

BEFORE THE DEPUTY INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402, and 1403 of the Insurance
	:	Holding Companies Act, Article
Application of Atlantic States Insurance	:	XIV of the Insurance Company
Company in Support of the Request	:	Law of 1921, Act of May 17, 1921,
for Approval to Merge with Delaware	:	P.L. 682, <u>as amended</u> , 40 P.S.
Atlantic Insurance Company with	:	§§991.1401, 991.1402, and
Atlantic States Insurance Company Being	:	991.1403; Sections 1921 through
the Survivor in a Transaction Exempt from	:	1929 of the 1988 Business
the Requirements of 40 P.S. §991.1402	:	Corporation Law, Act of
	:	December 21, 1988, P.L. 1444, No.
	:	177, <u>as amended</u> , 15 Pa. C.S.
	:	§§1921-1928; Sections 205 and 207
	:	of the GAA Amendments Act of
	:	1990, Act of December 19, 1990,
	:	P.L. 834, No. 198, <u>as amended</u> , 15
	:	P.S. §§21205 and 21207.
	:	
	:	Order No. ID-RC-01-17

DECISION AND ORDER

AND NOW, on this 2nd day of May, 2001, Stephen J. Johnson, Deputy Insurance Commissioner of the Commonwealth of Pennsylvania ("Deputy Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act, the 1988 Business Corporation Law and the GAA Amendments Act of 1990, and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Deputy Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Entities

1. Atlantic States Insurance Company (“Atlantic States”) is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Marietta, Pennsylvania.
2. Delaware Atlantic Insurance Company (“Delaware Atlantic”) is an admitted foreign stock fire insurance company organized under the laws of the State of Delaware with its principal place of business in Marietta, Pennsylvania.
3. Donegal Group Inc. (“DGI”) is an insurance holding company organized pursuant to the laws of the State of Delaware with its principal place of business in Marietta, Pennsylvania. Atlantic States and Delaware Atlantic are wholly-owned subsidiaries of DGI.
4. Donegal Mutual Insurance Company (“Donegal Mutual”) is a domestic mutual fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Marietta, Pennsylvania. Donegal Mutual currently holds 5,511,128 shares, or approximately 62.2% of the issued and outstanding common stock of DGI.
5. Currently Donegal Mutual is the ultimate controlling person of both Atlantic States and Delaware Atlantic.

Filing of the Application

6. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all mergers or other acquisitions of control of domestic insurers must be filed with the Department for approval or disapproval.
7. Section 1402 (g) of the Insurance Holding Companies Act provides for exemption from the requirements of Section 1402:
 - a) if the merger does not have the effect of changing or influencing the control of a domestic insurer, or
 - b) if the transaction is otherwise not comprehended within the purposes of Section 1402.

8. The 1988 Business Corporation Law, Act of December 21, 1988, P.L. 1444, as amended, Sections 1921 through 1929, 15 Pa. C.S. §§1921 through 1929 (“1988 BCL”), and the GAA Amendments Act of 1990, P.L. 834, No. 198, as amended, Sections 205 and 207, 15 P.S. §§21205 and 21207 (“GAA Amendments Act”), provide that all plans of merger of domestic insurers must be filed with the Department for approval or disapproval.
9. On March 23, 2001, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from Atlantic States requesting approval to merge Delaware Atlantic with and into Atlantic States, with Atlantic States being the survivor.
10. The Application was filed with the Department pursuant to Section 1402(g) of the Insurance Holding Companies Act and Section 205 of the GAA Amendments Act.

Notice and Filing of Comments

11. On April 7, 2001, the Department published notice in the Pennsylvania Bulletin that the Application had been submitted by Atlantic States and such notice invited interested persons to submit comments to the Department regarding the Application for a 15-day period, ending April 23, 2001.
12. During the 15-day public comment period, the Department received no comments regarding the Application.

The Transaction

13. Atlantic States and Delaware Atlantic executed as Agreement and Plan of Merger dated as of March 8, 2001 (“Merger Agreement”) which provides for Delaware Atlantic to merge with and into Atlantic States, with Atlantic States being the surviving corporation.
14. As described in the Application, the Merger Agreement has been adopted by written consent of the sole shareholder of Atlantic States and Delaware Atlantic on March 21, 2001, and approved by the Board of Directors of Atlantic States and Delaware Atlantic on March 8, 2001.
15. As described in the Application, upon the effective date each share of common stock of Delaware Atlantic issued and outstanding immediately prior to the effective date of the merger shall, by virtue of the Merger Agreement and without any action on the part of the holder thereof, thereupon be canceled.
16. As described in the Application, upon the effective date each share of Atlantic States common stock issued and outstanding immediately prior to the effective

date shall continue to represent one issued share of common stock of Atlantic States.

