

REPORT ON EXAMINATION
OF
LION INSURANCE COMPANY
HOLIDAY, FLORIDA
AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	3
GENERAL	3
PROFITABILITY OF COMPANY	4
DIVIDENDS TO STOCKHOLDERS	4
MANAGEMENT	5
CONFLICT OF INTEREST PROCEDURE.....	6
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES.....	7
ORGANIZATIONAL CHART	8
CLAIM SERVICE AGREEMENT	9
EXPENSE ALLOCATION AGREEMENT	9
CLIENT LEASING AGREEMENT	9
LARGE DEDUCTIBLE PAYMENT/REIMBURSEMENT AGREEMENT	9
FIDELITY BOND AND OTHER INSURANCE	10
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
STATUTORY DEPOSITS	10
INSURANCE PRODUCTS AND RELATED PRACTICES	11
TERRITORY	11
TREATMENT OF POLICYHOLDERS.....	11
REINSURANCE	11
ASSUMED.....	12
CEDED	12
ACCOUNTS AND RECORDS	13
CUSTODIAL AGREEMENT	13
INDEPENDENT AUDITOR AGREEMENT.....	14
FINANCIAL STATEMENTS PER EXAMINATION	14
ASSETS	15
LIABILITIES, SURPLUS AND OTHER FUNDS	16
STATEMENT OF INCOME.....	17

COMMENTS ON FINANCIAL STATEMENTS..... 18
 LIABILITIES 18
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 19
SUMMARY OF FINDINGS 20
SUBSEQUENT EVENT..... 21
CONCLUSION 22

Tallahassee, Florida

June 22, 2007

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, 2006, of the financial condition and corporate affairs of:

**LION INSURANCE COMPANY
2739 U.S. HIGHWAY 19 NORTH
HOLIDAY, FLORIDA 34691**

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, 2004 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on April 2, 2007 to April 6, 2007. The fieldwork commenced on April 9, 2007 and was concluded as of June 22, 2007.

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 affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 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's IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

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

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

Federal Income Tax Payable

Status of Adverse Findings from Prior Examination

The following is a summary of adverse findings contained in the Office's prior examination report of December 31, 2003 along with the resulting action taken by the Company.

Reinsurance

The Company did not report its retroactive reinsurance with Clarendon National Insurance Company in accordance with SSAP No. 62, paragraphs (a) through (k). **Resolution:** The Company correctly reported its reinsurance in the 2006 Annual Statement.

Unearned Premiums

The Company reported a negative unearned premium balance of \$832,000. The Company wrote one workers' compensation policy to an affiliate, South East Personnel Leasing, Inc., which expired on December 31, 2003; therefore there were no unearned premium reserves for the Company at December 31, 2003. **Resolution:** The Company correctly reported unearned premiums in its 2006 Annual Statement.

HISTORY

General

Gulf Atlantic Insurance Company (Gulf Atlantic) was incorporated in Florida on June 17, 1986 as a domestic stock property and casualty insurer and commenced business on June 26, 1986. On March 31, 1999, Clarendon National Insurance Company acquired 100% of the stock of Gulf Atlantic. Gulf Atlantic was liquidated for tax purposes only; assets were maintained to retain the minimum surplus requirements and license. The name of Gulf Atlantic was changed to Lion Insurance Company. Effective April 29, 2003, the Office approved the acquisition of 100% ownership in the Company by Jamestown Holdings Corporation. The Company was purchased from the former parent, Clarendon National Insurance Company, by Jamestown Holdings Corporation, which was a privately held Florida corporation owned 100% by John A. Porreca. Any remaining liabilities from operations prior to the date of acquisition have been 100% ceded to the previous owner of the Company, Clarendon National Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Workers' Compensation

The articles of incorporation and the bylaws were amended during the period covered by this examination to reflect a change in address of the Company.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
--	-----------

Number of shares issued and outstanding	1,600,000
Total common capital stock	\$1,600,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Jamestown Holdings Corporation, which owned 100% of the stock issued by the Company.

Profitability of Company

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

	2006	2005	2004
Premiums Earned	14,476,075	7,051,968	6,760,318
Net Underwriting Gain/(Loss)	2,016,004	201,626	34,011
Net Income	2,446,977	661,691	7,826
Total Assets	388,511,669	262,156,020	144,604,175
Total Liabilities	352,456,643	237,003,780	134,264,576
Surplus As Regards Policyholders	36,055,026	25,152,240	10,339,599

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2004, 2005 or 2006.

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, 2006, were:

Directors

Name and Location	Principal Occupation
John A. Porreca Odessa, Florida	Chairman President and Treasurer of Lion Insurance Company, Packard Claims Administration, Inc., and South East Personnel Leasing, Inc.
Mary Ann Stiles Tampa, Florida	Director President, CEO and shareholder of Stiles, Taylor and Grace
Robert B. Bennett Tampa, Florida	Director Partner in Sponsler, Bennett, Jacobs & Adams, P.A.
Carol A. Ostapchuk Tallahassee, Florida	Director Ostapchuk & Associates, Inc.
Stephen L. Rohde St. Paul, Minnesota	Director Stephen Rohde Associates, Inc.

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

Senior Officers

Name	Title
John A. Porreca	President
John A. Porreca	Treasurer
Deborah A. Porreca	Secretary
Ida Coleman	Vice President

The Company had an audit committee, as required by Section 624.424(8), Florida Statutes.

The Company's board appointed an audit and investment committee as listed below.

Audit Committee

Carol Ostapchuk
Stephen Rohde¹
Bruce Miller

Investment Committee

John Porreca¹
Carol Ostapchuk
Stephen Rohde

¹Chairman

Conflict of Interest Procedure

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

Corporate Records

The recorded minutes of the shareholder and Board of Directors 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

There were no acquisitions, mergers, disposals, dissolutions or purchase or sales through reinsurance during the period of this examination.

Surplus Debentures

The Company had no surplus debentures.

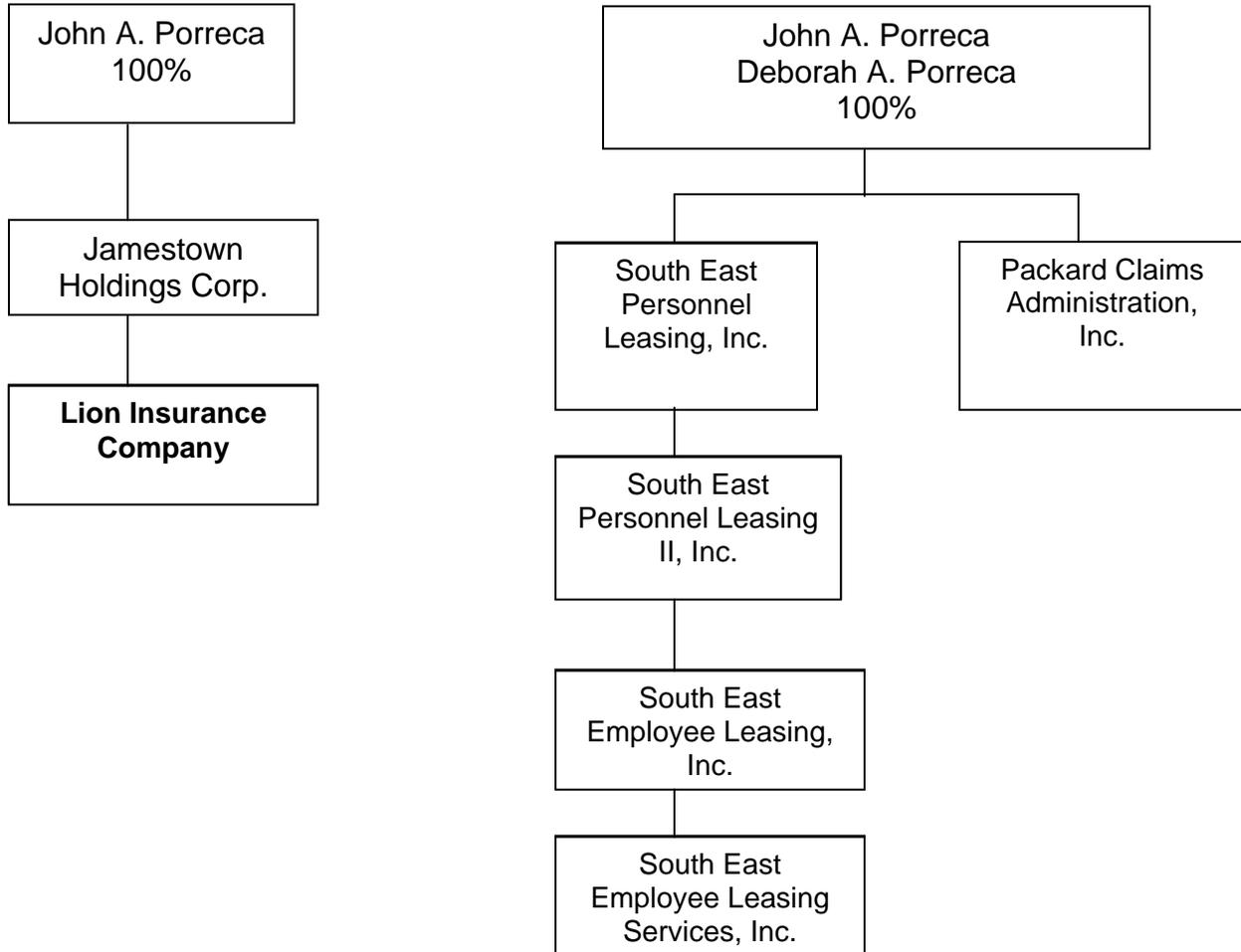
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The Company was a member of the holding company system of Jamestown Holdings Corporation.

An organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y Part 1, of the Company's 2006 annual statement, provided a list of related companies of the holding company group.

**LION INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



The latest holding company registration statement was filed with the State of Florida on February 28, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code. The Company did not file updated holding company registration statement to report material changes or additions as required by Rule 69O-143.046, Florida Administrative Code, within the required fifteen days after the end of the month.

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

Claim Service Agreement

The Company and Packard Claims Administration, Inc. entered into a claims service agreement on January 1, 2006. Packard Claims Administration, Inc. agreed to service the claims of the Company.

Expense Allocation Agreement

The Company had an expense allocation agreement with South East Personnel Leasing, Inc. The allocation of expenses paid by South East Personnel Leasing, Inc. on behalf of the Company and expenses paid by the Company on behalf of South East Personnel Leasing, Inc. were subsequently allocated. The allocation included any assessments paid by the Company based on the actual amounts paid that are not included in the large deductible premium paid by South East Personnel Leasing, Inc. to the Company.

Client Leasing Agreement

The Company and South East Personnel Leasing, Inc., entered into an agreement on April 30, 2003, for the leasing of employees to the Company under the client leasing agreement.

Large Deductible Payment/Reimbursement Agreement

The Company entered into a large deductible payment/reimbursement agreement with South East Personnel Leasing, Inc. effective January 1, 2005. The Company agreed to underwrite a workers' compensation and employers liability insurance policy for South East Personnel Leasing, Inc. and its subsidiaries, in the amount of \$1,000,000 per employee/per occurrence. South East Personnel

Leasing, Inc. agreed to pay cash monthly to the Company based on actuarially determined costs of ultimate claims incurred limited to \$1,000,000 per employee/per occurrence. These amounts paid by South East Personnel Leasing, Inc. to the Company are non-refundable.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which met the suggested minimum amount of coverage of \$900,000 for the Company, as recommended by the NAIC.

General insurance was provided for by the Company.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company does not maintain employees and therefore has no pension, stock ownership or insurance plans.

STATUTORY DEPOSITS

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

STATE	DESCRIPTION	PAR VALUE	MARKET VALUE
FL	Cash	\$ 550,000	\$ 550,000
TOTAL FL DEPOSITS		<u>\$ 550,000</u>	<u>\$ 550,000</u>
GA	Cash	\$ 75,000	\$ 75,000
TOTAL GA DEPOSITS		<u>\$ 75,000</u>	<u>\$ 75,000</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 625,000</u></u>	<u><u>\$ 625,000</u></u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

On April 29, 2003, upon the acquisition of the Company by Jamestown Holdings Corporation, workers' compensation insurance was added to the Company's certificate of authority and all other lines of insurance were removed. The Company was authorized to transact insurance in the following states: Florida, District of Columbia, Georgia, Maryland, Oklahoma and Texas.

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

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

The Company's letter of credit for Max Re Limited did not contain the required provisions of Appendix A-785 of the NAIC Accounting Practices and Procedures Manual, paragraph 40(3). The existing letter of credit did not stipulate that the "beneficiary need only draw a sight draft under the letter of credit and present it to obtain funds and that no other document need be presented".

The Company's letter of credit for Max Re Limited did not contain the required provision of Appendix A-785 of the NAIC Accounting Practices and Procedures Manual, paragraph 44(2), which requires that the existing letter of credit contain a statement addressing the law governing the letter of credit. This is a requirement of Rule 69O-144.005(6)(e)(1), Florida Administrative Code which states that Florida laws govern the letter of credit.

The Company's letter of credit for Renaissance Reinsurance did not contain the correct evergreen clause stipulating the statement of no less than 60 days notice prior to expiration date or non-renewal as required in Rule 69O-144.005(6)(d)(2), Florida Administrative Code. The letter of credit stated 30 days notice for the evergreen clause.

Assumed

The Company assumed no premiums.

Ceded

The Company ceded \$1,404,593 in premiums to non-affiliates in 2006. The Company maintained reinsurance on a workers' compensation employers' liability per occurrence excess of loss basis with Aspen Insurance UK, Axis Specialty Limited and Lloyd Syndicates.

The Company maintained reinsurance on a workers' compensation and employers' liability catastrophe excess of loss basis with Max Re Limited, Odyssey American Reinsurance Corporation, Renaissance Reinsurance and Safety National Casualty Corporation.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005 and 2006, 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'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 Wachovia Bank, N.A. The agreement was not in accordance with Rule 69O-143.042(2), (d), (e), (i) and (n), Florida Administrative Code. Section (2)(d) of this Rule requires that custodied securities shall be held subject to the instructions of the

insurance company and shall be withdrawable upon the demand of the insurance company. Section (e) of this Rule requires that the custodian shall arrange for execution of transactions in custodied securities in accordance with the insurance company's instructions and shall not exercise discretionary authority to effect transactions in custodied securities except in such limited or special circumstances as the insurance company may authorize. Section (i) of this Rule requires that the custodian shall maintain records sufficient to determine and verify information relating to custodied securities that may be reported in the insurance company's Annual Statement and supporting Schedules and information required in any audit of the financial statements of the insurance company. Section (n) of this Rule requires that, in the event that the custodian gains entry in a clearing corporation or in the Federal Reserve book-entry through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian.

Independent Auditor Agreement

The Company had an agreement with TaylorChandler, LLC, CPA to perform an audit of its GAAP and statutory financial statements for 2004, 2005 and 2006.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, 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."

**LION INSURANCE COMPANY
Assets**

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 68,386,425		\$ 68,386,425
Cash and Short-term investments	314,675,579		314,675,579
Interest and dividend income due & accrued	476,409		476,409
Agents' Balances:			
Uncollected premium	1,356,145		1,356,145
Aggregate write-ins for other than invested assets	3,617,111		3,617,111
Totals	\$ 388,511,669	\$ -	\$ 388,511,669

LION INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$9,464,000		\$9,464,000
Loss adjustment expenses	2,574,800		2,574,800
Other expenses	88,219		88,219
Taxes, licenses and fees	496,641		496,641
Federal income taxes	902,180		902,180
Payable to parent, subsidiaries and affiliates	528,584		528,584
Aggregate write-ins for liabilities	<u>338,402,219</u>		<u>338,402,219</u>
Total Liabilities	\$352,456,643		\$352,456,643
Common capital stock	\$1,600,000		\$1,600,000
Gross paid in and contributed surplus	31,000,000		31,000,000
Unassigned funds (surplus)	<u>3,455,026</u>		<u>3,455,026</u>
Surplus as regards policyholders	<u>\$36,055,026</u>		<u>\$36,055,026</u>
Total liabilities, capital and surplus	<u>\$388,511,669</u>	<u>\$0</u>	<u>\$388,511,669</u>

LION INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

	Underwriting Income	
Premiums earned		\$14,476,075
DEDUCTIONS:		
Losses incurred		5,588,000
Loss expenses incurred		3,538,049
Other underwriting expenses incurred		3,334,022
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$12,460,071</u>
Net underwriting gain or (loss)		\$2,016,004
	Investment Income	
Net investment income earned		\$1,656,557
Net realized capital gains or (losses)		0
Net investment gain or (loss)		<u>\$1,656,557</u>
	Other Income	
Net gain or (loss) from agents' or premium balances charged off		\$0
Total other income		<u>\$0</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$3,672,561
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$3,672,561</u>
Federal & foreign income taxes		<u>1,225,584</u>
Net Income		\$2,446,977
	Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year		\$25,152,240
	Gains and (Losses) in Surplus	
Net Income		\$2,446,977
Change in net deferred income tax		0
Change in non-admitted assets		5,809
Surplus change: Paid-in		8,450,000
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$10,902,786</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$36,055,026</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$12,038,800

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Select Actuarial Services reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The Company's surplus was not adjusted as a result of examination findings.

A comparative analysis of changes in surplus is shown below.

**LION INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

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 per December 31, 2006, Annual Statement	\$	36,055,026
---	----	------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment.			
LIABILITIES:			
No adjustment.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$ 36,055,026

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

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, 2006.

Affiliated Companies

The Company did not file updated holding company registration statements within fifteen days after the end of the month in which it learned of a change or an addition. **We recommend that the Company comply with Rule 69O-143.046(4), Florida Administrative Code and timely file all applicable updates to their holding company registration statements.**

Reinsurance

The Company's letters of credit for Max Re Limited and Renaissance Reinsurance contained inaccurate or missing clauses regarding the evergreen clause and a statement that Florida laws must govern the letter of credit. **We recommend that the Company comply with Rule 69O-144.005(6)(d)(2) and 69O-144.005(6)(e)(1), Florida Administrative Code and Appendix A-785 of the NAIC Accounting Practices and Procedures Manual, paragraphs 40 and 44.**

Accounts and Records

The Company's custodial agreement with Wachovia Bank, N.A., contained clauses which were inaccurate or missing from the agreement. See the custodial agreement Section for details. **We recommend that the Company comply with Rule 69O-143.042(2)(d)(e)(i)(n), Florida Administrative Code.**

SUBSEQUENT EVENT

The Company made a capital contribution of \$14,000,000 on March 19, 2007.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Lion Insurance Company** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$36,055,026, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned Carol McBrier, Financial Specialist, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor and Mary Frances Miller, FCAS, MAAA, FCA, CPCU, Are, AIM of Select Actuarial Services, participated in the examination.

Respectfully submitted,

Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation