

BEFORE THE DEPUTY INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

| | | |
|--|---|--------------------------------------|
| In Re: | : | Pursuant to Sections 1401, 1402, and |
| | : | 1403 of the Insurance Holding |
| Application of KnightBrook, LLC in | : | Companies Act, Article XIV of the |
| Support of the Request for Approval to | : | Insurance Company Law of 1921, |
| Acquire Control of all the Issued and | : | Act of May 17, 1921, P.L. 682, |
| Outstanding Capital Stock of Commerce | : | as amended, 40 P.S. §§991.1401, |
| Protective Insurance Company | : | 991.1402, and 991.1403 |
| | : | |
| | : | Order No. ID-RC-11-36 |

DECISION AND ORDER

AND NOW, on this 9th day of December, 2011, Stephen J. Johnson, Deputy Insurance Commissioner of the Commonwealth of Pennsylvania (“Deputy Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company Act 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 Parties

1. Commerce Protective Insurance Company (“Commerce Protective”) is a stock property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Elizabethtown, Pennsylvania.
2. KnightBrook Insurance Company (“KIC”) is a foreign admitted stock property insurance company organized under the laws of the state of Delaware with its principal place of business located in Wilmington, Delaware.
3. KnightBrook LLC (“KnightBrook”) is a limited liability company organized under the laws of the State of Delaware with its principal place of business located in Los Angeles, California. KnightBrook directly holds 100% of the issued and outstanding capital stock of KIC.

4. Venbrook Insurance Holdings, LLC (“Venbrook”) is a limited liability company organized under the laws of the State of Delaware with its principal place of business in Woodland Hills, California. Venbrook directly holds 32% of the issued and outstanding capital stock of KnightBrook
5. Venbrook Group, LLC (“Venbrook Group”) is a limited liability company organized under the laws of the State of Delaware with its principal place of business in Woodland Hills, California. Venbrook Group directly holds 100% of the issued and outstanding capital stock of Venbrook.
6. Jason D. Turner (“Turner”) is an individual with his principal place of business in Woodland Hills, California. Turner controls 29.49% of the voting securities of Venbrook Group.
7. William Lopatin (“Lopatin”) is an individual with his principal place of business in Woodland Hills, California. Lopatin controls 28.69% of the voting securities of Venbrook Group.
8. Marc J. Bishara (“Bishara”) is an individual with his principal place of business in Woodland Hills, California. Bishara controls 22.25% of the voting securities of Venbrook Group.
9. Creo Capital Partners II (“Creo”) is a business partnership with its principal place of business located in Santa Monica, California. Creo controls 15.56% of the voting securities of Venbrook Group.
10. Knight Holdings, Inc. (“Knight”) is a business corporation organized under the laws of the State of Nevada with its principal place of business located in Los Angeles, California. Knight currently controls 43.2% of the voting securities of KnightBrook.
11. Donald R. Hankey (“Hankey”) is an individual with his principal place of business located in Los Angeles, California. Hankey, both directly and through the Don R. Hankey Revocable Trust, controls 93.04% of the voting securities of Knight.
12. Hankey LLC is a business corporation organized under the laws of the State of Nevada with its principal place of business located in Los Angeles, California. Hankey LLC currently controls 24.8% of the voting securities of KnightBrook.

Acquisition Filing

13. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that any transaction involving control of a domestic insurer must be filed with the Insurance Department of the Commonwealth of Pennsylvania (“Department”) for approval or disapproval.
14. On November 1, 2011, the Department received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from KnightBrook for approval to acquire a controlling interest of Commerce Protective.
15. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

16. On November 19, 2011, the Department published notice in the *Pennsylvania Bulletin* that the Application was submitted by KnightBrook and such notice invited interested persons to submit comments to the Department regarding the Application for a fourteen day period, ending December 3, 2011.
17. The Department received no comments regarding the Application during the fourteen day comment period.

Description of the Proposed Acquisition

18. As described in the Application, on November 23, 2011, KnightBrook and the current corporate parent of Commerce Protective entered into a Stock Purchase Agreement (“Agreement”).
19. As described in the Application and pursuant to the Agreement, KnightBrook would directly hold 100% of the issued and outstanding capital stock of Commerce Protective.

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. The application for a change in control must be approved unless the Deputy Commissioner 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 Deputy Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
23. 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).
24. 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).
25. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Commerce Protective is required to maintain a minimum paid up capital stock of \$850,000 to write the classes of insurance for which it is presently licensed.
26. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Commerce Protective is required to maintain a minimum paid in surplus of \$425,000 to write the classes of insurance for which it is presently licensed.
27. Upon completion of the transaction, Commerce Protective will have paid up capital in an amount that will satisfy the statutory minimum required of a stock casualty insurance company licensed to write the classes of authority currently held by Commerce Protective.
28. Upon completion of the transaction, Commerce Protective will have paid in surplus in an amount that will satisfy the statutory minimum required of a stock casualty insurance company licensed to write the classes of authority currently held by Commerce Protective.

Competitive Impact

29. The acquisition of control of Commerce Protective 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.
30. The acquisition of control of Commerce Protective will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of KIC, as stated in the Application, does not exceed the market share levels established in Section 1403.

Financial Condition of Acquiring Persons

31. 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 persons.
32. The Department has reviewed the financial condition of the acquiring parties and determined that the financial condition of the acquiring parties would not pose any impediments to the change in control nor jeopardize the financial condition of Commerce Protective.

Plans for the Acquired Insurer

33. 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.
34. As provided in the Application, KnightBrook has disclosed that it intends to cause the merger of Commerce Protective with and into KIC as soon as possible after consummation of the acquisition.

Management

35. 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 would control the operations of the acquired insurer.
36. Biographical affidavits for all directors, executive officers and ultimate controlling persons of KnightBrook were provided as part of the Application and the Department reviewed all affidavits that were submitted.
37. The Department is satisfied that the persons who would control the operations of Commerce Protective have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
38. 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 Deputy Commissioner has jurisdiction to review and approve the change in control of Commerce Protective.
2. Under Section 1402 of the Insurance Holding Companies Act, the Deputy Commissioner 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 operate 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 company 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 material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurer 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 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 Deputy Commissioner has not found that any of the above conditions are present with respect to the change in control of Commerce Protective.
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.

BEFORE THE DEPUTY INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and
: 1403 of the Insurance Holding
Application of KnightBrook, LLC in : Companies Act, Article XIV of the
Support of the Request for Approval to : Insurance Company Law of 1921,
Acquire Control of all the Issued and : Act of May 17, 1921, P.L. 682,
Outstanding Capital Stock of Commerce : as amended, 40 P.S. §§991.1401,
Protective Insurance Company : 991.1402, and 991.1403
: :
: Order No. ID-RC-11-36

ORDER

Upon consideration of the foregoing, the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The acquisition of control by KnightBrook, LLC (“KnightBrook”) of all the issued and outstanding shares of common stock of Commerce Protective Insurance Company, as detailed in the Application, is hereby approved, subject to this Order and the following conditions:

KnightBrook 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 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.

Stephen J. Johnson
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation