

**REPORT ON EXAMINATION**  
**OF**  
**LILLIAN ASSURANCE GROUP, INC.**  
**ORLANDO, FLORIDA**

**AS OF**  
**DECEMBER 31, 2007**

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

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Tallahassee, Florida

June 2, 2009

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, 2007, 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 July 7, 2005, through December 31, 2007. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on May 12, 2009, and was completed on June 11, 2009. This examination was a roll forward from the examination conducted as of December 31, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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.

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 affected the financial solvency of the Company at December 31, 2007. Transactions subsequent to year-end 2007 were reviewed where relevant and deemed significant to the Company's financial condition.

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**

This was the Company's first financial examination and was performed as of December 31, 2007.

## **HISTORY**

### **General**

The Company was incorporated in Florida on January 11, 2005 under the conditions outlined in Licensing Consent Order 82185-05-CO and commenced business on July 7, 2005 as Lillian Assurance Group, Inc. The Company was non-compliant with the conditions outlined in the licensing consent order.

On November 5, 2007, the Office issued Consent Order No. 89375-07, granting the Company twelve (12) months from the date of execution of the Consent Order (referred to as the Performance Period) to either obtain new senior management personnel with at least five years of insurance industry experience consistent with the company's business plan of professional liability and other liability insurance, or finalize the sale of an ownership interest in the Parent. Pursuant to paragraph 7 of the Consent Order, the Company consented to the voluntary surrender of its Certificate of Authority in the event the Consent Order requirements were not met or satisfied.

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, 2007:

Medical mal practice – Claims made	Other Liability
------------------------------------	-----------------

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

### **Capital Stock**

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000
Number of shares issued and outstanding	200
Total common capital stock	\$ 200
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.

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

## Dividends to Stockholders

There were no dividends paid during the period of examination.

## Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007, were:

### Directors

#### Name and Location

Jacob W. Hoechst  
Orlando, Florida

James W Duncan  
Orlando, Florida

#### Principal Occupation

Vice President, Secretary and Treasurer  
Lillian Assurance Group, Inc.

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

### **Senior Officers**

<b>Name</b>	<b>Title</b>
James W Duncan	President
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

### **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 and adequately documented its meetings and approval of Company transactions

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, 2007.

### **Surplus Debentures**

The Company had no surplus debentures as of December 31, 2007.

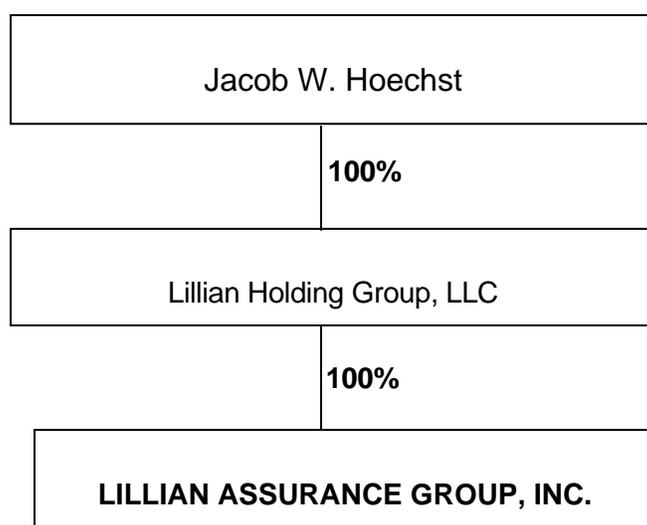
## **AFFILIATED COMPANIES**

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 April 8, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement provided a list of all related companies of the holding company group.

**LILLIAN ASSURANCE GROUP, INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2007**



There were no agreements in effect between the Company and its affiliates.

## FIDELITY BOND

The Company did not maintain fidelity bond coverage in amounts recommended by the NAIC in violation of Rule 69O-142.011, Florida Administrative Code.

**Subsequent Event:** The Company obtained fidelity bond coverage up to \$75,000 effective June 10, 2009, which was the suggested minimum amount of coverage for the Company as recommended by the NAIC.

## 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 as of December 31, 2007:

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	PEPSI 4.5% 03/15/13	\$ 100,000	\$ 99,690
FL	INTL PAPER 4.0% 04/01/10	65,000	64,358
FL	IBM CORP 4.8% 11/29/12	<u>100,000</u>	<u>100,735</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 265,000</u>	<u>\$264,783</u>

## **INSURANCE PRODUCTS**

### **Territory**

The Company was authorized to write medical malpractice on 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 626.954(1)(i)3,a, Florida Statutes.

## **REINSURANCE**

The Company had no premium, losses or reinsurance contracts in force as of December 31, 2007.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Orlando, Florida. This examination was conducted in the Office located in Tallahassee, Florida.

In accordance with Section 624.424(8), 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 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. This agreement remains in effect and by contract was to stay in effect until either company elected to terminate the contract with notice to the other company.

### **Advisory and Service Agreement**

The Company had an agreement with PMSG, LLC, dated January 10, 2003. 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 requires the facilities and services to be provided by PMSG.

### **Third Party Administrative Agreement**

The Company had a third party administrative agreement with Hamlin & Burton, Inc (TPA) dated January 1, 2005. The TPA was to provide claims handling and related services.

### **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, 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, 2007**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$3,919,943		\$3,919,943
Stocks:			
Common	165,827		\$165,827
Cash:	<u>1,542,575</u>		<u>\$1,542,575</u>
Subtotal: Cash and Invested Assets	5,628,345		\$5,628,345
Investment Income Due and Accrued	<u>53,584</u>		<u>\$53,584</u>
Totals	<u>\$5,681,929</u>	<u>\$0</u>	<u>\$5,681,929</u>

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

**DECEMBER 31, 2007**

	Per Company	Examination Adjustments	Per Examination
Commissions Payable	\$1,302		\$1,302
Other expenses	<u>228,000</u>		<u>228,000</u>
Total Liabilities	\$229,302		\$229,302
Common capital stock	\$200		\$200
Gross paid in and contributed surplus	5,471,527		5,471,527
Unassigned funds (surplus)	<u>(19,099)</u>		<u>(19,099)</u>
Surplus as regards policyholders	<u>\$5,452,628</u>		<u>\$5,452,628</u>
Total liabilities, surplus and other funds	<u>\$5,681,929</u>	<u>\$0</u>	<u>\$5,681,929</u>

**LILLIAN ASSURANCE GROUP, INC.**  
**Statement of Income**

**DECEMBER 31, 2007**

**Underwriting Income**

Premiums earned		\$23,090
	<b>Deductions:</b>	
Losses incurred		(1,889)
Loss expenses incurred		(210)
Other underwriting expenses incurred		279,218
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$277,119
Net underwriting gain or (loss)		(\$254,029)

**Investment Income**

Net investment income earned		\$273,040
Net realized capital gains or (losses)		26,940
Net investment gain or (loss)		\$299,980

**Other Income**

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

Net income before dividends to policyholders and before federal & foreign income taxes		\$45,952
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$45,952
Federal & foreign income taxes		0
Net Income		\$45,952

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$5,394,310
Net Income		\$45,952
Change in net unrealized capital gains or losses		12,365
Change in non-admitted assets		0
Change in provision for reinsurance		0
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		\$58,317
Surplus as regards policyholders, December 31, 2007		\$5,452,627

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

**Bonds** \$3,919,943

Bonds reported as \$3,919,943, increased by \$715,856, which represented a twenty two percent increase over the bond amount at year end 2006.

### Liabilities

**Losses** \$0

There were no loss reserves or loss adjustment expenses noted or reported in 2007.

**Other Expenses** \$228,000

The amount reported by the Company of \$228,000, was an increase of \$40,000 due to fees accrued for the Advisory and Services agreement.

### Capital and Surplus

The amount reported by the Company of \$5,452,628, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes, and was an \$58,318 increase over the amount at year end 2006.

A comparative analysis of changes in surplus is shown below.

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

**DECEMBER 31, 2007**

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, 2007, per Annual Statement	\$	5,452,628
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>	
ASSETS:	No Adjustment			
LIABILITIES:	No Adjustment			
Net Change in Surplus:			<u>0</u>	
Surplus as Regards Policyholders December 31, 2007, Per Examination			<u>\$ 5,452,628</u>	

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

This examination was a roll-forward to December 31, 2007, of the first year examination conducted for the December 31, 2006 as of date, and there were no previous compliance issues.

### **Current examination comments and corrective action**

There were no items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2007.

## **SUBSEQUENT EVENTS**

The following are the events subsequent to the examination period concerning the Office's November 5, 2008, Performance Period Consent Order No. 89375-07. The order required the Company to either obtain new senior management personnel with at least five years of insurance industry experience consistent with the company's business plan of professional liability and other liability insurance, or finalize the sale of an ownership interest in the Parent.

As of the expiration on November 5, 2008, the Office determined that the Company had failed to meet or satisfy the requirements set forth in Consent Order No. 89375-07. The Office processed a revocation and requested the Company to surrender their Certificate of Authority.

Upon notification, the Company filed a petition requesting a hearing regarding their denial of the acquisition application in late 2008. The Office applications area met with the Company the last week of January 2009 regarding potential acquisition of the Company.

## 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, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,452,628, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Fidel Gonzalez, Financial Examiner/Analyst Supervisor, Mark A. Brown, Reinsurance/Financial Specialist and Herold Casseus, Reinsurance/Financial Specialist participated in the examination.

Respectfully submitted,

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Richard A. Shaffer  
Financial Specialist  
Florida Office of Insurance Regulation