REPORT ON EXAMINATION

OF

LION INSURANCE COMPANY

HOLIDAY, FLORIDA

AS OF

DECEMBER 31, 2011

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

July 13, 2012

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, Rule 69O-138.005, Florida Administrative Code, 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, 2011, of the financial condition and corporate affairs of:

LION INSURANCE COMPANY
2739 US 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, 2007, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced with planning at the Office on July 18, 2011, to July 22, 2011. The fieldwork commenced on July 25, 2011. Due to the necessity of information regarding verification of certain accounts subsequent to year-end 2010, the Office rolled the examination forward from December 31, 2010 to December 31, 2011. Fieldwork for the roll-forward examination was completed on July 13, 2012.

This financial examination was a multi-state statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2011.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

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. **Resolution:** The Company filed the holding company registration statements timely during this examination period.

Reinsurance

The Company's letters of credit did not properly document the evergreen clause and also excluded a provision that Florida laws must govern the letters of credit. **Resolution:** The Company's current letters of credit contained the required clauses.

Custodial Agreement

The Company's custodial agreement with Wachovia Bank, N.A. did not contain all clauses required by Rule 69O-143.042(2), (d), (e), (i) and (n), Florida Administrative Code. **Resolution:** The Company's custodial agreement contained the required clauses.

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 and subsequently changed its name to Lion Insurance Company. Effective April 29, 2003, the Office approved the acquisition of 100% ownership in the Company by Jamestown Holdings Corporation, a privately held Florida corporation wholly owned by John A. Porreca, an individual.

The Company was authorized to transact worker's compensation coverage in Florida on April 29, 2003 and continues to be authorized as of December 31, 2011.

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

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder during the period of examination.

Capital Stock and Capital Contributions

As of December 31, 2011, 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, which in turn was 100% owned by John A. Porreca.

The parent contributed $14,000,000 in 2007. The Office issued Consent Order 11293-10 notifying the Company of its intent to issue an order for the Company to return excess profits earned on business written in 2006, 2007 and 2008 to the policyholders. The Company returned $2,461,990 in 2010, which was shown on the income statement as a dividend to policyholders. The same amount was subsequently returned to the Company as a surplus contribution in 2010.

Surplus Debentures

The Company did not have any surplus debentures during the period of this examination.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2011 were:

Directors

Name and Location	Principal Occupation
John Anthony Porreca Holiday, 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 & Grace, P.A.
Robert Brandeis Bennett Tampa, Florida	Director Attorney/Partner in Sponsler, Bennett, Jacobs & Adams, P.A.
Carol Ann Ostapchuk Tallahassee, Florida	Director President/Owner Carol A. Ostapchuk and Associates, Inc.
Stephen Lowell Rohde Boca Raton, Florida	Director Chief Financial Officer Peoples Trust Insurance

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

Senior Officers

Name	Title
John Anthony Porreca	President and Treasurer
Deborah A. Porreca	Secretary

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2011:

Audit Committee	**Investment Committee**
Stephen Lowell Rohde[1]	John Anthony Porreca[1]
Carol Ann Ostapchuk	Carol Ann Ostapchuk
Bruce Miller	Stephen Lowell Rohde

[1]Chairman

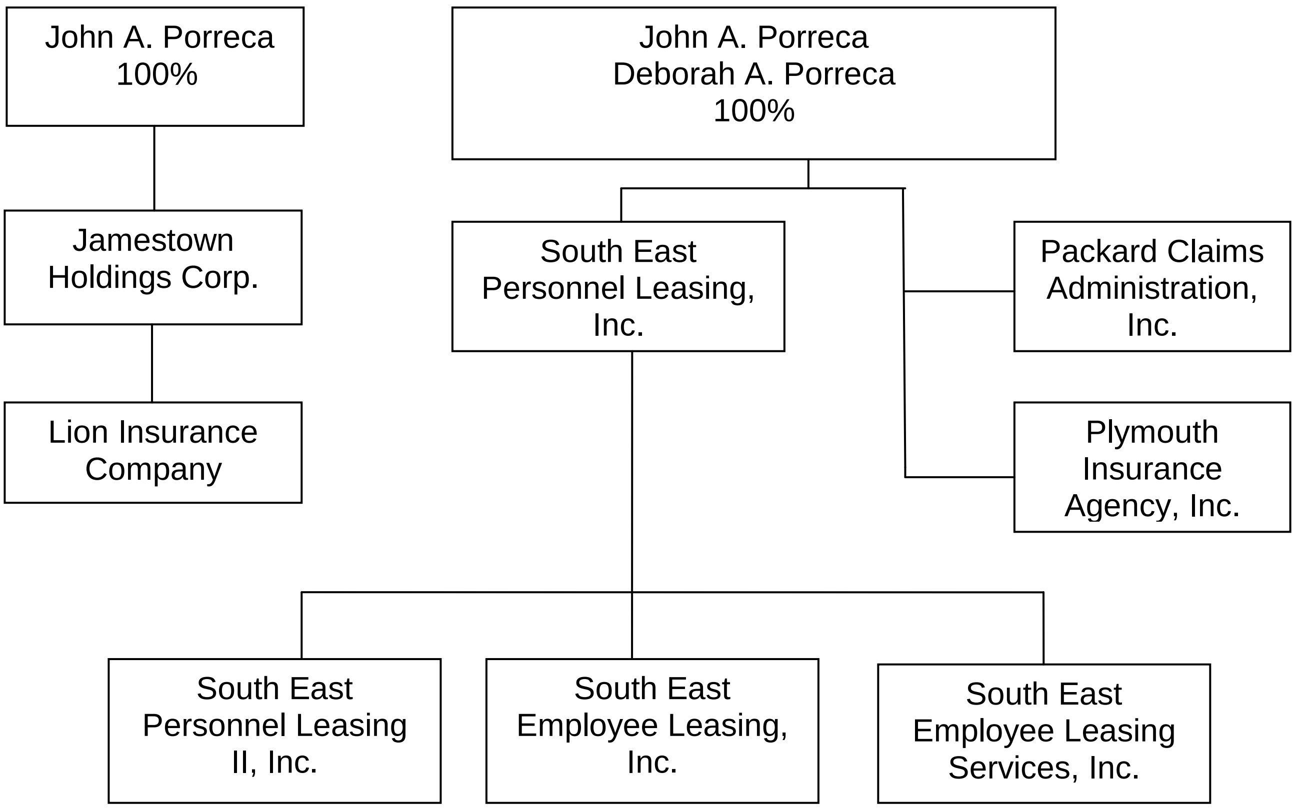
Affiliated Companies

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 March 1, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

The organizational chart as of December 31, 2011, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

LION INSURANCE COMPANY
ORGANIZATIONAL CHART

DECEMBER 31, 2011



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

Claims Services Agreement

The Company entered into a claims service agreement with Packard Claims Administration, Inc., (Packard) on January 1, 2006 appointing Packard as its claims adjuster to service the claims. The duties of Packard under the agreement included investigation, adjudication and settlement of reported claims. The Company paid Packard $1,944,035 in fees in 2011.

Expense Allocation Agreement

The Company entered into an expense allocation agreement with South East Personnel Leasing, Inc. (South East) effective January 1, 2004 for use of certain computer equipment and software as well as reimbursement of expenses paid. Additionally, the agreement included a provision for a portion of the investment income on the large deductible collateral fund held by the Company to be allocated to South East. The investment income allocated to South East was $3,391,633 for 2011.

Client Leasing Agreement

The Company entered into a Client Leasing Agreement with South East on April 30, 2003 whereby South East agreed to furnish employees to the Company. The Company paid $1,736,916 to South East under this agreement in 2011.

Workers' Compensation Coverage

The Company provides workers' compensation insurance coverage to South East Personnel Leasing, Inc. and its subsidiaries. The amount of premiums paid to the Company by this Affiliate under this policy was $7,692,105 for 2011. South East Personnel Leasing, Inc. paid the additional audit premium of $493,224 in 2012.

Brokering Agent Agreements

The Company maintained brokering agent agreements with varying effective dates with their affiliate Plymouth Insurance Agency as well as with other non-affiliated entities appointing them as non-exclusive brokering agents for the Company. The agents did not have authority to bind coverage nor broker any business or share commission with another broker.

FIDELITY BOND

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

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company maintained no pension, stock ownership or insurance plans during the period of this examination.

TERRITORY AND PLAN OF OPERATIONS

In 2011 the Company was authorized to transact insurance in the following states or districts:

Arizona	Colorado	District of Columbia
Florida	Georgia	Louisiana
Maryland	Mississippi	Nevada
New Jersey	North Carolina	Oklahoma
Pennsylvania	South Carolina	Tennessee
Texas		

In 2011 the Company wrote premiums in Arizona Florida, Georgia, Louisiana, Mississippi, Nevada, South Carolina and Texas.

Treatment of Policyholders

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

During the period of examination, the Company started writing individual polices directly with employers. This strategy resulted in higher loss ratios due to their having less control than is afforded through the PEO (Professional Employer Organization) channel. In 2012, the Company began moving away from writing individual employer policies and re-focusing on the PEO channels, which offers more consistent underwriting control and loss management.

The Company's growth strategy involved pursuing admission in states where South East Personnel Leasing, Inc. intends to do business.

Large Deductible Policies

The Company wrote large deductible policies through South East Personnel Leasing, Inc. non-affiliated PEOs and to individual employers. Deductible collateral is held in cash with a corresponding liability in the Large Deductible Collateral Fund. The first dollar loss for claims is paid by Packard Claims Administration, Inc., their affiliated third party administrator, in accordance with Rule 69O-189.006, Florida Administrative Code. The Company settles with Packard on a monthly basis through a claims escrow account. The large deductible collateral account was sufficiently funded. In 2010 and again in 2011, the Company refunded $50,000,000 and $22,000,000 respectively from the collateral account to South East Personnel Leasing, Inc. As of December 31, 2011, the collateral account balance was $124,995,741. The Company prepared and filed the required statistical reporting in accordance with Rule 69O-137.002 Florida Administrative Code.

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.

	2011	2010	2009	2008	2007
Premiums Earned	21,569,685	13,832,995	7,638,094	9,194,325	12,932,162
Net Underwriting Gain/(Loss)	1,518,481	1,934,274	759,049	753,328	2,477,046
Net Income	2,421,796	978,242	2,278,684	2,682,672	3,692,578
Total Assets	229,446,647	260,329,262	322,043,288	390,780,910	452,278,473
Total Liabilities	164,824,701	198,299,068	263,334,327	334,350,633	398,667,369
Surplus As Regards Policyholders	64,621,946	62,030,194	58,708,961	56,430,277	53,611,104

LOSS EXPERIENCE

During the current examination period, the Company showed favorable development overall. The one and two year net loss development at the end of 2011 was both favorable at $ 1.4 million and $3.2 million, respectively.

REINSURANCE

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

Assumed

In 2011, the Company began assuming business through a quota-share arrangement with Tower Insurance Company of New York (Tower). Tower is the pool manager for Tower National Insurance Company (Tower National) and CastlePoint National Insurance Company (CastlePoint). The pool consists of direct business from CastlePoint and Tower National as well as business that Tower National assumes from Massachusetts Homeland Insurance Company.

Under the terms of this 100% quota share agreement, the Company assumed all policies classified as workers' compensation and employers liability business covering South East Personnel Leasing that were underwritten on behalf of Tower by Risk Transfer, LLC, serving as managing general agent, to Tower.

This strategy allowed South East Personnel Leasing to serve states where the Company did not yet hold a certificate of authority (COA), through use of the Tower companies' COA. In 2011, assumed premium was $ 3,873,001 and assumed losses were $3,300,000.

Ceded

The Company ceded risk on an excess of loss per-occurrence basis to various authorized and unauthorized insurers. Under terms of the agreements, the Company retained the first $1 million of each loss occurrence and ceded up to $4 million, per occurrence, with a $16 million annual aggregate for the first layer. The second layer covered an additional $5 million, per occurrence, with a $10 million annual aggregate. The contract also included a provision where the Company could cancel the coverage with a pro rata return of premium. In addition the Company maintained a separate catastrophe reinsurance treaty that provided an additional layer of $10,000,000 with the retention of the $10,000,000 ceded reinsurance.

The Company maintained approved evergreen letters of credit for all unauthorized insurers.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Holiday, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 2008, 2009, 2010 and 2011, 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 computerized systems hosted and maintained by affiliated companies.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U. S. Bank, N. A. executed on December 14, 2007. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Asset Management Agreement

The Company had an Asset management Agreement with Conning Asset Management Company (Conning) dated June 14, 2004. The agreement appointed Conning as the Company's investment manager to invest and reinvest the assets of the investment account and to perform investment advisory and portfolio management services. The Company paid Conning an annual fee based on the total size of the portfolio. The term of the agreement was indefinite or until one party decides to terminate with proper notice.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

The Office performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	Cash	$1,500,000	$1,500,000
TOTAL FLORIDA DEPOSITS		$1,500,000	$1,500,000
GA	Cash	$ 75,000	$ 75,000
CA	Bond	100,000	116,641
AZ	Cash	100,000	100,000
NV	Bond	300,000	349,923
NC	Bond	200,000	233,282
US Dept of Labor	US Treasury	500,000	522,635
TOTAL OTHER DEPOSITS		$ 1,275,000	$ 1,397,481
TOTAL SPECIAL DEPOSITS		$2,775,000	$ 2,897,481

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	$127,043,177		$127,043,177
Common Stocks	1,092,714		1,092,714
Cash and Short-Term Investments	90,998,274		90,998,274
Investment income due and accrued	660,890		660,890
Premiums and considerations:			
Uncollected premium	1,903,852		1,903,852
Deferred premium	3,219,916		3,219,916
Current federal income tax recoverable	333,134		333,134
Receivable from parents, subsidiaries and affiliates	208,783		208,783
Aggregate write-in for other than invested assets	3,985,906		3,985,906
Totals	$229,446,647	$0	$229,446,647

LION INSURANCE COMPANY
Liabilities, Surplus and Other Funds
DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	$24,714,033		$24,714,033
Loss adjustment expenses	6,786,872		6,786,872
Commissions payable	558,905		558,905
Other expenses	86,351		86,351
Taxes, licenses and fees	1,280,517		1,280,517
Unearned premium	4,705,132		4,705,132
Ceded reinsurance premiums payable	192,364		192,364
Aggregate write-ins for liabilities	126,500,527		126,500,527
Total Liabilities	$164,824,701	$0	$164,824,701
Common capital stock	$1,600,000		$1,600,000
Gross paid in and contributed surplus	47,461,990		47,461,990
Unassigned funds (surplus)	15,559,956		15,559,956
Surplus as regards policyholders	$64,621,946	$0	$64,621,946
Total liabilities, surplus and other funds	$229,446,647	$0	$229,446,647

LION INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2011

Underwriting Income	
Premiums earned	$21,569,685
Deductions:	
Losses incurred	$8,512,681
Loss expenses incurred	5,478,840
Other underwriting expenses incurred	6,059,684
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$20,051,205
Net underwriting gain or (loss)	$1,518,480
Investment Income	
Net investment income earned	$1,928,080
Net realized capital gains or (losses)	18,867
Net investment gain or (loss)	$1,946,947
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	$3,465,428
Dividends to policyholders (Excess Profits returned to Policyholder)	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	$3,465,428
Federal & foreign income taxes	1,043,632
Net Income	$2,421,796
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$62,030,194
Net Income	$2,421,796
Net unrealized capital gains or losses	0
Change in non-admitted assets	(44,024)
Change in provision for reinsurance	119,000
Change in unrealized capital gains	94,979
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in (Excess Profits offset)	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	$2,591,752
Surplus as regards policyholders, December 31 current year	$64,621,946

A comparative analysis of changes in surplus is shown below.

LION INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

The following is a reconciliation of Surplus as regards policyholders between that reporte
the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2011, per Annual Statement				$64,621,946
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS: No Adjustment				
LIABILITIES: No Adjustment				
Net Change in Surplus:				0
Surplus as Regards Policyholders December 31, 2011, Per Examination				$64,621,946

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses $31,500,905

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, 2011, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Dennis R. Henry, FCAS, MAAA of The Actuarial Advantage, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Company of $64,621,946, exceeded the minimum of $16,289,893 required by Section 624.408, Florida Statutes.

CONCLUSION

The 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, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was $64,621,946, which exceeded the minimum of $16,289,893 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Tracy D. Gates, CISA, CPA (North Carolina), Examiner-In-Charge, Travis Harrison, CPA (Michigan), Reinsurance/Financial Specialist, both of Highland Clark, Dennis R. Henry, FCAS, MAAA examination actuary of The Actuarial Advantage, Inc., and Kethessa Carpenter, Financial Examiner/Analyst Supervisor and Kyra Brown, APIR, Financial Specialist both of the Office also participated on the examination.

Respectfully submitted,

____
Mary James, CFE, CPM
Financial Examiner
Florida Office of Insurance Regulation