

REPORT ON EXAMINATION
OF
LILLIAN ASSURANCE GROUP, INC.
ORLANDO, FLORIDA
AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

May 7, 2010

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 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, 2008, of the financial condition and corporate affairs of:

**LILLIAN ASSURANCE GROUP, INC.
625 WALTHAM AVENUE
ORLANDO, FLORIDA 32809**

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, 2008, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on March 15, 2010, to March 19, 2010. The fieldwork commenced on March 22, 2010, and concluded as of May 7, 2010.

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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

There were no exceptions or findings in the examination as of December 31, 2007.

HISTORY

General

The Company was incorporated in Florida on January 11, 2005, and licensed under the conditions outlined in Licensing Consent Order 82185-05, filed July 7, 2005. The Company commenced business on that date as Lillian Assurance Group, Inc. The Company was authorized to write Other Liability and Medical Malpractice in Florida.

The Company has written one nursing home liability policy since becoming licensed in Florida. The Office had issues regarding the one policy's limits and whether or not this policy fell within the Company's Plan of Operation. The Company was not compliant with the conditions outlined in the licensing Consent Order.

The Company was party to Consent Order 89375-07, filed November 5, 2007, with the Office granting Lillian Assurance twelve (12) months from the date of execution of the Consent Order to either a) obtain new senior management personnel with at least five (5) years of industry experience consistent with the Company's business plan, or b) finalize the sale of an ownership interest in Lillian Holdings Group, LLC. Pursuant to paragraph 7 of the Consent Order, Lillian consented to the voluntary surrender of its COA in the event the requirements were not met or satisfied.

As of the expiration of the Consent Order on November 5, 2008, the Office found that the Company had failed to meet or satisfy the requirements set forth in Consent Order 89375-07.

After discussions with the Office, the Company began pursuing plans to focus on the mobile home line of business.

This was the second examination of the Company.

The Company was a stock insurance company with all issued and outstanding shares held by Lillian Holding Group, LLC (the Parent). The Parent was 100% owned by Jacob W. Hoechst, an individual, who also serves as Chairman of the Board, Vice President, Secretary and Treasurer of the Company.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

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

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Lillian Holding Group, LLC who owned 100% of the stock issued by the Company, who in turn was 100% owned by Jacob W Hoechst, a sole proprietor.

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.

	2008	2007	2006
Premiums Earned		23,090	2,099
Net Underwriting Gain/(Loss)	(240,223)	(254,029)	(250,518)
Net Income	38,570	45,952	19,016
Total Assets	5,642,628	5,681,929	5,607,919
Total Liabilities	457,302	229,302	213,609
Surplus As Regards Policyholders	5,185,326	5,452,627	5,394,310

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2008.

Management

The Company did not have a record of meetings with its shareholder or actions taken by the shareholder without a meeting. The Company must ensure that its directors are elected by the members or stockholders at its annual meeting. The Company was not in compliance with Sections 607.1601 and 628.231, Florida Statutes.

Directors serving as of December 31, 2008, were:

Directors

Name and Location	Principal Occupation
Jacob W. Hoechst Orlando, Florida	Vice President, Secretary and Treasurer Lillian Assurance Group, Inc.
James W Duncan Orlando, Florida	President Lillian Assurance Group, Inc.
Ann M. White Orlando, Florida	Retired School Teacher
Patrick L. White Orlando, Florida	Financial Services Representative Met Life Insurance Company
Robert R. Hunt Orlando, Florida	School Teacher Orange County Florida Public Schools

The Board of Directors (Board) in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers (a)

Name	Title
James W. Duncan	President
Jacob W. Hoechst	Vice President, Secretary/Treasurer

(a) Effective December 24, 2009, the following senior officers were appointed:

Name	Title
Ronald E. Chapman	President
John W. Peters	Chief Operating Officer
Jacob W. Hoechst	Vice President, Secretary/Treasurer

The Board of Directors established an Audit Committee on March 23, 2007, as follows:

Jacob W. Hoechst, Chairman

Ann M. White

Patrick L. White

The Company failed to maintain minutes of the audit committee meetings, as required by Section 607.1601(1), Florida Statutes.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board did not adequately document its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

The Company had no acquisitions, mergers, disposals, dissolutions, or purchase/sales through reinsurance as of December 31, 2008.

Surplus Debentures

The Company had no surplus debentures as of December 31, 2008.

