

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402
	:	and 1403 of the Insurance Holding
Application of Michelene Pagnotti in	:	Companies Act, Article XIV of the
Support of the Request for Approval to	:	Insurance Company Law of 1921, Act
Acquire Control of Lackawanna National	:	of May 17, 1921, P. L. 682, <u>as</u>
Insurance Company, Lackawanna	:	<u>amended</u> , 40 P.S. §§991.1401,
American Insurance Company and	:	991.1402 and 991.1403
Lackawanna Casualty Company	:	
	:	Order No. ID-RC-15-14

DECISION AND ORDER

AND NOW, on this 31st day of August, 2015, 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

Identity of PA Domestic Insurers

1. Lackawanna National Insurance Company ("LNIC") is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania.
2. Lackawanna American Insurance Company ("LAIC") is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Wilkes-Barre, Pennsylvania.
3. Lackawanna Casualty Company ("LCC") is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal

place of business located in Wilkes-Barre, Pennsylvania. LCC owns 100% of the issued and outstanding Class A Stock of LNIC and LAIC which represents 95.9% of the voting securities of LNIC and LAIC.

4. LCC, LNIC and LAIC are hereinafter collectively referenced as "PA Domestic Insurers."

Identity of Applicant

5. Pagnotti Enterprises, Inc. ("PEI") is a for-profit corporation organized under the laws of the State of Delaware with its principal place of business in Wilkes-Barre, Pennsylvania. PEI owns 100% of the issued and outstanding Class A Stock of LCC representing 91.1% of the voting securities of LCC
6. Louis Pagnotti, Inc. ("LPI") is a for-profit corporation organized under the laws of State of Delaware with its principal place of business in Wilmington, Delaware. Louis Pagnotti, Inc. owns 56.66% of the issued and outstanding Class A Stock of PEI representing 45.33% of the voting securities of PEI
7. The Estate of Joseph R. Pagnotti, Sr. ("Estate") owns 20% of the voting securities of LPI.
8. Michelene Pagnotti ("Applicant") is an individual with her primary place of business located in Wilkes-Barre. The Applicant is the executrix of the Estate and, therefore, controls the voting securities owned by the Estate. The Applicant additionally independently holds a 4.4% voting interest in LPI.

Acquisition Filing

9. 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.
10. On July 27, 2015, the Pennsylvania Insurance Department ("Department") received an initial request (which together with all material received subsequently is collectively referenced as "Application") from the Applicant for approval to acquire control of the PA Domestic Insurers as a result of the closing of the Estate and distribution of the Estate's assets.
11. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

12. On August 8, 2015, 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 15 days following the date of the publication ("Comment Period").
13. The Department received no comments regarding the Application during the Comment Period.

Description of Proposed Acquisition

14. As described in the Application, the Applicant has recently completed the administration of the Estate, and in accordance with the terms of her father's will, desires to now distribute the Estate's 20% voting interest in LPI in equal shares to the Estate's three beneficiaries, one of which is herself.
15. As described in the Application, following the Estate's distribution of the LPI voting stock, the Applicant will possess an 11.11% voting interest in LPI.
16. The Applicant currently serves as chairwoman on the board of directors of the PA Domestic Insurers and as an officer and a director of the PA Domestic Insurers' insurance holding company affiliates including LPI.
17. As described in the Application, the Applicant would become an ultimate controlling person of the PA Domestic Insurers upon the distribution of the Estate's assets.

Standards for Review

18. 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.
19. 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

20. 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.
21. 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.

22. 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).
23. 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).
24. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), LAIC and LNIC are each required to maintain a minimum paid up capital stock of \$750,000 and a minimum paid in surplus of \$375,000 to write the line of insurance for which each is presently licensed.
25. As of June 30, 2015, LAIC and LNIC maintained the statutory minimum capitalization to satisfy the requirements to write the line of insurance for which each is presently licensed.
26. Upon completion of the transaction, LAIC and LNIC will have the statutory minimum capitalization to satisfy the requirements to write the line of insurance for which each is presently licensed.
27. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), LCC is required to maintain a minimum paid up capital stock of \$1,000,000 and a minimum paid in surplus of \$500,000 to write the lines of insurance for which it is presently licensed.
28. As of June 30, 2015, LCC maintained the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it is presently licensed.
29. Upon completion of the transaction, LCC will have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it 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 the

Applicant 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 the Applicant as of December 31, 2010 through December 31, 2014.
34. The financial condition of the Applicant will not pose any impediments to the change in control nor jeopardize the financial condition of the PA Domestic Insurers.

Plans for the Acquired Insurer

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 transaction as set forth in the Application to determine whether it is:
 - a) Unfair or unreasonable or fails to confer a benefit upon policyholders.
 - b) Not in the public interest.
37. As stated in the Application, the Applicant has no future plans or proposals to liquidate the PA Domestic Insurers, to sell their assets, to merge or consolidate them with any person or persons, or to make any other material change in their business operations or corporate structure.
38. 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

39. 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.
40. A biographical affidavit from the Applicant was reviewed by the Department.

41. 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

42. 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.
43. 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

44. 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.
45. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.
46. 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.

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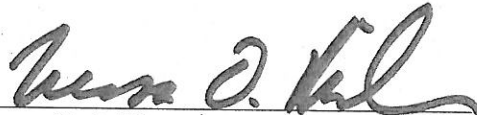
ORDER

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

The application of Michelene Pagnotti ("Applicant") in support of the request for approval to acquire control of Lackawanna National Insurance Company, Lackawanna American Insurance Company and Lackawanna Casualty 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.

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
Insurance Commissioner
Commonwealth of Pennsylvania