

**REPORT ON EXAMINATION**  
**OF**  
**LION INSURANCE COMPANY, INC.**  
**TARPON SPRINGS, FLORIDA**

**AS OF**  
**DECEMBER 31, 2003**

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

## TABLE OF CONTENTS

LETTER OF TRANSMITTAL .....	-
SCOPE OF EXAMINATION .....	1
HISTORY .....	2
General .....	2
Capital Stock .....	3
Profitability of the Company .....	3
Dividends to Stockholders .....	4
Management .....	4
Conflict of Interest Procedure .....	5
Corporate Records .....	6
Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance .....	6
Surplus Debentures .....	6
AFFILIATED COMPANIES .....	6
Large Deductible Payment/Reimbursement Agreement .....	7
Client Leasing Agreement .....	7
ORGANIZATIONAL CHART .....	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 .....	11
Ceded .....	11
Custodial Agreement .....	13
Claims Service Contract .....	13

Risk-Based Capital .....	14
FINANCIAL STATEMENTS PER EXAMINATION .....	14
Assets .....	15
Liabilities, Surplus and Other Funds .....	16
Statement of Income .....	17
COMMENTS ON FINANCIAL STATEMENTS .....	18
Assets .....	18
Liabilities .....	18
Comparative Analysis of Changes in Surplus .....	19
SUMMARY OF FINDINGS .....	20
CONCLUSION .....	21

Tallahassee, Florida

June 18, 2003

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 624.316/641.27, Florida Statutes ("FS"), 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, 2003, of the financial condition and corporate affairs of:

**LION INSURANCE COMPANY, INC.  
905 E. MARTIN LUTHER KING JR. DR., STE. 110  
TARPON SPRINGS, FLORIDA 34689**

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, 2001 through December 31, 2003. The last examination of the Company was done by the Office of Insurance Regulation (Office) as of December 31, 2000. This examination commenced, with planning at the Office, on March 29, 2004, to April 2, 2004. The fieldwork commenced on April 5, 2004, and was concluded as of June 18, 2004. 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 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 ("FAC"), 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 assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

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 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 were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

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.

## **HISTORY**

### **General**

The Company, a domestic stock company, was licensed in six states, and was incorporated under the laws of the State of Florida on June 17, 1986 and commenced business on June 26, 1986 in the name of Gulf Atlantic Insurance Company. On March 31, 1999, the Company was acquired by Clarendon National Insurance Company and its name was change to Lion Insurance Company. Effective April 29, 2003, the Office approved the acquisition of 100% ownership of Lion Insurance Company by Jamestown Holdings Corp., a Florida corporation, pursuant to Section 625.461, FS. The former parent, Clarendon National Insurance Company, received a total consideration of \$7,928,157 on April 29, 2003, which consisted of the Company's capital and surplus as of this date, plus the value of its six (6) state Certificates of Authority that totaled \$600,000. Workers' compensation insurance was added to the Company's Certificate of Authority and all other lines of insurance were removed. Any remaining liabilities from operations prior to the date of acquisition of April 29, 2003, were 100% ceded to the previous parent of the Company, Clarendon National Insurance Company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact Workers' Compensation insurance coverage in Florida on December 31, 2003:

The articles of incorporation and the bylaws were amended during the period covered by this examination.

### **Capital Stock**

As of December 31, 2003, 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, a Florida Corporation, who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by John A. Porreca.

### **Profitability of the Company**

Policyholders' surplus increased from \$7.2 million at December 31, 2002 to \$10.3 million at December 31, 2003. With the prior written approval of the Office and pursuant to the Statement of Statutory Accounting Principles No. 72, the Company restated its gross paid in and contributed surplus and unassigned funds under a quasi-reorganization effective April 29, 2003.

The increase in earned premium of \$4,949,913 from December 31, 2002 to December 31, 2003, was attributed to the Company issuing a large deductible workers' compensation policy issued to a leasing company effective April 30, 2003. Losses and loss adjustment expenses incurred increased by \$2.6 million from December 31, 2002 to December 31, 2003. This

increase was also attributable to the one workers' compensation policy the Company issued for the year with a \$500,000 deductible. Underwriting expenses increased by \$1.9 million from December 31, 2002 to December 31, 2003.

### **Dividends to Stockholders**

As of December 31, 2003, the Company did not declare or pay dividends to its stockholders.

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2003, were:

#### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
John A. Porreca Odessa, Florida	President, Lion Insurance Co.
Robert B. Bennett Apollo Beach, Florida	Attorney
Edward E. Meehan Ft. Myers, Florida	Retired
Stephen L. Rohde St. Paul, Minnesota	Consultant
Carol A. Ostapchuk Tallahassee, Florida	Consultant
Mary A. Stiles Tampa, Florida	Attorney

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

### **Senior Officers**

<b>Name</b>	<b>Title</b>
John A. Porreca	President
Ida E. Coleman	Vice President
John A. Porreca	Treasurer
Deborah A. Porreca	Secretary

The Company did not maintain an audit committee, as required by Section 624.424 (8), FS.

### **Subsequent Event:**

As of April 1, 2004, the Company established an audit committee. The following are the members of audit committee:

### **Audit Committee**

Bruce Miller  
Carol Ostapchuk  
Steven Rohde

### **Conflict of Interest Procedure**

At December 31, 2003, the Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. All officers and directors listed on the Jurat page of the Annual Statement had signed conflicts of interest statements with one exception; Deborah A. Porreca had not signed a conflict of interest statement.

**Subsequent event:**

As of March 31, 2004, the Company provided a signed conflict of interest statement from Deborah A. Porreca.

**Corporate Records**

The recorded minutes of the shareholder and Board of Directors, meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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

Effective April 29, 2003, the Office approved the acquisition of 100% ownership of the Company by Jamestown Holdings Corp., a Florida corporation, pursuant to Section 628.461, Florida Statutes.

**Surplus Debentures**

The Company had no surplus debentures as of December 31, 2003.

**AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on February 25, 2004 as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

### **Large Deductible Payment/Reimbursement Agreement**

On April 29, 2003, the Company entered into a Large Deductible Payment/Reimbursement Agreement with an employee leasing company (“Insured”). The Company provided workers’ compensation insurance to the Insured. The policy with the Insured was a high deductible policy with a \$500,000 deductible per occurrence. The Company maintained a large deductible collateral fund that was funded monthly by the Insured based on actuarially determined costs of ultimate losses under \$500,000. The deductible portion of losses and loss adjustment expenses was paid from this large deductible fund. The balance of the collateral fund at December 31, 2003 was invested assets totaling \$51,215,214. The amount of losses and loss adjustment expenses paid from this fund totaled \$ 5,768,886 for 2003. Under the provisions of Consent Order, Case No. 67789-03-CO, paragraph 22, the Company was required to maintain collateral in an amount equal to the estimated required reserves, as disclosed in the most recent actuarial analysis, less the paid claims and paid loss adjustment expenses.

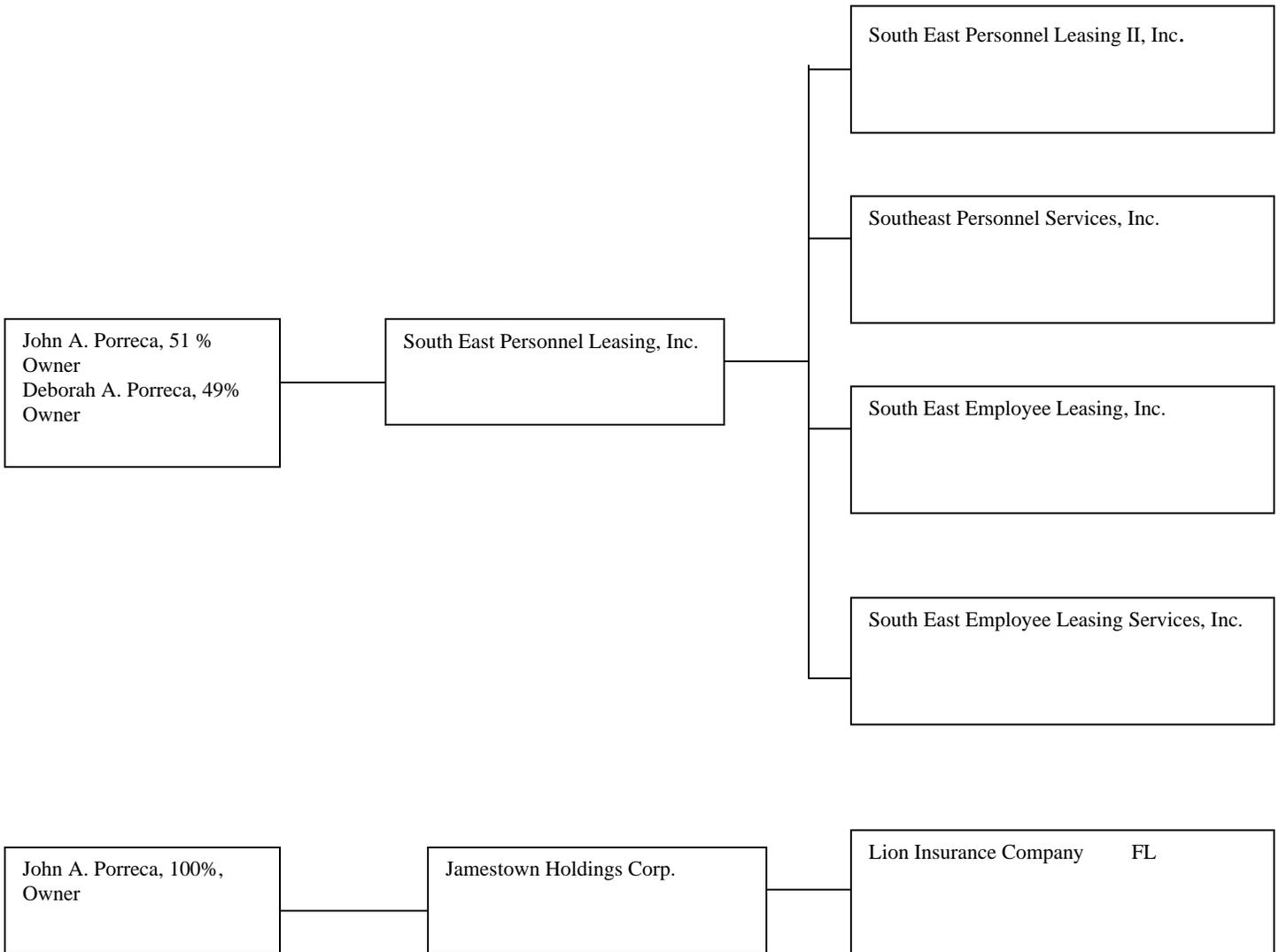
### **Client Leasing Agreement**

On April 30, 2003, the Company entered into a Client Leasing Agreement with SouthEast Personnel Services, Inc., (SPLI), a professional employer organization. Some of the contractual responsibilities of SPLI were as follows. SPLI assumed responsibility for the payment of wages to the assigned employees. SPLI prepared and distributed payroll checks to assigned employees, made the appropriate payroll deductions and collection of taxes, filed the appropriate reports and made payment to proper governmental authorities for federal, state, and local income taxes, Social Security Tax, federal and state unemployment insurance taxes and any other federal or state tax. SPLI maintained necessary records and complied with reporting procedures. SPLI assumed full

responsibility for the payment of payroll taxes and collection of taxes from payroll on assigned employees. In addition, SPLI was considered the employer for state unemployment insurance taxes.

An organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 annual statement provided a list of all related companies of the holding company group.

