

REPORT ON EXAMINATION
OF THE
LYNDON SOUTHERN INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 15th day of June, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

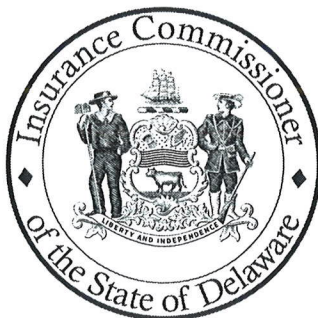
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

LYNDON SOUTHERN INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 15 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 15th day of June, 2011.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	2
SUMMARY OF SIGNIFICANT FINDINGS	3
SUMMARY OF RECOMMENDATIONS	3
SUBSEQUENT EVENTS	3
COMPANY HISTORY	4
CAPITALIZATION	5
Common Capital Stock	5
Surplus Note	5
Dividends.....	5
MANAGEMENT AND CONTROL	6
Board of Directors	6
Officers	7
Holding Company System.....	7
AGREEMENTS.....	9
Internal Agreements	9
External Agreements	10
TERRITORY AND PLAN OF OPERATION	11
GROWTH OF THE COMPANY	11
REINSURANCE.....	12
ACCOUNTS AND RECORDS.....	13
FINANCIAL STATEMENTS	14
Assets	15
Statement of Liabilities, Surplus and Other Funds	16
Underwriting and Investment Exhibit - Statement of Income	17
Capital and Surplus Account – Statement of Income	18
Reconciliation of Capital and Surplus	18

SCHEDULE of EXAMINATION ADJUSTMENTS	19
NOTES TO FINANCIAL STATEMENTS.....	19
Note 1 - Bonds.....	19
Note 2 –Receivable from Parent, subsidiaries and affiliates.....	19
Note 3 - Loss and Loss Adjustment Expense Reserves	20
Note 4 – Unearned Premiums	20
CONCLUSION.....	21

SALUTATION

March 31, 2011

Honorable Joseph Torti, III
Chairman, Financial Condition (E)
Committee, NAIC
Deputy Director and Superintendent of
Insurance and Banking
State of Rhode Island
1511 Pontiac Avenue, Bldg # 69-2
Cranston, Rhode Island 02920

Honorable Sharon P. Clark
Secretary, Southeastern Zone
Commissioner
Kentucky Department of Insurance
P.O. Box 517
Frankfort, Kentucky 40602-0517

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 10.051 a examination has been made of the affairs, financial condition and management of the

LYNDON SOUTHERN INSURANCE COMPANY

hereinafter referred to as Company, and incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1807 North Market Street, Wilmington, DE 19802. The examination was conducted at administrative offices of the Company, located at 10151 Deerwood Park Boulevard, Jacksonville, FL 32256.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

The Company was last examined as of December 31, 2006 by the Louisiana Department of Insurance. The Company re-domesticated from Louisiana to Delaware in October of 2009. This examination covers the intervening three (3) year period from January 1, 2007, through December 31, 2009, and encompassed a general review of transactions during the period, Company's business policies and practices, a review of management and relevant corporate matters, and a determination of the financial condition at December 31, 2009. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination was conducted in accordance with risk surveillance guidelines of the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The NAIC Handbook requires that we plan and perform the examination to assess financial condition and identify prospective risks by evaluating Company information including, operations, corporate governance, identifying material inherent risks to which the Company is considered exposed and evaluating processes, systems, controls and other procedures used to mitigate those risks. The examination also included assessing principles used and significant estimates made by management, as well as evaluating overall financial statement presentation as well as management's compliance with Statutory Accounting Principles and Annual Statement Instructions.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Johnson Lambert & Company, LLP (CPA). Certain work

papers of their 2009 audit have been incorporated into the work papers of this examination and were utilized principally in the areas of test of controls, risk mitigation and substantive tests of accounts and balances.

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

- Corporate Governance
- Corporate Records
- Conflict of Interest
- Employee and Agents Welfare
- Fidelity Bonds and Other Insurance
- NAIC Ratios
- Legal Actions
- Regulatory Agency Correspondence
- Compliance with Prior Recommendations
- All Other Asset and Liability Items Not Mentioned

SUMMARY OF SIGNIFICANT FINDINGS

Based on the results of the examination, no significant findings were noted. Findings noted but not considered significant have been provided to management under a separate Exit Conference Memo.

SUMMARY OF RECOMMENDATIONS

No material exceptions were noted during this examination.

SUBSEQUENT EVENTS

On October 7, 2010, the Company entered into a \$2,870,795 Loan Agreement with its parent, Fortegra (borrower). The agreement was approved by the Delaware Insurance Department

on October 8, 2010, and a Promissory Note was issued by Fortegra to the Company on October 15, 2010. As of December 31, 2010, no money was paid to Fortegra by the Company.

The Company's parent, Fortegra, went public on the New York Stock Exchange under the ticker symbol FRF on December 17, 2010. During 2010, Fortegra established an internal audit department, an independent audit committee, and is currently in the process of becoming SOX compliant. Fortegra has implemented formal Corporate Governance Guidelines and Principles and a Governance Committee Charter that were both adopted by its Board. The guidelines and principles are intended as a component of the flexible corporate governance framework within which the Board, assisted by its committees, directs the affairs of the corporation.

COMPANY HISTORY

The Company was formed by Lyndon Insurance Group and incorporated in Louisiana on November 16, 1996, and commenced business on November 20, 1997 as a Louisiana domestic. In January 2000, Protective Life Corporation (Protective) acquired the Lyndon Insurance Group.

On December 22, 2004, 850,000 shares of the Company's preferred stock was acquired by Life of the South Corporation (LOTS) which included certain rights allowing LOTS to purchase all remaining shares of the Company. Effective January 1, 2006, LOTS exercised its right and completed the acquisition of the Company by purchasing all remaining outstanding shares of the Company. LOTS changed its name to Fortegra Financial Corporation (Fortegra) during 2009. The Company re-domiciled to Delaware in October of 2009.

CAPITALIZATION

Common Capital Stock

The Certificate of Incorporation provides that the authorized capital stock of the Company shall be 3,000,000 shares of \$1 par value common stock. At December 31, 2009, 3,000,000 shares were issued and outstanding, resulting in total capital stock of \$3,000,000.

Surplus Note

On July 1, 2007, the Company entered into a subordinated surplus debenture agreement with Fortegra. The terms of the surplus debenture provide for the issuance of surplus notes up to \$3,000,000 and is subject to the prior approval of the Insurance Department. As of December 31, 2008, the principal balance was \$3,000,000 with an annual interest rate of 9 percent for a period of 30 years. After receiving approval from the Insurance Department, the Company paid principal payments of \$300,000 and \$1,700,000 on March 4, 2009 and March 11, 2009, respectively. On December 31, 2009, an additional surplus note of \$1,000,000 was issued with an interest rate of 6 percent. As of December 31, 2009 the principal balance on the surplus note was \$2,000,000. The aforementioned surplus note was approved by the Delaware Insurance Department.

Dividends

The Company declared a dividend of \$1,315,000 to its sole stockholder on April 7, 2009. That dividend was unpaid and not accrued for at December 31, 2009. The Company rescinded the dividend on December 15, 2010. In consideration of this dividend being unpaid and rescinded, the matter was not considered relevant going forward and no recommendation has been made.

MANAGEMENT AND CONTROL

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by its Board of Directors. The bylaws provide that the number of directors that constitute the whole Board shall not be less than the minimum required by law or more than the maximum required by law. Each director is elected at the annual meeting of the shareholder and serves until his successor is elected.

The Board may, by resolution, designate one or more committees, each committee to consist of two or more of the directors. As of the examination date, no committees had been designated.

