

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Endeavour Capital V, : Companies Act, Article XIV of the
LLC and Patrick J. Kilkenny in Support : Insurance Company Law of 1921, Act
of the Request for Approval to Acquire : of May 17, 1921, P. L. 682, as
Control of Aegis Security Insurance : amended, 40 P.S. §§991.1401,
Company and American Sentinel : 991.1402 and 991.1403
Insurance Company :
: Order No. ID-RC-12-20

DECISION AND ORDER

AND NOW, on this 28th day of December, 2012, Michael F. Consedine, 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. Lakeside Insurance Company (“Lakeside”) is a foreign captive insurance company organized under the laws of Nevada with its principal place of business in Carson City, Nevada.
2. American Sentinel Insurance Company (“American”) is a domestic stock casualty insurance company organized under the laws of Pennsylvania with its principal place of business in Harrisburg, Pennsylvania
3. Aegis Security Insurance Company (“Aegis IC” and together with American “The Domestic Insurers”) is a domestic stock property insurance company organized under the laws of Pennsylvania with its principal place of business in Harrisburg,

Pennsylvania. Aegis IC currently directly holds 100% of the issued and outstanding stock of American and 39.23% of the issued and outstanding stock of Lakeside.

4. Aegis Security, Inc. (“ASI”) is a domestic holding company organized under the laws of Pennsylvania with its principal place of business in Harrisburg, Pennsylvania. ASI currently directly holds 100% of the issued and outstanding stock of Aegis IC.
5. Martin G. Lane, Jr. (“Mr. Lane”) is an individual with his primary residence located in Tavernier, Florida. Mr. Lane currently owns, either directly or through various trusts that he controls, approximately 50% of the issued and outstanding stock of ASI.
6. Mr. Lane is the sole ultimate controlling person of The Domestic Insurers.
7. K2 Insurance Services, LLC (“K2”) is a foreign limited liability company organized under the laws of Delaware with its principal place of business in San Diego, California.
8. Patrick Kilkenny (“Mr. Kilkenny”) is an individual with his primary residence located in Del Mar, California. Mr. Kilkenny currently directly holds 10% of the membership interests of K2.
9. Endeavour Capital V, LLC (“Endeavour” and together with Mr. Kilkenny “The Applicants”) is a foreign limited liability company organized under the laws of Delaware with its principal place of business in Portland, Oregon. Endeavour currently controls 87.5% of the membership interests of K2.
10. The Applicants are each an ultimate controlling person of K2.

Acquisition Filing

11. 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.
12. On December 12, 2012, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter referenced as “Application”) from The Applicants for approval to acquire control of The Domestic Insurers.
13. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

14. On December 22, 2012, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by The Applicants and such notice invited interested persons to submit comments to the Department regarding the Application for five days following the date of the publication (“Comment Period”).
15. The Department received no comments regarding the Application during the Comment Period.

Description of the Proposed Acquisition

16. As described in the Application, K2 will enter into a stock purchase agreement (“the Agreement”) with Mr. Lane and the other shareholders of ASI.
17. As described in the Application and pursuant to the Agreement, K2 intends to purchase 100% of the issued and outstanding shares of ASI from Mr. Lane and the other shareholders of ASI (“the Acquisition”).
18. As described in the Application, K2 would fund the entire purchase price from cash on hand.
19. As described in the Application, upon completion of the Acquisition, Mr. Kilkenny would hold a 10.2% voting membership interest in K2.
20. As described in the Application, upon completion of the Acquisition, Mr. Lane would hold a 10.2% voting membership interest in K2.
21. As described in the Application, upon completion of the Acquisition, Endeavour would indirectly hold a 72.7% voting membership interest in K2.
22. As described in the Application, Mr. Kilkenny and Endeavour would each become an ultimate controlling person of The Domestic Insurers as a result of the Acquisition, and Mr. Lane would remain as an ultimate controlling person of The Domestic Insurers.

Standards for Review

23. 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.

Licensing Requirements

24. 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.
25. The classes 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).
26. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
27. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Aegis IC is required to maintain a minimum paid up capital stock of \$1,500,000 to write the classes of insurance for which it is presently licensed and American is required to maintain a minimum paid up capital stock of \$2,250,000 to write the classes of insurance for which it is presently licensed.
28. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Aegis IC is required to maintain a minimum paid in surplus of \$750,000 to write the classes of insurance for which it is presently licensed and American is required to maintain a minimum paid in surplus of \$1,125,000 to write the classes of insurance for which it is presently licensed.
29. Upon completion of the transaction, each of The Domestic Insurers will have paid up capital in an amount that will satisfy the minimum required of a casualty insurance company licensed to write the classes of authority currently held by each of The Domestic Insurers.
30. Upon completion of the transaction, each of The Domestic Insurers will have paid in surplus in an amount that will satisfy the minimum required of a casualty insurance company licensed to write the classes of authority currently held by each of The Domestic Insurers.

Competitive Impact

31. The acquisition of control of The Domestic Insurers is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.

32. The acquisition of control of the Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because The Applicants do not control any other insurance interests in the Commonwealth.

Financial Condition of Applicant

33. 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).
34. The Department has reviewed the annual financial statement submitted by The Applicants as of December 31, 2011.
35. The financial condition of The Applicants would not pose any impediments to the change in control nor jeopardize the financial condition of The Domestic Insurers.

Plans for the Acquired Insurer

36. 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.
37. As stated in the Application, The Applicants have no future plans or proposals to liquidate The Domestic Insurers, to sell its assets, to merge or consolidate it with any person or persons, or to make any other material change in its business operations or corporate structure.

Management

38. 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.
39. Biographical affidavits for all directors and executive officers of The Applicants were reviewed by the Department.
40. The Department is satisfied that the persons who would control the operations of The Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
41. 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 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 and fail to confer benefit on policyholders of the insurers and 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 of the public to permit the acquisition of control; or,
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.
 - 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 Domestic Insurers.
4. If any of the above 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 Endeavour Capital V, LLC and Patrick J. Kilkenny (“The Applicants”) in support of the request for approval to acquire control of Aegis Security Insurance Company and American Sentinel Insurance Company as set forth in the application, is hereby approved, subject to this Order and the following conditions:

1. The Applicants 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.
2. The Applicants shall obtain approval of the acquisition of control of Lakeside Insurance Company from the Nevada Insurance Department, if such approval is required under Nevada law. A certified copy of any required approval issued by the Nevada Insurance Department shall be provided within three business days of receipt by The Applicants. If such approval is not required, The Applicants shall provide the Department a copy of communications to that effect from the Nevada Insurance Department.

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.

Michael F. Consedine
Insurance Commissioner
Commonwealth of Pennsylvania