**LION INSURANCE COMPANY, INC.  
ORGANIZATIONAL CHART  
DECEMBER 31, 2003**



## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which adequately covered 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.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	Cash Deposit	\$ 550,000	\$ 550,000
	<b>TOTAL FLORIDA DEPOSITS</b>	<b>\$ 550,000</b>	<b>\$ 550,000</b>
GA	Money Market Fund	\$ 25,000	\$ 25,000
	<b>TOTAL OTHER DEPOSITS</b>	<b><u>\$ 25,000</u></b>	<b><u>\$ 25,000</u></b>
	<b>Total Special Deposits</b>	<b><u>\$ 575,000</u></b>	<b><u>\$ 575,000</u></b>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory**

The Company was authorized to transact insurance in Florida, in accordance with Section 624.401(2), FS, as well as Georgia, Maryland, Oklahoma, Texas and the District of Columbia.

### **Treatment of Policyholders**

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

## **REINSURANCE**

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

### **Assumed**

During 2003, the Company did not assume risk.

### **Ceded**

The Company ceded risk on an excess of loss basis to various reinsurers through an intermediary.

## **Retroactive Reinsurance**

On April 29, 2003, the Company entered into a Net Retained Liability Reinsurance Agreement with the former parent, Clarendon National Insurance Company (Reinsurer). By this agreement, the Reinsurer obligated itself to accept, one hundred percent quota share reinsurance of the Company's Net Retained Liability under all policies of insurance or reinsurance issued or renewed by the Ceding Company prior to the effective date of the closing. Per Office approval, the Company reported only the losses on workers' compensation business written since April 29, 2003 in Schedule P-Part 1D, Workers' Compensation. The Company was not required to report in Schedule P for policies under all other lines of insurance that were issued or renewed prior to the date of closing (acquisition by Jamestown) of April 29, 2003.

Since the agreement reinsures past insured events covered by the underlying insurance, policies, it should be accounted for as retroactive reinsurance in accordance with SSAP 62, paragraph 22. According to SSAP 62, paragraph 29, "Portfolio reinsurance is the transfer of an insurer's entire liability for in force policies of outstanding losses, or both, of a segment of the insurer's business. Loss portfolio transactions are to be accounted for as retroactive reinsurance." The Company did not report retroactive reinsurance with Clarendon National Insurance Company in accordance with SSAP 62, paragraphs "a" through "k".

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

## **ACCOUNTS AND RECORDS**

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

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

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

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

On May 27, 2003, the Company entered into a custodian agreement with the Wachovia Bank with regard to custody of its short-term securities. The Custodian agreement met the requirements of Rule 69O-4-143-042, Florida Administrative Code.

### **Claims Service Contract**

On April 30, 2003, the Company entered into an agreement with RSKCO Services, Inc. (Servicing Company) to provide the administration of claims arising from Florida workers' compensation policies. The Company provided the Servicing Company with a loss fund for the payment of claims and allocated expenses arising from this contract. The Service Company was

required to provide the Company a copy of the Monthly Charge Summary Report reflecting payments reimbursed by the Company. The Service Company maintained claim and/or loss files for each reported claim and/or loss. Claims and/or loss files were subject to review by the Company at any reasonable time without prior notice, however, 30 days notice was required for standard claim review.

### **Risk-Based Capital**

The Company reported its risk-based capital at an adequate level.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, 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, INC.**

**Assets**

**DECEMBER 31, 2003**

<b>Classification</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Cash:			
On deposit	1,784,066		1,784,066
Short-term investments	55,795,029		55,795,029
Interest and dividend income due & accrued	4,711		4,711
Receivable from PSA	1,544		1,544
Aggregate write-in for other than invested assets	231,276		231,276
	<hr/>		<hr/>
Totals	\$57,816,626	\$0	\$57,816,626
	<hr/>		<hr/>