Board of Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2009, is as follows:

<u>Name</u>	<u>Principal Occupation</u>
William Dale Bullard	President of the Company and Director of Fortegra
Michael Vrban	Executive Vice President and Chief Financial Officer of Fortegra
Richard Steven Kahlbaugh	President and Chief Executive Officer of Fortegra
Robert Seely Fullington	Executive Vice President of Fortegra
Daniel Allen Reppert	Executive Vice President and Chief Operating Officer of Fortegra

Officers

The bylaws state that the officers of the corporation shall be a President, Secretary, Treasurer, and such other officers as may, from time to time, be chosen by the Board of Directors.

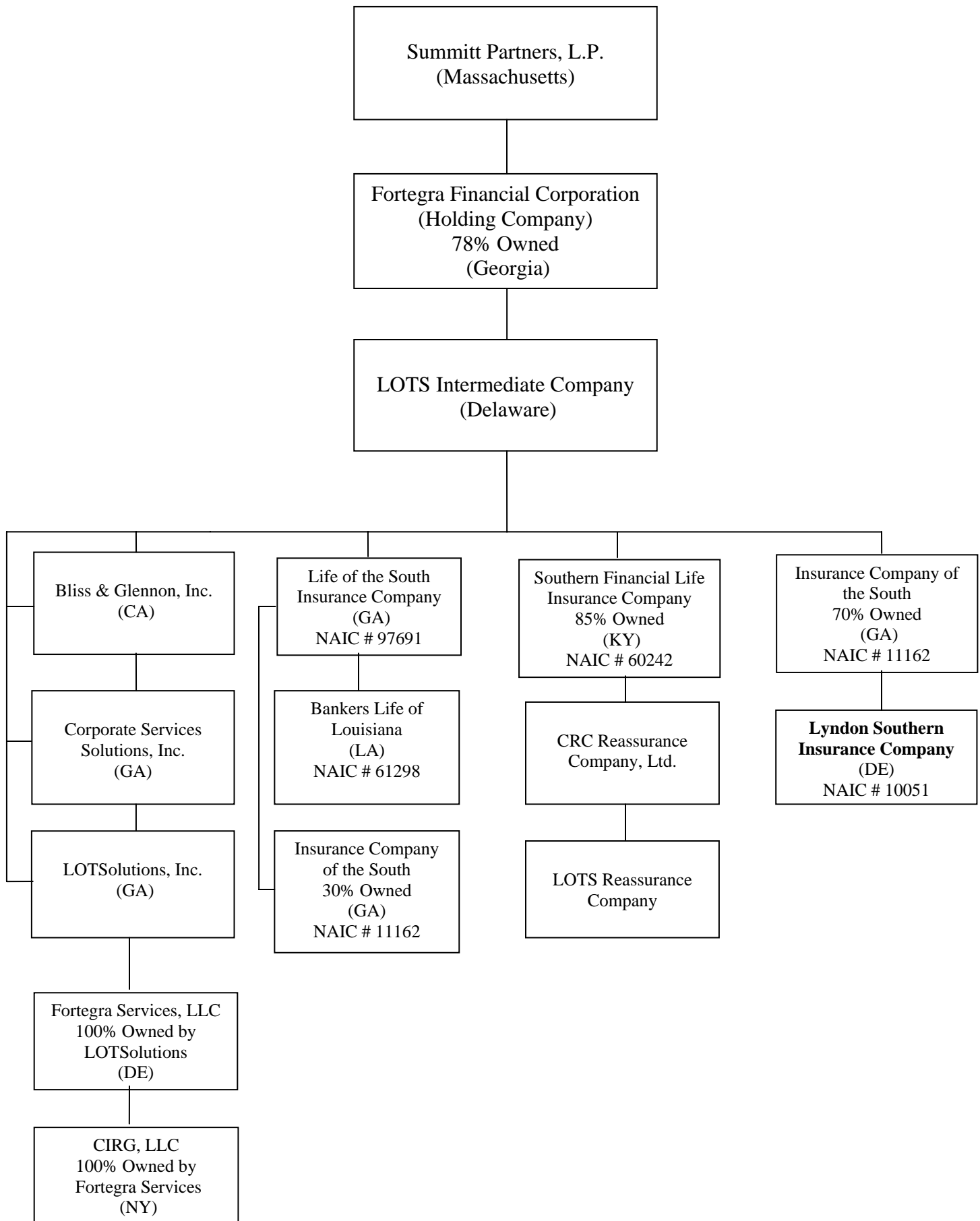
The following persons were elected as officers and were serving at December 31, 2009.

<u>Name</u>	<u>Office</u>
Richard Stephen Kahlbaugh	Chief Executive Officer
William Dale Bullard	President
John Glenn Short	Secretary
Michael Vrban	Treasurer

Holding Company System

The Company is a member of an insurance holding company system as defined under Chapter 50, "Insurance Holding Companies," of the Delaware Insurance Code. The parent of the Company is LOTS Intermediate Company, which is 100% owned by Fortegra, a Georgia corporation. Summitt Partners, L.P. owned 78% of Fortegra and is the ultimate controlling entity. The following organizational chart depicts the Company's relationship within the holding company system at December 31, 2009.

Lyndon Southern Insurance Company



AGREEMENTS

Internal Agreements

The following agreements were in effect between the Company and its affiliates at December 31, 2009.

Administrative Services Agreement

The Company entered into this agreement with LOTS Solutions on October 1, 2008. The services to be provided by LOTS were detailed in Schedule B of the agreement. The administrative fees are typically settled with 30 days. The services to be provided were in general as follows:

- Production and distribution of all forms and materials to implement policies
- Forms filings and approvals
- All marketing functions
- All agents or brokers functions
- All underwriting, policy application and policy issuance functions
- All policyholder services
- Billing, collection processing and accounting
- Claims administration
- Schedule C of the the agreement details the compensation to LOTS.
- Monthly Admin Fee of up to 7%
- Hourly fees for clerical, technical and management support
- Pass through charges such as telecommunications, technology, facilities, specialized mailings and specialized reports.
- The administrative fees are typically settled within 30 days.

Tax Sharing Agreement

The Company along with its ultimate parent, Fortegra Financial, and its affiliates, file a consolidated federal income tax return. Fortegra pays the federal income tax liability of the group and each subsidiary reimburses Fortegra for its respective share of the amount. The separate return payable/receivable for each subsidiary shall be the federal income tax liability or receivable that the subsidiary would have had for the period it was included in such consolidated return had it NOT been so included in the consolidated return.

External Agreements

The following agreements were in effect between the Company and third parties at December 31, 2009.

Custody Agreement

The Company entered into this agreement with Synovus Trust Company (Synovus) on January 1, 2006. As custodian for the Company's securities, Synovus shall manage and reinvest the securities in strict accordance with the Company's written instructions.

Asset Management Agreement

The Company, along with its ultimate parent, Fortegra, and its affiliates, entered into this agreement with Conning Asset Management Company (Conning) on August 1, 2007. The Company appointed Conning as its investment manager to invest and reinvest the assets in the investment account and to perform portfolio management services in accordance with the Company's investment guidelines as well as investment advisory, and investment accounting and reporting services as set forth in the agreement.

Broker of Record Agreements

The Company, along with its affiliate, Lyndon Property Insurance Company, entered into this agreement with John B. Collins Associates, Inc. (Collins) on February 1, 2004. The Company designates Collins as its Broker of Record for the purpose of negotiating, placing and servicing its property excess per risk reinsurance coverage.

The Company was also using Collins as its Broker of Record for its property catastrophe excess of loss reinsurance coverage at December 31, 2009. The Company was unable to provide this agreement during the course of this examination. On September 22, 2010, the Company changed its Broker on Record to Atlantic Intermediaries. In consideration of the new agreement

being maintained on file and the cancellation of the old agreement, the matter was not considered relevant going forward and no recommendations have been made.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2009, the Company was licensed in 39 states and the District of Columbia. 84% of the Company's direct premium was written in the States of Louisiana, South Carolina, Florida, Kentucky and Tennessee.

Plan of Operation

The Company provides credit-related property insurance in several states including collateral protection, credit property, surety and involuntary unemployment insurance. The Company's insurance business is generated through networks of small loan companies, automobile dealerships and banks.

Best's Rating

Based on A.M. Best's opinion of the Company's financial strength, it was assigned a Best's rating of B++ (Good) for the year ended 2009.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the three year period since the previous examination in 2006:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2009	\$29,229,189	\$13,613,066	\$20,147,283	\$1,310,732
2008	\$25,129,506	\$13,151,568	\$20,433,294	\$ 861,609
2007	\$17,256,849	\$10,047,280	\$14,448,852	\$1,597,529
2006	\$11,092,921	\$ 6,562,827	\$ 9,431,493	\$ (373,105)

Since December 31, 2006, the Company's financial results were as follows:

- Approximately 163% increase in admitted assets. Mainly due to an increase in net income, direct premium increases, capital contributions and surplus notes.
- Approximately 107% increase in capital and surplus. The largest contributing factor was cash received for a surplus note from Fortegra totaling \$2,000,000 in 2008 and \$1,000,000 in 2007. A capital contribution for \$1,000,000 was also made in 2007.
- Approximately 114% increase in net premium written. Mainly due to the growth of the Company's business products.
- Approximately 451% increase in net income. Due to increased investment income and growth of the Company over the examination period.

REINSURANCE

The Company has various reinsurance agreements in place whereby the amount of risk in excess of the Company's retention is ceded to other insurers.

The Company participates in an 85% quota share reinsurance agreement with London Life International Reinsurance Company (London Life). London Life provides protection for the Company's credit property book of business. As part of this agreement, London Life must maintain both a trust account and provide a letter of credit to protect the Company from the credit/default risk associated with recouping expenses related to its ceded business. This agreement has been in place since January 1, 2006.

In addition, the Company participates in excess of loss insurance with Allied World Assurance Company (Allied World) to protect against losses stemming from the companies Forced-Placed Mortgage Protection Insurance business. Under the contract, Allied World provides coverage in excess of \$75,000 up to \$1,000,000, with an aggregate limit of \$3,900,000. This agreement has been in place since January 1, 2006, and is renewed annually. Property catastrophe reinsurance is also in place which provides \$1,750,000 excess of a \$1,750,000 Company retention. This coverage has an aggregate limit of \$3,500,000 and a reinstatement feature. The Company's retention and aggregate limit apply to the combined property and casualty operations of Fortegra, which also includes Insurance Company of the South and LOTS Reassurance, LTD.

Additional coverage is provided for approximately 10% of the Company's property book of business (net of reinsurance) as this premium is reinsured through producer-owned insurance companies (PORCs). Under these agreements, 100% collateral is required to protect against reserve deterioration. Approximately 60% of the Company's property business is written under a retro provision, whereby excess profits are passed back to clients and losses are carried forward to offset future excess profits allowing the company to recoup deficiencies over time.

ACCOUNTS AND RECORDS

All accounting and administration of Company policies and business are provided under its service agreement with LOTSolutions. The Company maintains its records on an IBM iSeries platform with an AS/400 operating system. On January 1, 2010, the Company implemented the Oracle Business Intelligence Enterprise Edition.

Areas evaluated during the examination included computer system structure and controls, accounting systems, Company organizational structures, and accounting processing. The

consulting firm of INS Services, Inc. performed an Exhibit C desk review of the Company's IT operations.

The independent certified public accounting firm, Johnson Lambert & Company LLP, audited the Company's records for the years ended 2007, 2008, and 2009. Audit reports and applicable work papers were made available for the examiner's use.

The Company's books and records were reviewed and compared to reported items and values in the annual statements during the course of this examination. No material discrepancies were noted during this review.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2009, as determined by this examination, along with supporting exhibits as detailed below:

Assets

Statement of Liabilities, Surplus and Other Funds

Underwriting and Investment Exhibit, Statement of Income

Capital and Surplus Account, Statement of Income

Reconciliation of Capital and Surplus

Any slight differences noted in the following schedules are due to rounding.

Assets
As of December 31, 2009

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$ 14,656,172		\$ 14,656,172	1
Cash and short-term investments	11,530,364		11,530,364	
Investment income due and accrued	156,577		156,577	
Other Amounts receivable				
under reinsurance contracts	173,369		173,369	
Net deferred tax asset	621,382		621,382	
Guaranty funds receivable	1,101		1,101	
Receivables from parent, subsidiaries and affiliates	2,090,224		2,090,224	2
Aggregate write-ins:				
Prepaid Insurance	13,946	\$ 13,946	0	
	<u>13,946</u>	<u>\$ 13,946</u>	<u>0</u>	
Total Assets	<u>\$ 29,243,135</u>	<u>\$ 13,946</u>	<u>\$ 29,229,189</u>	

**Statement of Liabilities, Surplus and Other Funds
As of December 31, 2009**

<u>Liabilities, Surplus and Other Funds</u>		Note
Losses	\$ 1,451,464	3
Loss adjustment expenses	64,722	3
Commissions payable, contingent commissions	266,000	
Other expenses	34,558	
Taxes, licenses and fees	999,127	
Current federal income taxes	516,391	
Unearned premiums	8,717,806	4
Ceded reinsurance premiums payable	3,396,569	
Provision for reinsurance	158,018	
Aggregate write-ins for liabilities:		
Escheat	11,467	
Total Liabilities	<u>\$ 15,616,122</u>	
Common capital stock	\$ 3,000,000	
Surplus Note	\$ 2,000,000	
Gross paid in and contributed surplus	4,500,000	
Unassigned funds (surplus)	<u>4,113,066</u>	
Surplus as regards policyholders	<u>\$ 13,613,066</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 29,229,188</u></u>	

**Underwriting and Investment Exhibit - Statement of Income
As of December 31, 2009**

Underwriting Income	
Premiums earned	<u>\$ 18,545,392</u>
Deductions	
Losses incurred	\$ 5,269,593
Loss adjustment expenses incurred	544,153
Other underwriting expenses incurred	10,832,809
Total underwriting deductions	<u>\$ 16,646,555</u>
Net underwriting gain or (loss)	<u>\$ 1,898,837</u>
Investment Income	
Net investment income earned	513,019
Net realized capital gains or (losses)	(145,751)
Net investment gain or (loss)	<u>\$ 367,268</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	\$ 0
Finance and services charges not included in premiums	0
Reinsurance ceded balances charged off	0
Total other income (loss)	<u>\$ 0</u>
Net income before dividends to policyholders and before federal income taxes	\$ 2,266,105
Dividends to policyholders	0
Federal income taxes incurred	955,372
Net income (loss)	<u>\$ 1,310,733</u>

**Capital and Surplus Account – Statement of Income
As of December 31, 2009**

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2008	<u>\$ 13,151,568</u>
 GAINS AND (LOSSES) IN SURPLUS	
Net income	\$ 1,310,732
Change in net unrealized capital gain	183,761
Change in net deferred income tax	128,790
Change in non-admitted assets	(10,961)
Change in provision for reinsurance	(150,824)
Change in surplus note	<u>(1,000,000)</u>
Change in surplus as regards policyholders for the year	<u>\$ 461,498</u>
 Surplus as regards policyholder, December 31, 2009	 <u><u>\$ 13,613,066</u></u>

Reconciliation of Capital and Surplus

The following reconciliation of capital and surplus for the period December 31, 2006, to December 31, 2009, was extracted from the Company's filed Annual Statements:

Capital and Surplus, December 31, 2006		<u>\$ 6,562,827</u>
Net income	\$3,769,870	
Change in net unrealized capital gains	15,393	
Change in net deferred income tax	436,941	
Change in non-admitted assets	(13,946)	
Change in provision for reinsurance	(158,018)	
Change in surplus notes	2,000,000	
Surplus Paid-in	<u>1,000,000</u>	
	<u>\$6,050,240</u>	
Capital and Surplus, December 31, 2009		<u><u>\$13,613,066</u></u>

SCHEDULE of EXAMINATION ADJUSTMENTS **As of December 31, 2009**

There were no adjustments to the Company's financial statements as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

\$14,656,172

The Company's bond holdings totaled \$14,656,172 and were approximately 50.0% of total admitted assets and 56% of the Company's total invested assets. Security composition for the year ending 2009 was comprised of the following:

U.S. Governments	\$ 2,987,225
U.S. Political Subdivisions	1,014,539
U.S. Special Revenue	4,153,877
Industrial & Miscellaneous	<u>6,500,532</u>
	<u>\$ 14,656,173</u>

The Company had approximately 91% of its bond holdings in NAIC credit quality Class 1 bonds.

Note 2 –Receivable from Parent, subsidiaries and affiliates

\$2,090,224

The aforementioned amount was due from the Company's parent, LOTSolutions. Partial payment of this was received by the Company in January of 2010 with the remaining balance being settled in February 2010. The intercompany balances were settled in accordance with its intercompany agreements.

Note 3 - Loss and Loss Adjustment Expense Reserves

\$1,516,186

The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS) for the purposes of conducting an independent review of the Company's loss and loss adjustment expense reserves as of December 31, 2009.

The independent actuaries reported that the recorded December 31, 2009 reserves made reasonable provisions for the gross and net unpaid loss and loss adjustment expenses.

Note 4 – Unearned Premiums

\$8,717,806

The Delaware Department of Insurance retained the services of INS Services to review and recalculate the Company's unearned premium. INS Services obtained the Company's detail of unearned premium and performed a reconciliation and recalculation of the unearned premium reserve files at December 31, 2009. This reconciliation was performed without material exception.

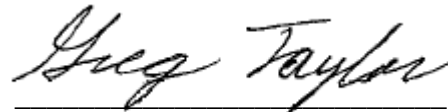
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2006</u>	<u>December 31, 2009</u>	<u>Increase (Decrease)</u>
Assets	<u>\$11,092,921</u>	<u>\$29,229,189</u>	<u>\$18,136,268</u>
Liabilities	<u>\$ 4,530,094</u>	<u>\$15,616,123</u>	<u>\$11,086,029</u>
Common Capital Stock	\$3,000,000	\$ 3,000,000	\$ 0
Surplus Notes	0	2,000,000	2,000,000
Gross Paid In and Contributed Surplus	3,500,000	4,500,000	1,000,000
Unassigned Funds (Surplus)	<u>62,827</u>	<u>4,113,066</u>	<u>4,050,239</u>
Total Surplus as Regards Policyholders	<u>\$ 6,562,827</u>	<u>\$13,613,066</u>	<u>\$ 7,050,239</u>
Totals	<u>\$11,092,921</u>	<u>\$29,229,189</u>	<u>\$18,136,268</u>

The assistance of the Delaware Insurance Department’s consulting actuarial firm, INS Consultants, Inc., and its Information Technology consulting firm, INS Services, Inc. is acknowledged.

Respectfully submitted,



Greg Taylor, CFE
 Examiner-In-Charge
 State of Delaware
 Northeastern Zone, NAIC