance recoverable                                 | 1,425              |                                    | 1,425                  |
| Net deferred tax asset                                  | 476,639            |                                    | 476,639                |
| Guaranty funds receivable or on deposit                 | 105,863            |                                    | 105,863                |
| EDP Equipment   | 75,492             |                                    | 75,492                 |
| Receivable from parents, subsidiaries<br>and affiliates | 1,355,918          |                                    | 1,355,918              |
|   | <hr/>              |                                    |                        |
| Totals  | \$25,983,931       | \$0                                | \$25,983,931           |
|   | <hr/> <hr/>        |                                    |                        |

**LAKEVIEW INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2010**

|   | Per Company         | Examination<br>Adjustments | Per<br>Examination  |
|---|---------------------|----------------------------|---------------------|
| Losses  | \$1,184,518         |                            | \$1,184,518         |
| Loss adjustment expenses                          | 172,424             |                            | 172,424             |
| Other expenses                                    | 201,512             | \$0                        | 201,512             |
| Taxes, licenses and fees                          | 75,653              |                            | 75,653              |
| Unearned premium                                  | 7,199,270           |                            | 7,199,270           |
| Ceded reinsurance premiums payable                | 2,878,886           |                            | 2,878,886           |
| Funds held under reinsurance treaties             | 2,069,639           |                            | 2,069,639           |
| Amounts withheld                                  | 2,057               |                            | 2,057               |
| Current federal and foreign income taxes          | 296,814             |                            | 296,814             |
| <b>Total Liabilities</b>                          | <b>\$14,080,773</b> | <b>\$0</b>                 | <b>\$14,080,773</b> |
| <br>  |                     |                            |                     |
| Common capital stock                              | \$2,739,150         |                            | \$2,739,150         |
| Gross paid in and contributed surplus             | 8,260,850           |                            | 8,260,850           |
| Unassigned funds (surplus)                        | 903,158             |                            | 903,158             |
| Surplus as regards policyholders                  | \$11,903,158        | \$0                        | \$11,903,158        |
| <b>Total liabilities, surplus and other funds</b> | <b>\$25,983,931</b> | <b>\$0</b>                 | <b>\$25,983,931</b> |

**LAKEVIEW INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2010**

**Underwriting Income**

|   |                    |             |
|---|--------------------|-------------|
| Premiums earned                                 |                    | \$8,033,172 |
|   | <b>Deductions:</b> |             |
| Losses incurred                                 |                    | \$3,280,691 |
| Loss expenses incurred                          |                    | 712,066     |
| Other underwriting expenses incurred            |                    | 4,091,289   |
| Aggregate write-ins for underwriting deductions |                    | 0           |
| Total underwriting deductions                   |                    | \$8,084,046 |
| Net underwriting gain or (loss)                 |                    | (\$50,874)  |

**Investment Income**

|  |  |           |
|--|--|-----------|
| Net investment income earned           |  | \$625,043 |
| Net realized capital gains or (losses) |  | 7,967     |
| Net investment gain or (loss)          |  | \$633,010 |

**Other Income**

|   |  |          |
|---|--|----------|
| Net gain or (loss) from agents' or premium balances charged off |  | \$1,538  |
| Finance and service charges not included in premiums            |  | 27,643   |
| Aggregate write-ins for miscellaneous income                    |  | 0        |
| Total other income  |  | \$29,181 |

|   |  |           |
|---|--|-----------|
| Net income before dividends to policyholders and before federal & foreign income taxes  |  | \$611,318 |
| Dividends to policyholders  |  | 0         |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes |  | \$611,318 |
| Federal & foreign income taxes  |  | 216,962   |
| Net Income  |  | \$394,356 |

**Capital and Surplus Account**

|  |  |              |
|--|--|--------------|
| Surplus as regards policyholders, December 31 prior year   |  | \$11,410,358 |
| Net Income   |  | \$394,356    |
| Change in net deferred income tax                          |  | 96,407       |
| Change in non-admitted assets                              |  | 1,407        |
| Change in provision for reinsurance                        |  | 630          |
| Change in excess statutory over statement reserves         |  | 0            |
| Surplus adjustments: Paid in                               |  | 0            |
| Aggregate write-ins for gains and losses in surplus        |  | 0            |
| Examination Adjustment                                     |  | 0            |
| Change in surplus as regards policyholders for the year    |  | \$492,800    |
| Surplus as regards policyholders, December 31 current year |  | \$11,903,158 |

A comparative analysis of changes in surplus is shown below.

**LAKEVIEW INSURANCE COMPANY**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2010**

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

|   |              |
|---|--------------|
| Surplus as Regards Policyholders<br>December 31, 2010, per Annual Statement | \$11,903,158 |
|---|--------------|

|  | <u>PER<br/>COMPANY</u> | <u>PER<br/>EXAM</u> | <u>INCREASE<br/>(DECREASE)<br/>IN SURPLUS</u> |
|--|------------------------|---------------------|---|
| ASSETS:<br>No Adjustment   |                        |                     |   |
| LIABILITIES:<br>No Adjustment  |                        |                     |   |
| Net Change in Surplus:   |                        |                     | <u>0</u>                                      |
| Surplus as Regards Policyholders<br>December 31, 2010, Per Examination |                        |                     | <u><u>\$11,903,158</u></u>                    |

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

\$1,356,942

The Company's actuary, an employee, appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2010, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Ronald T. Kuehn, FCAS, MAAA of Huggins Actuarial Services, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and was in concurrence with this opinion.

#### Capital and Surplus

The amount reported by the Company of \$11,903,158, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Lakeview Insurance Company** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$11,903,158, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Michael C. Brennan, CPA, Examiner-In-Charge, and Richard Sowalsky, Participating Examiner, of ParenteBeard LLC participated in the examination. In addition, Ronald T. Kuehn, FCAS MAAA, consulting actuary of Huggins Actuarial Services, Inc., Jen Walker, CISA, IT Manager of ParenteBeard LLC, Maurice Fuller, Financial Examiner/Analyst II, Kyra D. Brown, Financial Specialist and Gary Farmer, Financial Examiner/Analyst Supervisor, of the Office also participated in the examination.

Respectfully submitted,

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Mary James, CFE, CPM  
Chief Examiner  
Florida Office of Insurance Regulation