**LION INSURANCE COMPANY, INC.**

**Liabilities, Surplus and Other Funds  
DECEMBER 31, 2003**

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$1,335,108		\$1,335,108
Loss adjustment expenses	414,212		\$414,212
Other expenses	15,485		\$15,485
Taxes, licenses and fees	287,898		\$287,898
Unearned premium	(832,000)	832,000	0
Ceded reinsurance premiums payable	739,333		\$739,333
Net deferred tax liability	56,576		\$56,576
Aggregate write-ins for liabilities	45,525,201		45,525,201
<b>Total Liabilities</b>	<b>\$47,541,813</b>	<b>832,000</b>	<b>48,373,813</b>
Common capital stock	1,600,000		\$1,600,000
Gross paid in and contributed surplus	8,400,000		\$8,400,000
Unassigned funds (surplus)	274,814	(832,000)	(557,186)
Surplus as regards policyholders	10,274,814	(832,000)	9,442,814
<b>Total liabilities, capital and surplus</b>	<b>\$57,816,627</b>	<b>\$0</b>	<b>57,816,627</b>

**LION INSURANCE COMPANY, INC.**

**Statement of Income**

**DECEMBER 31, 2003**

**Underwriting Income**

Premiums earned	\$4,949,913
DEDUCTIONS:	
Losses incurred	1,331,297
Loss expenses incurred	1,276,539
Other underwriting expenses incurred	2,040,393
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$4,648,229</u>
Net underwriting gain or (loss)	\$301,684

**Investment Income**

Net investment income earned	\$164,366
Net realized capital gains or (losses)	146,923
Net investment gain or (loss)	<u>\$311,289</u>

**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	272
Total other income	<u>\$272</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$613,245
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$613,245</u>
Federal & foreign income taxes	<u>105,279</u>
Net Income	\$507,966

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$7,166,901
--	-------------

**Gains and (Losses) in Surplus**

Net Income	\$507,966
Net unrealized capital gains or losses	0
Change in non-admitted assets	(7,142)
Change in net deferred income tax	(56,576)
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	2,671,843
Aggregate write-ins for gains and losses in surplus	(8,178)
Examination Adjustment	(832,000)
Change in surplus as regards policyholders for the year	<u>\$2,275,913</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$9,442,814</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses **\$1,749,320**

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, 2003, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

#### Unearned Premiums **\$0**

The amount reported by the Company of \$ (832,000), was decreased to zero. The Company wrote one workers' compensation policy to an affiliate, South East Personnel Leasing Inc. This policy expired on December 31, 2003; therefore, there was no unearned premium reserves for the Company at December 31, 2003. The premiums were fully earned at December 31, 2003.

**LION INSURANCE COMPANY, INC.**  
**Comparative Analysis of Changes in Surplus**  
**DECEMBER 31, 2003**

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, 2003, Annual Statement \$10,274,814

	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustments			
<b>LIABILITIES:</b>			
Unearned Premium	(\$832,000)	\$0	(\$832,000)
Net Change in Surplus:			<u>(832,000)</u>
Surplus as Regards Policyholders December 31, 2003, Per Examination			<u><u>\$9,442,814</u></u>

## **SUMMARY OF FINDINGS**

### **Reinsurance**

The Company did not report its retroactive reinsurance with Clarendon National Insurance Company in accordance with SSAP 62, paragraphs "a" through "k". **The Company is directed to account and report its retroactive reinsurance in accordance with SSAP 62, paragraphs a.-k. in all future annual and quarterly statement filings.**

### **Unearned Premiums**

The Company reported a negative balance of Unearned Premiums \$ (832,000) in the Annual Statement. The Company wrote one workers' compensation policy to an affiliate, South East Personnel Leasing Inc. This policy expired on December 31, 2003; therefore, there were no unearned premium reserves for the Company at December 31, 2003. **The Company is directed to properly report this in all future annual and quarterly statement filings.**

## 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, Inc.** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$9,442,814, which was in compliance with Section 624.408, FS.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor and Maurice Fuller, Financial Examiner/Analyst II, participated in the examination.

Respectfully submitted,

---

Samita Lamsal  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation