

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Patrick J. Kilkenny in : Companies Act, Article XIV of the
Support of the Request for Approval to : Insurance Company Law of 1921, Act
Acquire Control of Aegis Security : of May 17, 1921, P. L. 682, as
Insurance Company and American : amended, 40 P.S. §§991.1401,
Sentinel Insurance Company : 991.1402 and 991.1403
: :
: Order No. ID-RC-16-10

DECISION AND ORDER

AND NOW, on this 15th day of August, 2016, Teresa D. Miller, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. American Sentinel Insurance Company (“American Sentinel”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Harrisburg, Pennsylvania.
2. Aegis Security Insurance Company (“Aegis Security”) is a stock property insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Harrisburg, Pennsylvania. American Sentinel is a direct wholly-owned subsidiary of Aegis Security.
3. American Sentinel and Aegis Security are collectively hereinafter referenced as the “PA Domestic Insurers.”

4. Aegis Security, Inc. (“ASI”) is a holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Harrisburg, Pennsylvania. Aegis Security is a direct wholly-owned subsidiary of ASI.
5. K2 Insurance Services, LLC (“K2”) is a limited liability company organized under the laws of the State of Delaware with its principal place of business in San Diego, California. ASI is a direct wholly-owned subsidiary of K2.
6. Patrick Kilkenny (“Kilkenny”) is an individual with is principal place of business located in Del Mar, California. Kilkenny currently directly owns 9.6% of the voting securities of K2.
7. Endeavour Capital Fund V, LP (“Endeavour LP”) is a limited partnership organized under the laws of Delaware with its principal place of business in Los Angeles, California. Endeavour LP currently directly owns 73.91% of the voting securities of K2.
8. Endeavour Capital V, LLC (“Endeavour LLC”) is a limited liability company organized under the laws of Delaware with its principal place of business in Los Angeles, California. Endeavour LLC is the sole general partner of Endeavour LP.
9. Endeavour LLC is the current sole ultimate controlling person of the PA Domestic Insurers.

Acquisition Filing

10. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1922, P.L. 682, as amended, 40 P.S. §§991.1401- 991.1413 (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
11. On April 5, 2016, the Pennsylvania Insurance Department (“Department”) received an initial request (which together with all material received subsequently is collectively referenced as “Application”) from Kilkenny for approval to acquire control of the PA Domestic Insurers.
12. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

13. On April 27, 2016, the Department published notice in the *Pennsylvania Bulletin* that the Application was received and such notice invited interested persons to submit comments to the Department regarding the Application for 30 days following the date

of the publication (“Comment Period”).

14. The Department received no comments regarding the Application during the Comment Period.

Description of Proposed Acquisition

15. As described in the Application, K2 and certain current investors of K2 will execute a Repurchase Agreement in which K2 will repurchase both voting and non-voting securities from those certain investors.
16. As described in the Application, K2, Kilkenny and certain investors not involved in the repurchase identified above will execute a Securities Purchase Agreement in which Kilkenny along with the other investors will purchase the securities repurchased by K2 as described in the finding of fact immediately above.
17. As described in the Application, execution and consummation of the Repurchase Agreement is to occur concurrent with the execution and consummation of the Securities Purchase Agreement.
18. As described in the Application, Kilkenny intends to purchase an additional approximate 4% voting securities interest of K2 through his execution of the Securities Purchase Agreement (“the Acquisition”).
19. As described in the Application, Kilkenny would become an ultimate controlling person of the PA Domestic Insurers as a result of the Acquisition.

Standards for Review

20. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.
21. An application for a change in control must be approved unless the Department finds any one of certain enumerated conditions to be present.

Licensing Requirements

22. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
23. Specifically, the Department reviews whether the domestic insurer would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed after the acquisition.

24. The lines of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
25. The minimum paid up capital stock and paid in surplus required of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
26. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Aegis Security is required to maintain a minimum paid up capital stock of \$1,500,000 and a minimum paid in surplus of \$750,000 to write the lines of insurance for which it is presently licensed.
27. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), American Sentinel is required to maintain a minimum paid up capital stock of \$2,250,000 and a minimum paid in surplus of \$1,125,000 to write the lines of insurance for which it is presently licensed.
28. As of March 31, 2016, the PA Domestic Insurers maintained the statutory minimum paid up capital stock and paid in surplus to satisfy the requirements to write the lines of insurance for which each is presently licensed.
29. Upon completion of the transaction, the PA Domestic Insurers will have the statutory minimum paid up capital stock and paid in surplus to satisfy the requirements to write the lines of insurance for which each is presently licensed.

Competitive Impact

30. The acquisition of control of a Pennsylvania domiciled insurer is subject to review and analysis under Section 1402(f)(1)(ii) of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control of the PA Domestic Insurers would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein.
31. The acquisition of control of the PA Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because Kilkenny does not control any other insurance interests in the Commonwealth.

Financial Condition of Applicants

32. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of

the acquiring person(s).

33. The Department has reviewed the personal financial statements submitted by Kilkenny as of December 31, 2010 through December 31, 2014.
34. The financial condition of Kilkenny will not pose any impediments to the change in control nor jeopardize the financial condition of the PA Domestic Insurers.

Plans for the Acquired Insurers

35. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.
36. In particular, the Department reviewed the plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, to determine whether it is:
 - a) Unfair or unreasonable;
 - b) Fails to confer a benefit upon policyholders; or
 - c) Not in the public interest.
37. As stated in the Application, Kilkenny has no future plans to cause the PA Domestic Insurers to:
 - a) declare an extraordinary dividend or make other distributions,
 - b) liquidate the insurers,
 - c) sell the insurers' assets,
 - d) merge or consolidate the insurers with any person,
 - e) make any other material change in the insurers' business operations or corporate structure or management; or
 - f) cause the insurers to enter into material contracts.
38. As stated in the Application, it is Kilkenny's intent that the insurers continue to conduct day-to-day operations with the current staff. There is no present plans to alter, change

or modify the current business plan of the insurers.

39. There is no basis in the record from which it may be concluded the proposed transaction is unfair or unreasonable or fails to confer a benefit upon policyholders or is not in the public interest.

Management

40. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurer.
41. A biographical affidavit for Kilkenny was reviewed by the Department.
42. The Department is satisfied that the persons who would control the operations of the PA Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Hazardous or Prejudicial to Insurance Buying Public

43. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department evaluates whether the merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public.
44. There is insufficient evidence in the record from which it may be concluded that the acquisition will likely be hazardous or prejudicial to the insurance buying public.

Compliance with the Pennsylvania Laws

45. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the transaction to determine whether the merger, consolidation or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A.
46. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.
47. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the change in control of the PA Domestic Insurers.
2. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to write the line or lines of business for which it is presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and fail to confer a benefit on policyholders and are not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of the PA Domestic Insurers.
4. If any of the Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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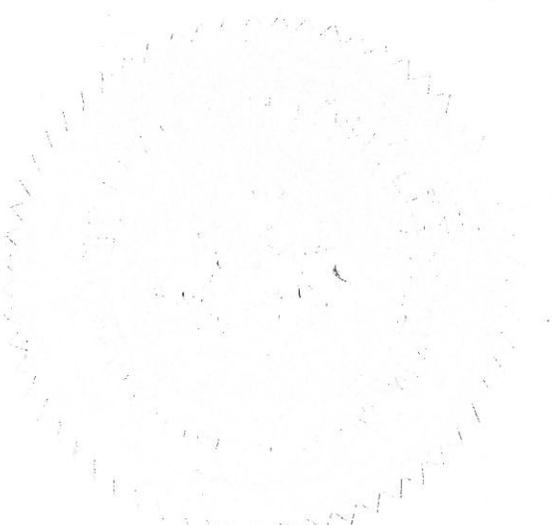
ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner") hereby makes the following Order:

The application of Patrick J. Kilkeny ("Kilkenny") in support of the request for approval to acquire control of Aegis Security Insurance Company ("Aegis Security") and American Sentinel Insurance Company ("American Sentinel") as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. Kilkenny shall provide to the Department a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation. This one year limitation does not apply to any conditions prescribed by the Department in the Order.



Teresa D. Miller

Teresa D. Miller
Insurance Commissioner
Commonwealth of Pennsylvania