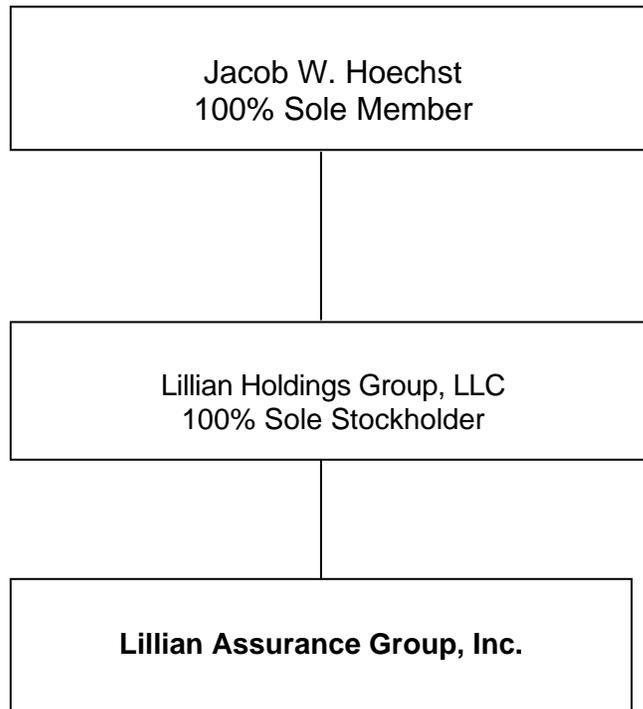
AFFILIATED COMPANIES

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 February 20, 2009, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2008, reflecting the holding company system, is shown below. Schedule Y of the Company's 2008 annual statement provided a list of all related companies of the holding company group.

LILLIAN ASSURANCE GROUP, INC. ORGANIZATIONAL CHART

DECEMBER 31, 2008



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

Advisory and Services Agreement

The Company had an agreement with PMSG, LLC. PMSG, LLC is managed by Ann White, who was a Board member during the period of examination. PMSG had available to it sufficient resources to assist the Company in becoming a domestic Insurer and to provide facilities and services required by the Company during its pre-operational start up period, and until such time as the Company no longer required the facilities and services to be provided by PMSG.

Subsequent Event:

The agreement with PMSG, LLC was cancelled as requested by the Office in 2009. The Company entered into an MGA agreement with an affiliate, Lighthouse MGA, LLC effective December 24, 2009.

FIDELITY BOND

Subsequent to the 2007 examination, the Company obtained a fidelity bond, with an aggregate limit of liability of \$75,000, and a single loss limit of \$75,000 which meets the suggested requirements of the NAIC Financial Condition Examiners Handbook.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

STATUTORY DEPOSITS

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

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	PEPSI 4.5% 03/15/13	\$ 100,000	\$103,020.00
FL	INTL PAPER 4.0% 04/01/10	65,000	65,318.50
FL	GOLDMAN SACHS 5.3% 10/15/13	35,000	37,180.50
FL	IBM CORP 4.8% 11/29/12	<u>100,000</u>	<u>108,510.00</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 300,000</u>	<u>\$314,029</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to write medical malpractice on a claims made basis and other liability insurance coverage in the State of Florida only.

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.

REINSURANCE

The Company had no premium, losses or reinsurance contracts in force as of December 31, 2008.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Orlando, Florida, where this examination was conducted.

In accordance with Section 624.424(8) (b), Florida Statutes, the Company was exempt from the requirement to conduct an annual audit by an independent CPA.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Smith-Barney Citigroup dated August 25, 2006. The agreement complied with and was in accordance with Rule 69O-143.042, Florida Administrative Code. The Company also had an active custodial agreement with Raymond James and Associates, signed by both parties May 2, 2008. The agreement complied with and was in accordance with Rule 69O-143.042, Florida Administrative Code.

Managing General Agent Agreement

The Company entered into a managing general agent (MGA) agreement with Insurance Office of Florida on December 29, 2004 and was determined to be in compliance with Section 626.7451, Florida Statutes.

Subsequent event:

This agreement was terminated as of December 2009. Effective December 24, 2009, the Company entered into another MGA agreement with Lighthouse MGA, LLC, a new affiliate.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."

LILLIAN ASSURANCE GROUP, INC.
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$4,691,455		\$4,691,455
Stocks:			
Common	80,464		\$80,464
Cash:	792,977		\$792,977
Subtotal: Cash and Invested Assets	<u>5,564,896</u>		<u>\$5,564,896</u>
Investment Income Due and Accrued	<u>77,732</u>		<u>\$77,732</u>
Totals	<u><u>\$5,642,628</u></u>	<u>\$0</u>	<u><u>\$5,642,628</u></u>

LILLIAN ASSURANCE GROUP, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Commissions Payable	\$1,302		\$1,302
Other expenses	<u>456,000</u>		<u>456,000</u>
Total Liabilities	\$457,302		\$457,302
Common capital stock	\$200	800	\$1,000
Gross paid in and contributed surplus	5,471,527	(800)	5,470,727
Unassigned funds (surplus)	<u>(286,401)</u>		<u>(286,401)</u>
Surplus as regards policyholders	<u>\$5,185,326</u>		<u>\$5,185,326</u>
Total liabilities, surplus and other funds	<u><u>\$5,642,627</u></u>	<u>\$0</u>	<u><u>\$5,642,627</u></u>

LILLIAN ASSURANCE GROUP, INC.
Statement of Income
DECEMBER 31, 2008

Underwriting Income

Deductions:

Other underwriting expenses incurred	240,223
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	\$240,223
Net underwriting gain or (loss)	(\$240,223)

Investment Income

Net investment income earned	\$273,011
Net realized capital gains or (losses)	5,782
Net investment gain or (loss)	\$278,793

Other Income

Net income before dividends to policyholders and before federal & foreign income taxes	\$38,570
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$38,570
Federal & foreign income taxes	0
Net Income	\$38,570

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$5,452,627
Net Income	\$38,570
Net unrealized capital gains or losses	0
Change in net unrealized capital gains or losses	(83,851)
Change in non-admitted assets	(222,019)
Change in excess statutory over statement reserves	0
Change in surplus as regards policyholders for the year	(\$267,301)
Surplus as regards policyholders, December 31 current year	\$5,185,326

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds \$4,691,455

Bonds reported as \$4,691,455, increased by \$771,512, which represented a twenty percent increase over the bond amount at year end 2007.

Liabilities

Losses and Loss Adjustment Expenses \$0

There were no loss reserves or loss adjustment expenses noted or reported in 2008.

Other Expenses \$456,000

The amount reported by the Company of \$456,000 doubled the prior year amount due to fees accrued for the Advisory and Services agreement.

Capital and Surplus

The amount reported by the Company of \$5,185,326, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes and was a decrease over the amount at year end 2007.

Capital Stock \$1,000

Common stock was under reported on the 2008 annual report because it did not reflect the change, recorded in June 2008, from \$200 to \$1,000.

A comparative analysis of changes in surplus is shown below.

**LILLIAN ASSURANCE GROUP, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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 December 31, 2008, per Annual Statement	\$5,185,326
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Bonds	No adjustment		
LIABILITIES:			
Common Capital Stock	\$200	\$1,000	\$800
Gross Paid in	\$5,471,527	\$5,470,727	(\$800)
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$5,185,326

SUMMARY OF FINDINGS

Compliance with previous directives

There were no exceptions or findings in the examination as of December 31, 2007.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2008.

Capital Stock

The Company failed to report the correct amount of capital stock on the 2008 annual statement.

We recommend that the Company comply with the Annual Statement Instructions by correcting the common stock calculation to reflect the proper amount in regards to the number of shares issued.

SUBSEQUENT EVENTS

Many changes have been made to the management of the Company subsequent to the examination date. The Company filed an application for the acquisition of 5% or more ownership of the controlling stock by Dimino Holdings Associates, LLC, which is owned 100% by Dr. Joseph Dimino in March of 2009. The application was approved in November 2009.

The Company added the following lines of business to their Certificate of Authority:

Fire	Homeowners Multi Peril	Mobile Home Multiple Peril
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The following is a listing of directors and officers serving as of December 24, 2009.

Senior Officers:

President:	Ronald E. Chapman
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Chief Operating Officer:	John W. Peters
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VP/Secretary/Treasurer:	Jacob W. Hoechst
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Board of Directors:

Joseph M. Dimino:	Chairman and CEO
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Ronald E. Chapman:	President
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Jacob W. Hoechst:	VP/Secretary/Treasurer
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James W. Duncan:	Director
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Robert Hunt, Jr.	Director
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Currently, the company is not writing any business and has not written any business since November 2006. The Company expects to begin assuming policies from Citizens late 2010.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Lillian Assurance Group, Inc.** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,185,326, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, James Pafford, Financial Examiner/Analyst Supervisor, participated in the examination.

Respectfully submitted,

Vetrecia Smith
Financial Specialist
Florida Office of Insurance Regulation