

**REPORT ON EXAMINATION**  
**OF THE**  
**LYNDON SOUTHERN INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2012**

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 OF EXAMINATION, made as of December 31, 2012 of the

**LYNDON SOUTHERN INSURANCE COMPANY**

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

Attest By: *Brant Biddle*

Date: May 7, 2014



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 7<sup>th</sup> day of May, 2014.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION  
OF THE  
LYNDON SOUTHERN INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2012

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".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 7<sup>th</sup> day of May, 2014

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## **SALUTATION**

April 01, 2014

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.039, dated September 13, 2013, a risk focused examination has been made of the affairs, financial condition and management of the

### **LYNDON SOUTHERN INSURANCE COMPANY**

hereinafter referred to as “the Company” and incorporated under the laws of the State of Delaware. The Company’s registered office in the State of Delaware is located at 1807 North Market Street, Wilmington, Delaware.

The report of examination thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The Delaware Department of Insurance performed a full scope coordinated multi-state risk focused examination of the Company. The Georgia and Kentucky Departments of Insurance participated in this coordinated examination. Georgia was the lead state. The two Georgia domiciled insurance companies: Insurance Company of the South and Life of the South Insurance Company and the Kentucky Company: Southern Financial Life Insurance Company, were examined concurrently with the Company.

The last examination was completed as of December 31, 2009. This examination covered the period of January 1, 2010, through December 31, 2012, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination 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. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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. The examination report addresses regulatory issues reviewed during the examination process.

In accordance with these coordinated exam efforts, the examiners relied on the Georgia Department of Insurance IT examiner's review of the Evaluation of Controls in Information Technology (Exhibit C). The review included tests of the operating effectiveness of specific policies and procedures relating to the Company's controls over information systems and its control environment.

During the examination, consideration was given to work performed by the Company's external accounting firm, Johnson Lambert LLP (CPA), Jacksonville, FL. Certain auditor work papers of their 2012 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. In addition, the Company was Sarbanes Oxley (SOX) Section 404 compliant as of the examination date and we reviewed and relied on that work where deemed necessary.

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 Records
- Fidelity Bonds and Other Insurance
- Risk Based Capital
- Employees and Agents Welfare
- Statutory Deposits
- Legal Actions
- Pensions, Stock Ownership and Insurance Plans
- All Assets and Liability Items Not Mentioned

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulation or rules, or which were deemed to require special explanation or description.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, adjustments to the financial statements, or specific recommendations as a result of this examination.

### **SUBSEQUENT EVENTS**

On March 29, 2013, the Audit Committee of the Board of Directors (Audit Committee) of Fortegra Financial Corporation (Fortegra) determined that it would initiate a competitive process to select a firm to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013. On April 3, 2013, Johnson Lambert notified the Company that it would not stand for re-appointment as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013, but would continue to serve as the Company's independent registered public accounting firm until the earlier of (i) the completion of Johnson Lambert's review of the Company's consolidated financial statements for the three-months ending June 30, 2013 or (ii) the engagement by Fortegra of a new independent registered public accounting firm. On April 19, 2013, Fortegra engaged McGladrey LLP, effective as of such date, as its new independent registered public accounting firm for the fiscal year ending December 31, 2013, and effective therewith, Johnson Lambert ceased to serve as the Company's independent registered public accounting firm.

On December 31, 2013, the Company increased its outstanding surplus note to Fortegra by \$6,800,000. This note shall bear interest of 6.00% for a period of 30 years. This surplus note is the surplus note referred to herein, is entitled to the benefits of and is governed by the Loan Agreement dated as of July 1, 2007 between the Company and Fortegra. For further details see the Surplus Note section below.

## **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 company. 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.

### **Common Capital Stock**

As of December 31, 2012, the Company had 3,000,000 shares of \$1.00 par value common stock authorized, issued and outstanding.

### **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 \$3,500,000 and are 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% for a period of 30 years. After receiving approval from the Delaware 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 %. On December 31, 2012, the Company issued another surplus note to Fortegra for \$1,488,200, with an interest rate of 6 %. As of December 31, 2012, the principal

balance on the surplus notes was \$3,488,200. The aforementioned surplus notes were approved by the Delaware Insurance Department.

**Promissory Note**

On December 5, 2012, the Company entered into a loan agreement with Fortegra Financial Corporation. The Company agreed to lend an aggregate principal amount of \$3,300,000. The term of the note is 10 years with an interest rate of 6.25%. While the agreement has been signed and approved by the Delaware Department on April 17, 2013, no money has been transferred.

**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, its Board of Directors shall manage the property and business of the Company. 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 have been designated.

**Board of Directors**

The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2012 was:

Richard Stephen Kahlbaugh	Chairman
William Dale Bullard	President
Michael Vrban	Treasurer
Joseph Roy McCaw II	Chief Executive Officer

## **Officers**

The bylaws of the Company state that officers shall be elected or appointed by the Board. As of December 31, 2012, the Company's principal officers and their respective titles are as follows:

Joseph Roy McCaw II	Chief Executive Officer
William Dale Bullard	President
Christopher David Romaine	Secretary
Michael Vrban	Treasurer

## **Committees**

The Company's bylaws provide that the Board may establish one or more committees. There are no committees at the Company level. Corporate governance is administered at the ultimate controlling party level by Fortegra Financial Corporation (Fortegra). Fortegra's audit committee is designated as the Company's audit committee.

## **Conflict of Interest**

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer or employee, which is likely to conflict with their official duties. The signed conflict of interest disclosure statement for each director and officer serving during 2012 was reviewed with no exceptions noted.

## **Insurance Holding Company System**

The Company is a member of an insurance holding company system as defined under 18 Del. C. ch. 50, "Insurance Holding Companies" of the Delaware Insurance Code. Holding company registration statements were properly filed by the Company with the Delaware Insurance Department.

The parent of the Company is LOTS Intermediate Company, which is 100% owned by Fortegra, a Delaware based corporation. Summitt Partners Private Equity Fund, L.P owned 63%

of Fortegra and is the ultimate controlling entity. The following abbreviated organizational chart depicts the Company's relationship within the holding company system at December 31, 2012:

	<u>Domiciliary State/Country</u>
Summit Partner Private Equity Funds VII-A & VII-B, L.P. (A)	Delaware
Fortegra Financial Corporation (B)	Delaware
LOTS Intermediate Company	Delaware
<b>Lyndon Southern Insurance Company</b>	<b>Delaware</b>
Life of the South Insurance Company	Georgia
Bankers Life of Louisiana	Louisiana
Insurance Company of the South (C)	Georgia
Southern Financial Life Insurance Company (D)	Kentucky
Magna Insurance Company	Mississippi
CRC Reassurance Company, Ltd.	Turks & Caicos
LOTS Reassurance Company	Turks & Caicos
South Bay Acceptance Corporation	California
Bliss & Glennon, Inc.	California
Pacific Benefits Group Northwest, LLC	Oregon
ProtectCell Holding Company, LLC	Delaware
ProtectCell Marketing, LLC	Delaware
ProtectCell Insurance Agency, LLC	Delaware
ProtectCell Graphics, LLC	Delaware
Mobile Reboot, LLC	Delaware
LOTS Solutions, Inc.	Georgia
Fortegra Foundation	Delaware
Digital Leash, LLC (E)	Florida
eReinsurance Limited	United Kingdom
The Service Doc, Inc.	Florida
Auto Knight Motor Club, Inc.	California
Continental Car Club, Inc.	Tennessee
United Motor Club of America, Inc.	Kentucky
eReinsure.com, Inc.	Delaware
4warranty Corporation	Florida

(A) Owns 63% of Fortegra Financial Corporation

(B) Fortegra Financial Corporation is publicly traded under the ticker symbol "FRF"

(C) 70% owned by LOTS Intermediate Company and 30% owned by Life of the South Insurance Company

(D) 85% owned by LOTS Intermediate Company

(E) 62.4% owned by LOTS Intermediate Company

## **Intercompany Management and Service Agreements**

The Company was party to the following affiliated agreements in effect as of December 31, 2012.

### **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 within 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 with 30 days

### **Tax Sharing Agreement**

The Company along with 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 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, 2012.

### **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 manger 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**

Fortegra along with its subsidiary, Lyndon Southern 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. This agreement was terminated effective September 22, 2010.

The Company named Atlantic Intermediaries as its Broker of Record effective September 22, 2010, for its property catastrophe excess of loss reinsurance, as well as, the property excess per risk reinsurance.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

As of December 31, 2012, the Company was licensed in 44 states and the District of Columbia. Approximately 66% of the Company's direct premium was written in the states of Louisiana, South Carolina, Florida, Kentucky and Tennessee.

### **Plan of Operation**

The company's product lines include collateral protection on real estate and automobiles, credit property primarily on consumer goods, non-file warranty and involuntary unemployment insurance. Insurance products are distributed through a captive sales force and general agents. The majority of the premium generation is developed through networks of small loan companies and small regional banks.

### **A.M. Best Rating**

Based on A.M. Best opinion of the Company's financial strength, it was assigned a Best rating of B++ (Good) for the year ended 2012.

## **GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the three proceeding years since its last examination (2009):

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Surplus</u>	<u>Net Written Premiums</u>	<u>Net Income</u>
2009	\$29,229,189	\$15,616,123	\$4,113,066	\$20,147,283	\$1,310,732
2010	\$44,654,493	\$29,334,377	\$5,820,116	\$23,502,329	\$1,369,666
2011	\$37,902,773	\$19,751,787	\$8,650,986	\$28,262,950	\$2,446,683
2012	\$49,613,081	\$29,212,494	\$9,412,388	\$43,425,743	\$271,143

Since December 31, 2009, growth of the Company has taken the form of the following:

- Approximately 70% increase in admitted assets
- Approximately 87% increase in liabilities
- Approximately 129% increase in unassigned surplus

- Approximately 116% increase in net written premiums
- Approximately 79% decrease in net income

### **REINSURANCE**

The Company reported \$144,553,548 in direct written premiums during 2012 and ceded \$101,127, 804 of those premiums to non-affiliated reinsurers.

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 excluding debt cancellation, contractual liability policies and warranty lines 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.

The Company also 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 \$300,000 up to \$1,700,000, with an aggregate limit of \$3,400,000. This agreement has been in place since January 1, 2006, and is renewed annually. Property catastrophe reinsurance is also in place, which provides \$1,500,000 excess of a \$3,250,000 Company retention. This coverage has an aggregate limit of \$3,000,000 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., which assumes property business produced and administered by LOTSolutions..

The Company has a 100% Quota Share treaty in place with Spartan Property Insurance Company, a captive insurer wholly owned by the Company's producer client Security Finance. The treaty covers credit property business written by written and produced by Security Finance.

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 reinsurance companies (PORCs). Under these agreements, 100% collateral is required to protect against reserve deterioration.

### **ACCOUNTS AND RECORDS**

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, management and compliance. The Company operates in a computer-dominated environment. The general ledger account balances were reconciled and traced to amounts reported in the Annual Statement for the most recent year under review. All balance sheet accounts were summarized and traced to the appropriate asset exhibits and liability lines within the Annual Statement. All services and operational needs of the Company are provided under a service agreement with its affiliate, LOTSolutions.

The independent certified public accounting firm, Johnson Lambert & Company LLP, audited the Company's records for the years ended 2010, 2011, and 2012. Audit reports and applicable work papers were made available for the examiner's use.

Based on the examination review of the Company's accounts and records related to its filed 2012 Annual Statement, observations, discussions with management, and our review of financial reporting processes and controls, the Company's accounting systems, processes and procedures were found to conform to required insurance accounting practices.

**FINANCIAL STATEMENTS**

The financial condition of the Company and the results of its operations for the-year ended December 31, 2012 are reflected in the following statements:

Statement of Assets;  
Statement of Liabilities, Surplus and Other Funds;  
Statement of Income;  
Reconciliation of Capital and Surplus

**Lyndon Southern Insurance Company**  
**Statement of Assets**  
**For The Year Ended December 31, 2012**

		<u>Note</u>
Bonds	\$29,505,122	1
Cash and short term investments	<u>6,945,312</u>	
Subtotals	<u>36,450,434</u>	
Investment income due and accrued	314,990	
Uncollected premiums	2,524,672	
Other amounts receivable under reinsurance contracts	5,308,807	
Net deferred tax asset	1,676,746	
Guaranty funds receivable or on deposit	209	
Receivables from parent, subsidiaries and affiliates	<u>3,337,223</u>	
Total Assets	<u><u>\$49,613,081</u></u>	

**Lyndon Southern Insurance Company  
Statement of Liabilities, Surplus and Other Funds  
For The Year Ended December 31, 2012**

		<u>Note</u>
Losses	\$ 3,176,307	2
Loss adjustment expenses	149,655	2
Other expenses	55,440	
Taxes, licenses and fees	1,902,062	
Current federal income tax	352,489	
Unearned premiums	22,913,399	3
Ceded reinsurance premiums payable	655,953	
Aggregate write-ins for liabilities	<u>7,189</u>	
Total Liabilities	\$ 29,212,494	
Common capital stock	\$ 3,000,000	
Surplus notes	3,488,200	
Gross paid in and contributed surplus	4,500,000	
Unassigned funds (surplus)	<u>9,412,388</u>	
Surplus as Regards Policyholders	<u>\$ 20,400,588</u>	
Total Liabilities, Surplus & Other Funds	<u>\$ 49,613,082</u>	

**Lyndon Southern Insurance Company**  
**Statement of Income**  
**For The Year Ended December 31, 2012**

Underwriting Income	
Premiums earned	<u>\$ 36,231,850</u>
Deductions	
Losses incurred	12,596,250
Loss adjustment expenses incurred	766,579
Other underwriting expenses incurred	<u>22,286,122</u>
Total underwriting deductions	<u>\$ 35,648,951</u>
Net underwriting (loss)	<u>\$ 582,899</u>
Investment Income	
Net investment income earned	431,253
Net realized capital gains	<u>2,698</u>
Net investment gain	<u>\$ 433,951</u>
Other Income	
Other income	<u>0</u>
Total other income	<u>0</u>
Net income before federal income taxes	<u>1,016,850</u>
Federal income taxes incurred	<u>745,707</u>
Net Income	<u><u>\$ 271,143</u></u>

**Reconciliation of Capital and Surplus**

	Common Capital Stock	Paid In & Contributed Surplus	Unassigned Funds (Surplus)	Surplus Note	Total
December 31, 2009	\$3,000,000	\$4,500,000	\$4,113,066	\$2,000,000	\$13,613,066
2010					
Operations (1)			\$1,707,050		1,707,050
2011					
Operations (1)			\$2,830,870		2,830,870
2012					
Operations (1)			\$761,402		761,402
Surplus Note (2)				\$1,488,200	1,488,200
Total	<u>\$3,000,000</u>	<u>\$4,500,000</u>	<u>\$9,412,388</u>	<u>\$3,488,200</u>	<u>\$20,400,588</u>

(1) Operations is defined as: net income, change in net unrealized capital gains or (losses), change in net unrealized foreign exchange capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance and aggregate write-ins for gains and losses in surplus.

(2) The Company issued an additional surplus note on December 31, 2012 to its parent, Fortegra, for \$1,488,200. The note was approved by the Delaware Department.

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

No examination changes were made as a result of this examination.

**NOTES TO FINANCIAL STATEMENTS****Note 1 - Bonds****\$29,505,122**

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Company's bond holdings comprised approximately 80.95% of total invested assets and approximately 59.5% of total admitted assets.

Security composition for the year ending 2012 was comprised of the following:

	<u>Amount</u>	<u>Percent</u>
U.S. Governments	\$100,013	0%
U.S. States, Territories and Possessions	4,061,932	14%
U.S. Special Revenue	10,466,040	35%
Industrial & Miscellaneous – U.S.	12,974,165	44%
Industrial & Miscellaneous – Canada	474,869	2%
Industrial & Miscellaneous – Other Countries	<u>1,428,103</u>	<u>5%</u>
Total	<u>\$29,505,117</u>	<u>100.00%</u>

**Note 2 - Losses**

**\$3,176,307**

**Note 2 - Loss Adjustment Expenses**

**\$149,655**

The above-captioned amounts, which are the same as those reported by the Company in its Annual Statement, have been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants (INS), to perform actuarial services in conjunction with the financial examination of the Company as of December 31, 2012. The examination was performed using a risk-focused approach according to the guidelines contained in the NAIC *Financial Examiner's Handbook*. As a result of the risk assessment, INS determined that substantive testing would be performed on the loss and loss adjustment expense reserves and on the unearned premium reserves for long duration contracts.

The actuarial review did not address the collectability of reinsurance recoverable. Should any of the Company's reinsurers fail to fulfill obligations as stated in their contracts, a contingent liability would need to be established by the Company.

The conclusions set forth in the INS report are based on information provided by the Company, including the 2012 Annual Statements and the related 2012 Statement of Actuarial Opinion with underlying actuarial work papers.

Based on work performed, INS concluded the Company's carried net reserves at December 31, 2012, were reasonably stated, and as such, no financial adjustment was required for examination purposes.

**Note 3 – Unearned Premiums**

**\$22,913,399**

The above-captioned amount, which is the same as reported by the Company in its Annual Statement, has been accepted for purposes of this report.

As noted in Note 2 above, the Delaware Department of Insurance retained the services of INS, to perform actuarial services in conjunction with the financial examination of the Company as of December 31, 2012. That review included the review of the Company's unearned premium liability for long duration contracts. INS found that the Company's carried December 31, 2012 gross and net unearned premium reserves for long duration contracts were reasonably stated.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The prior examination report as of December 31, 2009 disclosed no recommendations.

**SUMMARY OF RECOMMENDATIONS**

There are no proposed financial adjustments to the Company's filed 2012 Annual Statement based on the results of this examination.

**CONCLUSION**

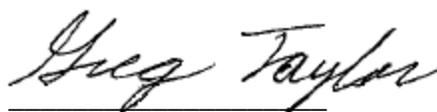
The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Lyndon Southern Insurance Company

<u>Description</u>	<u>December 31, 2009</u>	<u>December 31, 2012</u>	Increase (Decrease)
Assets	\$29,229,189	\$49,613,081	\$20,383,892
Liabilities	\$15,616,123	\$29,212,494	\$13,596,371
Aggregate Write-ins for Special Surplus	-	-	
Common Capital Stock	3,000,000	3,000,000	-
Surplus notes	2,000,000	3,488,200	1,488,200
Gross Paid In and Contributed Surplus	4,500,000	4,500,000	-
Unassigned Funds (Surplus)	4,113,066	9,412,388	5,299,322
Total Surplus as Regards Policyholders	\$13,613,066	\$20,400,588	\$6,787,522
Totals	\$29,229,189	\$49,613,082	\$20,383,893

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



Greg Taylor, CFE  
 Examiner-In-Charge  
 State of Delaware