17. As described in the Application, at the effective date, the Articles of Incorporation and By-Laws of Atlantic States in effect at the effective date, shall be the Articles of Incorporation and By-Laws of Atlantic States after the merger.
18. As described in the Application, the members of the board of directors and the officers of Atlantic States at the effective date shall be the members of the board of directors and the officers of Atlantic States after the merger.
19. As described in the Application, Atlantic States shall thenceforth be responsible and liable for all the liabilities and obligations of Delaware Atlantic.
20. As described in the Application, upon completion of the proposed merger, Donegal Mutual will remain the ultimate controlling person of the surviving corporation, Atlantic States.
21. 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 merger of Atlantic States and Delaware Atlantic.
2. Under Section 1402(g) of the Insurance Holding Companies Act, the Department shall exempt a merger from the requirements of Section 1402 if the merger does not have the effect of changing or influencing the control of a domestic insurer.
3. Pursuant to Section 1402(g) of the Insurance Holding Companies Act, the Deputy Commissioner concludes that the proposed merger does not change the ultimate controlling person of the parties to the merger and, therefore, is exempt from the requirements of the Insurance Holding Companies Act.
4. The Deputy Commissioner concludes that the preparation of the Merger Agreement, pertaining to the terms and conditions, satisfies the requirements of Section 1922 of the 1988 BCL.
5. The Deputy Commissioner concludes that the Merger Agreement satisfies the requirements of Section 1924 of the 1988 BCL as it has been adopted by the sole shareholder of Atlantic States and Delaware and by the Board of Directors of Atlantic States and Delaware Atlantic.

6. The Deputy Commissioner concludes that the Merger Agreement satisfies the requirements of Section 1925 of the 1988 BCL because the Merger Agreement is subject to the approval of the insurance department of the state of domicile of Delaware Atlantic.
7. The Deputy Commissioner concludes that the Articles of Merger will satisfy the requirements of Section 1926 of the 1988 BCL.
8. The Deputy Commissioner concludes that the Merger Agreement will be effective on or after proper filing of Articles of Merger with the Department of State pursuant to Sections 1927 and 1928 of the 1988 BCL.
9. The Deputy Commissioner concludes that, if the proposed merger is consummated, all the rights, privileges, immunities, powers and purposes of Delaware Atlantic will be conveyed to the surviving entity, as a matter of law, pursuant to Section 1929 of the 1988 BCL.
10. Pursuant to Section 205(b) of the GAA Amendments Act, the Deputy Commissioner, concludes that the terms and conditions of the proposed merger are fair and that the proposed merger is in accordance with law and not injurious to the interests of the policyholders and creditors.
11. The Application satisfies the requirements of the Insurance Holding Companies Act, the 1988 BCL and the GAA Amendments Act.
12. 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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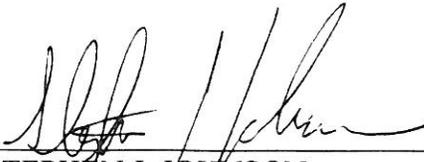
ORDER

Upon consideration of the foregoing, the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania (“Deputy Commissioner”) hereby approves the application of Atlantic States Insurance Company (“Atlantic States”) requesting approval of the merger of Delaware Atlantic Insurance Company (“Delaware Atlantic”) with and into Atlantic States subject to the following conditions:

1. An approving determination must be granted by the Delaware Department of Insurance before Articles of Merger are filed with the Pennsylvania Department of State. A certified copy of the approval issued by the Delaware Commissioner of Insurance shall be provided to the Deputy Commissioner within three (3) business days of receipt by Atlantic States.

2. A copy of the Articles of Merger shall be filed with the Deputy Commissioner not later than ten (10) days after their filing with the Pennsylvania Department of State.

This Order is effective immediately.



STEPHEN J. JOHNSON
Deputy Insurance Commissioner
Commonwealth of Pennsylvania