

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to the Insurance Company
	:	Mutual-to-Stock Conversion Act,
Application of Educators Mutual Life	:	Article VIII-A of the Insurance
Insurance Company and Eastern	:	Company Law of 1921, Act of May 17,
Insurance Holdings, Inc., Requesting	:	1921, P.L. 682, <u>as amended</u> , 40 P.S.
Approval of a Three-Step Integrated	:	§§911-A <u>et seq.</u> ; Sections 1401, 1402,
Transaction Allowing for the Conversion	:	and 1403 of the Insurance Holding
of Educators Mutual Life Insurance	:	Companies Act, Article XIV of the
Company to a Stock Insurance	:	Insurance Company Law of 1921, Act of
Company, the Immediate Acquisition of	:	May 17, 1921, P.L. 682, <u>as amended</u> , 40
Control of the Converted Company, to	:	P.S. §§991.1401-1403; and Chapter 25
be Renamed Eastern Life and Health	:	of Title 31 of the Pennsylvania Code; 31
Insurance Company, by Eastern	:	Pa. Code §§25.1-25.23.
Insurance Holdings, Inc. and the	:	
Acquisition of Control of Eastern	:	
Alliance Insurance Company and Allied	:	
Eastern Indemnity Company by Eastern	:	
Insurance Holdings, Inc.	:	Order No. ID-RC-06-02

DECISION AND ORDER

AND NOW, on this 14th day of March, 2006, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Mutual-to-Stock Conversion Act and 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 Involved Companies**

1. Educators Mutual Life Insurance Company (both before and after conversion "Educators") is a domestic mutual life insurance company organized under the laws of the Commonwealth of Pennsylvania with its primary place of business in Lancaster, Pennsylvania.
2. Eastern Insurance Holdings, Inc. ("Holding Company") is a newly-formed business corporation organized under the laws of the Commonwealth of Pennsylvania with its primary place of business in Lancaster, Pennsylvania. No stock has been issued in the Holding Company.
3. Eastern Alliance Insurance Company ("EAIC") is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania.
4. Allied Eastern Indemnity Company ("AEIC") is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Lancaster, Pennsylvania.
5. Eastern Holding Company, Ltd. ("EHC") is a privately held insurance holding company organized under laws of the Cayman Islands with its principal place of business in the Cayman Islands.
6. No person controls EHC. EHC is the sole ultimate controlling person of EAIC and AEIC.
7. EAIC and AEIC are collectively referenced hereinafter as the "EHC Subsidiaries."

### **Adoption and Filing of the Reorganization Plan**

#### Adoption

8. On March 17, 2005, Educators, Holding Company and EHC executed an Agreement and Plan of Reorganization ("Reorganization Plan") under which:
  - a) Educators would convert from a mutual to a stock insurance company (the "Conversion");
  - b) Holding Company would acquire control of 100% of the capital stock of the converted Educators (the "Acquisition"); and
  - c) Holding Company would acquire control of the EHC Subsidiaries by means of a merger at the holding company level between its to-be-formed

subsidiary and EHC (the “Merger”).

9. On March 17, 2005, the board of directors of Educators adopted a plan to effectuate the Conversion (“Plan of Conversion”). The board of directors adopted subsequent amendments effective June 9, 2005 and November 17, 2005.
10. On May 17, 2005, the board of directors of Holding Company unanimously approved the Plan of Conversion and an agreement to effectuate the Merger. The board of directors approved subsequent amendments effective June 9, 2005 and November 17, 2005.
11. The shareholders of EHC will vote on approval of the Reorganization Plan.

#### Filing

12. On June 13, 2005, the Pennsylvania Insurance Department (“Department”) received an application (which together with all material received subsequently by the Department from Educators or its representatives in connection therewith is hereinafter collectively referenced as the "Conversion Application") from Educators requesting approval of the Plan of Conversion.
13. On June 13, 2005, the Department received an application (which together with all material received subsequently by the Department from Holding Company or its representatives in connection therewith is hereinafter collectively referenced as the "Acquisition Application") from Holding Company requesting approval to acquire control of Educators pursuant to the Reorganization Plan.
14. On June 13, 2005, the Department received an application (which together with all material received subsequently by the Department from Holding Company or its representatives in connection therewith is hereinafter collectively referenced as the “Merger Application”) from Holding Company requesting approval to acquire control of the EHC Subsidiaries pursuant to the Reorganization Plan.
15. The Conversion Application, Acquisition Application, and the Merger Application are collectively hereinafter referenced as the “Reorganization Application.”
16. The proposed Conversion, Acquisition, and Merger contemplated under the Reorganization Plan are hereinafter referenced collectively as the “Reorganization.”

#### **Applicable Laws**

17. The Insurance Company Mutual-to-Stock Conversion Act, Sections 801-A to 819-A, 40 P.S. §§911-A, et seq., as amended (the "Conversion Act"), provides

that all plans of conversion of domestic mutual insurers must be filed with the Commissioner for approval or disapproval.

18. The Insurance Holding Companies Act, Sections 1401, 1402, and 1403, 40 P.S. §§991.1401 et seq., as amended (the "Insurance Holding Companies Act"), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.

### **Reorganization**

19. As described in the Reorganization Application, Educators will convert to a stock company pursuant to Section 917-A of the Conversion Act and be renamed "Eastern Life and Health Insurance Company."
20. The Reorganization Application sets forth the following as advantages of the Reorganization Plan:
  - a) The Reorganization Plan will enable Educators to enter into a strategic combination with EHC;
  - b) The Reorganization Plan will put Educators' operations under management by EHC's team of experienced and successful senior managers;
  - c) The Reorganization Plan will provide the opportunity for Educators to increase sales through cross-marketing initiatives with EHC's insurance company subsidiaries; and
  - d) The Reorganization Plan will enable Educators to deploy its excess capital to insurance markets and product lines that have reasonable growth opportunities.
21. As described in the Reorganization Application, 100% (150,000 shares) of Educators' voting common stock will be issued to Holding Company. In consideration for these shares, Holding Company will pay to Educators the sum of \$2.1 million, comprising of \$1.5 million as Capital Stock and \$600,000 as Paid-in and Contributed Surplus.
22. As described in the Reorganization Application, and in accordance with its bylaws, Educators will offer subscription rights to its policyholders and certificateholders (collectively "Eligible Members") to purchase 100% of the capital stock of Holding Company.
23. As described in the Reorganization Application, Holding Company will issue, without charge, nontransferable subscription rights ("Subscription Rights") to purchase shares of its authorized common stock to the following parties in the

following priority (“Subscription Offering”):

- a) Eligible Members;
  - b) tax-qualified employee stock ownership plan;
  - c) officers, directors and employees of Educators;
  - d) officers, directors and employees of EHC; and
  - e) EHC stockholders.
24. The Subscription Rights offered to Eligible Members are exclusive of any Subscription Rights offered to the tax-qualified employee stock benefit plan.
  25. As described in the Reorganization Application, the tax-qualified employee benefit plan will be allocated Subscription Rights to purchase an amount equal to 10% of the total number of shares of the capital stock of Holding Company issued in the Conversion (“Conversion Stock”).
  26. As described in the Reorganization Application, no person may purchase fewer than the lesser of twenty-five (25) shares of Conversion Stock or shares of Conversion Stock having an aggregate purchase price of \$250.00 in the Conversion.
  27. As described in the Reorganization Application, the maximum number of shares that may be purchased by any one person when aggregated with purchases by any person’s affiliates and associates, or by a group of persons acting in concert, shall not exceed the lesser of five percent (5%) of the total shares of Conversion Stock issued in the Subscription Offering and one hundred fifty thousand (150,000) shares.
  28. Both the anticipated purchase price of \$10.00 per share of capital stock of Holding Company and the minimum required subscription in the amount of \$250.00 are less than the \$500 maximum, minimum subscription amount required by statute.
  29. As described in the Reorganization Application, employees of Educators, as well as directors and officers, will be included in the Subscription Offering.
  30. As described in the Reorganization Application, directors and officers of Educators may not purchase in the aggregate more than 34% of the shares of Conversion Stock issued in the Subscription Offering.
  31. As described in the Reorganization Application, shares of Holding Company stock remaining unsold in the Subscription Offering, if any, will be offered for

- sale to subscribers in a community offering (“Community Offering”) (the Subscription Offering and the Community Offering are collectively hereinafter referenced as the “Conversion Offering”).
32. As described in the Reorganization application, Holding Company has filed with the U.S. Securities and Exchange Commission Registration Statement No. 333-128913 on Form S-1 which must become effective under the Securities Act of 1933, as amended, before the Conversion Offering.
  33. As described in the Reorganization Application, EHC will redomesticate to the Commonwealth of Pennsylvania prior to effectuation of the Merger.
  34. As described in the Reorganization Application, Holding Company will form EHC Acquisition, Inc. (“SubCo”) prior to the effectuation of the Merger. SubCo will be a wholly-owned subsidiary of Holding Company.
  35. As described in the Reorganization Application, EHC will merge with and into SubCo.
  36. As described in the Reorganization Application, subsequent to the Merger, SubCo will change its name to Eastern Holding Company, Ltd.
  37. As described in the Reorganization Application, EHC stockholders will receive both cash and shares of common stock of Holding Company in exchange for their EHC shares.
  38. The board of directors of Educators retained investment bankers Keefe, Bruyette & Woods to provide an opinion that the consideration to be paid to EHC stockholders in connection with the Reorganization Plan was fair from a financial point of view to Educators.
  39. On March 17, 2005, Keefe, Bruyette & Woods issued an opinion that the consideration to be paid to EHC stockholders in connection with the Reorganization Plan was fair from a financial point of view to Educators.

#### **Procedural Background – Notices, Comments and Hearing**

40. On July 2, 2005, the Department published notice of receipt of the Reorganization Application in the *Pennsylvania Bulletin* inviting written comments on the Reorganization Application from all interested persons (the "Comment Period").
41. Section 913-A(e) provides that the Commissioner may order a hearing on whether the terms of a plan of conversion comply with the Conversion Act.
42. Since the Conversion Act does not require that the Commissioner hold a hearing, the conduct of a hearing is solely at the Commissioner’s discretion.

43. If the Commissioner decides to conduct a hearing, the Conversion Act does not require that the hearing be an evidentiary, trial-type hearing.
44. On October 29, 2005, the Department published notice in the *Pennsylvania Bulletin* that a public informational hearing would be held on December 14, 2005, with regard to the Reorganization Application. The notice advised that the public informational hearing would provide an opportunity for policyholders and interested persons to present oral comments relevant to the Plan of Conversion. In the alternative, the notice also stated that written comments could be mailed to the Department or sent via the Internet.
45. On December 10, 2005, the Department published notice in the *Pennsylvania Bulletin* announcing the rescheduling of the public informational hearing to January 20, 2006.
46. A public informational hearing is in the nature of a town meeting or a legislative hearing.
47. On January 20, 2006, in an exercise of discretion, the Department held a public informational hearing with regard to the Reorganization Application as provided for in Section 913-A(e) of the Conversion Act.
48. During the public informational hearing, the Department described its review process, Educators outlined the reasons for considering and benefits to be derived from the Reorganization, Feldman Financial Advisors, Inc. (“Feldman”) explained the pro forma market valuation, and Curtis Financial Group, LLC (“Curtis”) reviewed its findings with regard to its work performed.
49. At the conclusion of the public informational hearing, the Department announced that it would continue to accept comments until the announcement of the end of the Comment Period which would be published on the Department’s web site.
50. The Department published notice on its web site announcing the February 3, 2006, closing of the Comment Period.
51. No comments were received by the Department during the Comment Period.

**Public File**

52. A public file has been maintained by the Department at its Harrisburg office and has been available to any interested person for inspection and copying. The contents of the public file have also been available upon request by any interested person for copying by the Department at the Commonwealth of Pennsylvania’s copying rate of \$0.25 per page and for shipping or mailing to any interested person.

53. The public file is comprised of all documents filed with the Department by Educators and Holding Company except those for which the Department determined that confidential treatment was appropriate. The public file contains all final reports other than confidential reports of Educators' outside consultants, all final reports of the Department's outside consultants, correspondence between the Department and Educators and Holding Company, and the transcript of the public informational hearing.
54. All materials in the public file have been indexed in a composite document to aid, inter alia, interested persons who desire to obtain copies of such public documents. The index itself also is a public document, and copies of it have also been available upon request to interested persons.

### **Pro Forma Market Valuation**

55. Section 913-A(b)(1) of the Conversion Act requires that an independent evaluation of the pro forma market value of the mutual company ("Appraisal") be filed with the Commissioner.
56. As described in the Reorganization Application, Educators retained Feldman to prepare an Appraisal of the pro forma market value of Educators as a subsidiary of Holding Company.
57. As described in the Reorganization Application, Feldman is experienced in the field of corporate appraisals and is independent of Educators and Holding Company.
58. The Reorganization Application includes the independent evaluation of the pro forma market value of Educators prepared by Feldman entitled "Conversion Valuation Appraisal Report," dated May 31, 2005.
59. As described in the Reorganization Application, on May 31, 2005, Feldman estimated the pro forma mid-point market value of Educators after conversion to be \$65.0 million and estimated a range of between \$55.25 million to \$74.75 million.
60. As described in the Reorganization Application, on September 23, 2005, Feldman issued a pro forma appraisal update report reflecting Educators' June 30, 2005 results ("September Update").
61. As described in the September Update, Educators' estimated pro forma market value range of Educators after conversion was unchanged from that reported in the Conversion Valuation Appraisal Report.
62. As described in the Reorganization Application, on November 30, 2005, Feldman issued a pro forma appraisal update report reflecting Educators' September 30,

- 2005 results (“November Update”).
63. As described in the November Update, Feldman’s estimated pro forma market value range of Educators after conversion was unchanged from that reported in the Conversion Valuation Appraisal Report.
  64. As described in the Reorganization Application, Educators requested that Feldman update its appraisal of the estimated pro forma market value of Educators at the conclusion of the Conversion Offering and state that the final offering price is consistent with its estimated pro forma market value of Educators (“Final Update”).
  65. As described in the Reorganization Application, the total number of shares of Holding Company common stock to be offered will be determined by dividing the uniform anticipated purchase price of \$10.00 per share into the maximum valuation amount of the pro forma market value of Educators after conversion, plus the number of shares required to enable the tax-qualified employee stock benefit plan to purchase in the aggregate ten percent of the total number of shares of Conversion Stock issued in the Conversion Offering.
  66. Section 913-A(d) of the Conversion Act provides that the Commissioner may retain, at the mutual company’s expense, any expert not otherwise a part of the Commissioner’s staff to assist in reviewing the plan of conversion and the independent evaluation of the pro forma market value.
  67. On August 26, 2005, the Department engaged Curtis to assist in the review of the Plan of Conversion and review of the independent evaluation of the pro forma market value as estimated by Feldman (“Engagement Letter”).
  68. In the Engagement Letter, the Department requested Curtis’ opinion as to whether the allocation of subscription rights was fair and equitable under Section 914-A(a)(3)(ii) and (b) of the Conversion Act.
  69. The Department also requested Curtis’ opinion regarding the reasonableness of the methodologies and assumptions utilized by Educators (or its advisors) in deriving the estimate of the pro forma market value of Educators in light of Section 914-A(d) of the Conversion Act.
  70. Curtis is a valuation and advisory firm with experience in mutual-to-stock conversions, business valuations, and corporate transactions.
  71. On January 4, 2006, Curtis issued its report to the Department with regard to the Engagement Letter.
  72. On January 27, 2006, Curtis supplemented its report.

73. In its report, Curtis issued its opinion that the allocation of Subscription Rights was fair and equitable under Section 914-A(a)(3)(ii) and (b) of the Conversion Act.
74. Curtis also opined that the methodologies and assumptions utilized by Feldman in its Conversion Valuation Appraisal Report, September Update and November Update in deriving the estimate of the pro forma market value of Educators were reasonable in light of Section 914-A(d) of the Conversion Act.
75. The Department requested that Curtis review subsequent updates as proposed by Feldman, including the Final Update, and report any findings to the Department.

### **Department's Approval of the Conversion – Conversion Act**

76. Section 917-A of the Conversion Act, 40 P.S. §917-A, provides that a domestic mutual insurer may adopt an alternative plan of conversion if the Commissioner finds that the plan does not prejudice the interests of the policyholders, is fair and equitable, and is not inconsistent with the purpose and intent of the Conversion Act.

#### Plan Provisions

77. When analyzing an alternative plan of conversion, the Department reviews the plan to make certain that it complies with the purpose and intent of the Conversion Act by containing the provisions required by Section 914-A, 40 P.S. §914-A, except as modified pursuant to Section 917-A.
78. Pursuant to Section 914-A of the Conversion Act, a plan of conversion is required to contain the following:
  - a) a description of the reasons for the proposed conversion;
  - b) a description of the effect of the proposed conversion on existing policies, satisfying the specific requirements of Section 914-A(a)(2) of the Conversion Act;
  - c) a description of the subscription rights to be offered to eligible members, satisfying the specific requirements of Section 914-A(a)(3) of the Conversion Act;
  - d) a fair and equitable means for allocating shares of capital stock to eligible members in the event of an oversubscription;
  - e) a provision that any shares of capital stock not subscribed to by eligible members shall be sold in a public offering through an underwriter, subject to certain permissible exceptions set forth in Section 914-A(c) of the Conversion Act;

- f) the total price of the capital stock equal to the estimated pro forma market value of the converted stock company based upon an independent evaluation by a qualified expert;
  - g) the purchase price for shares of capital stock equal to a reasonable amount, not to exceed a \$500 minimum subscription amount;
  - h) a provision limiting the number of shares of capital stock in the converted company or any company participating in the conversion that may be acquired by any person or group of persons acting in concert in the subscription rights offering or the public offering to five percent (5%) of the total number of shares, except by an entity that is to purchase one hundred percent (100%) of the capital stock of the converted company as part of the conversion plan approved by the Commissioner;
  - i) a provision prohibiting the acquisition of shares of capital stock in the converted company or any company participating in the conversion by the mutual company's directors and officers for a three year period after the effective date of the conversion plan, except through a broker-dealer or by permission of the Commissioner, subject to certain permissible exceptions specified in Section 914-A(g) of the Conversion Act;
  - j) a provision specifying that no officer or director may sell stock purchased pursuant to Sections 914-A or 916-A(a) of the Conversion Act within one year after the effective date of the conversion;
  - k) a provision specifying that the rights of surplus note holders to participate in the conversion shall be governed by the terms of the surplus note; and
  - l) a provision specifying that the converted company or any corporation participating in the conversion shall not repurchase any of its capital stock for a three year period, subject to certain permissible exceptions specified in Section 914-A(j) of the Conversion Act.
79. The Plan of Conversion contains the provisions required by Section 914-A of the Conversion Act.

Member Interests

80. When analyzing an alternative plan of conversion, the Department reviews the plan to make certain that it will not prejudice the interests of the members.
81. As a condition to the effectiveness of the Reorganization, the Plan of Conversion must be approved by 2/3 of the Eligible Members voting at the Special Meeting (defined below).

82. Eligible Members will be entitled to cast their votes, either in person or by proxy, at a special meeting of Eligible Members (“Special Meeting”).
83. For purposes of voting on the Plan of Conversion, Educators will mail a joint proxy statement/prospectus and combined proxy and stock order form to each Eligible Member.
84. Educators advised the Department that on July 21, 2005 it had begun mailing to Eligible Members notice by first class mail advising them of the filing of the Conversion Application with the Department.
85. As of March 13, 2006, addresses for approximately 219 out of a total of approximately 117,000 Eligible Members were missing.
86. Educators has given the Department assurances that the search for current policyholder addresses that are missing from Educators’ records will continue.
87. As described in the Reorganization Application, each policy of insurance issued by Educators and in force on the effective date of Conversion shall remain in force as a policy issued by the converted company, in accordance with the terms of such policy, except that, as of the effective date:
  - a) all voting rights, if any, of the holder of such policy shall be extinguished;
  - b) all rights, if any, of the holder of such policy to share in the surplus of Educators shall be extinguished;
  - c) none of the in-force insurance policies shall be subject to assessment; and
  - d) in the case of a participating policy, Educators shall have the right on the renewal date of such policy to issue a nonparticipating policy as a substitute for the participating policy.

#### Subscription Rights

88. When analyzing an alternative plan of conversion providing for a subscription rights offering, the Department reviews the subscription rights offering to make certain that the plan’s method of allocating subscription rights is fair and equitable.
89. As noted in Finding of Fact 67, above, the Department engaged Curtis to provide an opinion as to whether the allocation of Subscription Rights was fair and equitable under Section 914-A(a)(3)(ii) and (b) of the Conversion Act.
90. As noted in Findings of Fact 71 through 73, above, Curtis issued to the Department an opinion that the allocation of Subscription Rights was fair and equitable under Section 914-A(a)(3)(ii) and (b) of the Conversion Act.

91. Based on the information received and analyses conducted, the Commissioner finds that the Plan of Conversion contains the provisions required by the Conversion Act, does not prejudice the interests of the members, is fair and equitable, and is not inconsistent with the purpose and intent of the Conversion Act.

### **Department's Approval of the Acquisition - Insurance Holding Companies Act**

92. Section 1402(f)(1) of the Insurance Holding Companies Act, 40 P.S. §991.1402(f)(1), establishes the standards for approval of the Acquisition Application.

#### Licensing Requirements

93. When analyzing an application for change in control under Section 1402(f)(1)(i) of the Insurance Holding Companies Act, the Department reviews the requirements for continued licensure of the domestic insurer being acquired.
94. The lines of insurance for which an insurance company may be incorporated and become licensed are set out in Section 202 of the Insurance Company Law of 1921, 40 P.S. §382 (the "Insurance Company Law").
95. Educators is currently incorporated and licensed to write the lines of insurance as defined in Section 202 (a)(1) and (2) of the Insurance Company Law.
96. The minimum paid in capital stock and gross paid in and contributed surplus of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law, 40 P.S. §386.
97. In accordance with Section 206 of the Insurance Company Law, Educators would be required to maintain a minimum paid in capital stock of \$1,100,000 and a minimum paid in and contributed surplus of \$550,000 to write the lines of insurance for which Educators is presently licensed.
98. Educators has represented that it would be initially capitalized with \$1,500,000 of paid in capital stock and an estimated \$600,000 of gross paid in and contributed surplus.
99. On the effective date of the Conversion, Educators would have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it would be licensed in Pennsylvania.
100. Educators has represented to the Department that on the effective date of the Conversion, Educators would have the capitalization to satisfy the minimum capital requirements of all states in which Educators is currently licensed.

#### Competitive Impact

101. The Acquisition of Educators is subject to review and analysis under Sections 1402(f)(1)(ii) and 1403 of the Insurance Holding Companies Act to determine whether the effect of the Acquisition would be to substantially lessen competition or tend to create a monopoly therein in the Commonwealth (“Competitive Standard”).
102. A Competitive Standard analysis requires an analysis of market share before and after the acquisition.
103. Section 1403 of the Insurance Holding Companies Act defines “market” as the relevant product and geographic markets.
104. The relevant products market is the accident and health and life lines of insurance. Educators reported direct written premium for these lines of insurance in its 2004 annual statement. The relevant geographic market is the Commonwealth. For purposes of the Competitive Standard analysis, market share is the number of relevant products written in the relevant geographic market (“Market Share”).
105. Since Holding Company has no Market Share before the Acquisition, the acquisition of the assets and liabilities of Educators will not increase the Market Share of Educators.
106. Since there will be no increase in Market Share as a result of the Acquisition, the Competitive Standard of Section 1403 of the Insurance Holding Companies Act is not applicable.

#### Financial Condition of Applicant

107. When analyzing an application for an acquisition of control under Section 1402(f)(1)(iii) of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring person(s).
108. The Department reviewed pro forma financial statements submitted by Holding Company, after the Acquisition, as of September 30, 2005.
109. The financial condition of Holding Company would not pose any impediment to the change in control of Educators or jeopardize the financial condition of Educators.

### Plans for the Acquired Insurer

110. When analyzing an application for an acquisition of control under Section 1402(f)(1)(iv) of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring person has for the insurer.
111. As stated in the Reorganization Application, with the exception noted in Finding of Fact 113 below, Holding Company has no current plans or proposals to liquidate Educators, 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.

### Management Standard

112. When analyzing an application for an acquisition of control under Section 1402(f)(1)(v) 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.
113. As stated in the Reorganization Application, the key management of Educators will remain the same with the exception of Alex Schneebacher (“Schneebacher”), President and Chief Executive Officer of Educators. Schneebacher will remain with Educators for a period of up to 90 days under the terms of a Transition Agreement.
114. As stated in the Reorganization Application, Mercer Human Resource Consulting (“Mercer”) was retained to advise Educators on the reasonableness of the proposed Transition Agreement for Schneebacher.
115. On March 3, 2005, Mercer opined that overall the Transition Agreement provided “no more than a reasonable level of benefit to Mr. Schneebacher and reasonable in the context of Educators’ business situation.”
116. As stated in the Reorganization Application, the board of directors of Holding Company consists of six (6) members from the current board of directors of Educators and five (5) members from the current board of directors of EHC.
117. Biographical affidavits for all directors and executive officers for Holding Company are on file with the Department and have been reviewed as part of the Department’s analysis of the Reorganization Application.
118. The Department is satisfied that the persons who would control the operations of Educators have such competence, experience and integrity that the interests of policyholders and certificateholders of Educators and the public would not be jeopardized.

## **Department's Approval of the Merger – Insurance Holding Companies Act**

119. Section 1402(f)(1) of the Insurance Holding Companies Act establishes standards for approval of the Merger Application.

### Licensing Requirements

120. When analyzing a merger application under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurers being acquired.
121. 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.
122. AEIC is currently incorporated and licensed to write the line of insurance defined in Section 202(c)(14) of the Insurance Company Law.
123. EAIC is currently incorporated and licensed to write the lines of insurance defined in Sections 202(b)(1), (b)(2), (c)(1) through (c)(6), (c)(8), (c)(9) and (c)(11) through (c)(14) of the Insurance Company Law.
124. 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.
125. In accordance with Section 206 of the Insurance Company Law, AEIC is 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 it is presently licensed.
126. In accordance with Section 206 of the Insurance Company Law, EAIC is required to maintain a minimum paid up capital stock of \$2,100,000 and a minimum paid in surplus of \$1,050,000 to write the lines of insurance for which it is presently licensed.
127. As of September 30, 2005, the EHC Subsidiaries maintained the statutory minimum capitalization to satisfy the requirements to write the line or lines of insurance for which they are presently licensed.
128. Upon completion of the transaction, the EHC Subsidiaries will have paid up capital in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the lines of insurance for which they are presently licensed.

129. Upon completion of the transaction, the EHC Subsidiaries will have paid in surplus in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the lines of insurance for which they are presently licensed.

#### Competitive Impact

130. The acquisition of control of the EHC Subsidiaries 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.
131. The acquisition of control of the EHC Subsidiaries will not lessen competition or tend to create a monopoly in the Commonwealth because the market shares of those insurance company subsidiaries of EHC licensed to transact the business of insurance in Pennsylvania, including but not limited to the EHC Subsidiaries and the market share of the Pennsylvania licensed insurance company subsidiaries of Holding Company, as stated in the Reorganization Application, do not exceed the market share levels established in Section 1403 of the Insurance Holding Companies Act.

#### Financial Condition of Applicant

132. 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 party.
133. The Department reviewed pro forma financial statements for Holding Company, after the Acquisition, as of September 30, 2005.
134. The financial condition of Holding Company would not pose any impediments to the change in control nor jeopardize the financial condition of the EHC Subsidiaries.

#### Plans for the Acquired Insurers

135. 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.
136. As provided in the Reorganization Application, Holding Company has no future plans or proposals to liquidate the EHC Subsidiaries, to sell their assets or merge them with any person or persons or to make any other

material change in their business or corporate structure or management.

#### Management Standard

137. 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 insurers.
138. Biographical affidavits for all directors and executive officers for Holding Company are on file with the Department and have been reviewed as part of the Department's analysis of the Reorganization Application.
139. The Department is satisfied that the persons who would control the operations of the EHC Subsidiaries have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

#### **General**

140. 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.
141. These Findings of Fact are as of the date of this Decision and Order, and the Department has no obligation to update or supplement these findings to reflect any changes to the findings set forth herein or additional facts that may occur after the date hereof.

#### CONCLUSIONS OF LAW

1. The Conversion Act provides the Commissioner jurisdiction to review and approve or disapprove Educators' Plan of Conversion as described in the Conversion Application.
2. Educators filed an alternative plan of conversion pursuant to Section 917-A of the Conversion Act that allocates subscription rights to its policyholders and certificateholders in accordance with the definition of "member" in its bylaws.
3. Educators' selection of the distribution of subscription rights method for conversion to the stock corporate form is consistent with the purpose and intent of the Conversion Act.
4. The distribution of consideration in the form of Subscription Rights to Eligible Members in exchange for their membership interests in Educators is consistent with the purpose and intent of the Conversion Act.
5. Section 913-A of the Conversion Act provides that the Commissioner may conduct a hearing in review of a proposed plan of conversion but does not require

that the Commissioner conduct a hearing.

6. The Commissioner has the discretion to choose whether or not to conduct a hearing.
7. If a hearing is held, the Conversion Act does not require the hearing to be conducted under the Administrative Agency Law, 2 Pa. C.S. §§501-555, utilizing the General Rules of Administrative Practice and Procedure, 1 Pa. Code, Chapters 31, 33, and 35.
8. A public informational type of hearing is appropriate under the Conversion Act in the Commissioner's review of a proposed plan of conversion.
9. The public informational hearing conducted on January 20, 2006, was a proper exercise of the Commissioner's discretion under Section 913-A of the Conversion Act.
10. Section 913-A of the Conversion Act requires that the proposed plan of conversion, and any amendments thereto, must be approved by not less than a two-thirds majority of the board of directors of the mutual company before it is filed with the Commissioner.
11. The unanimous approval by the Board of Directors of Educators of the Plan of Conversion, as well as all subsequent amendments, satisfies the requirements of the Conversion Act.
12. Section 914-A(a)(3)(i) of the Conversion Act provides that each eligible member is to receive, without payment, nontransferable subscription rights to purchase the capital stock of the converted stock insurance company, or the capital stock of a corporation organized for the purpose of purchasing and holding all the stock of the converted stock insurance company. In the aggregate, all eligible members shall have the right, prior to the right of any other party, to purchase one hundred percent (100%) of the capital stock offered, exclusive of any capital stock purchased by the company's tax-qualified employee stock benefit plan.
13. The Conversion Application's provision for offering Subscription Rights for 100% of Holding Company's capital stock to Educators' Eligible Members is consistent with the purpose and intent of the Conversion Act.
14. Section 916-A(a) of the Conversion Act provides that a plan of conversion may include a provision for the allocation to directors and officers of the mutual company, without payment, nontransferable subscription rights to purchase capital stock of the holding company as part of the offering. These subscription rights shall be allocated among the directors and officers by a fair and equitable formula and shall be subordinate to the subscription rights of eligible members.

15. The Conversion Application's provision for the allocation to directors and officers of nontransferable Subscription Rights to purchase capital stock of Holding Company is consistent with the purpose and intent of the Conversion Act.
16. Section 916-A(b) of the Conversion Act limits the aggregate total number of shares that may be purchased by directors and officers in their capacity as directors and officers or as eligible members to 35% of the total number of shares to be issued if the total assets of the mutual company are less than \$50 million or 25% of the total number of shares to be issued if the total assets of the mutual company are more than \$500 million. For mutual companies with total assets of or between \$50 million and \$500 million, the percentage of the total number of shares that may be purchased shall be interpolated.
17. The Conversion Application's provision with respect to the aggregate limitation on the purchase of Holding Company stock by officers and directors of Educators is consistent with the purpose and intent of the Conversion Act.
18. Section 916-A(c) of the Conversion Act provides for a plan of conversion to allocate to a tax-qualified employee benefit plan nontransferable subscription rights to purchase up to 10% of the conversion stock and the plan may exercise its subscription rights regardless of the total number of shares purchased by other persons.
19. The Conversion Application's provision for the issuance of 10% of the capital stock of Holding Company to a tax-qualified employee benefit plan is consistent with the purpose and intent of the Conversion Act.
20. Section 914-A(e) of the Conversion Act requires that a plan of conversion must set a purchase price per share of the capital stock and must set the minimum subscription amount per eligible member at an amount not in excess of \$500.00.
21. The Conversion Application's provisions of an anticipated purchase price of \$10.00 per share of capital stock of Holding Company and a minimum required subscription amount of \$250.00 satisfy the requirements of the Conversion Act.
22. Section 914-A(g) of the Conversion Act requires that, no director, officer or person acting in concert with a director or officer shall acquire any capital stock of the converted stock company or the stock of any other participating corporation for three (3) years after the effective date of the conversion except through a broker-dealer or upon the prior approval of the Commissioner.
23. The Conversion Application's prohibition of directors, officers or persons acting in concert with the directors or officers from acquiring any capital stock of Holding Company for a three (3) year period after the effective date of the

conversion except through a broker-dealer or upon the prior approval of the Commissioner are consistent with Section 914-A(g) of the Conversion Act.

24. Section 914-A(h) of the Conversion Act prohibits directors or officers from selling their stock of an Affiliate purchased in the conversion within one year of the effective date of the conversion.
25. The provisions in the Plan of Conversion which prohibit officers and directors from selling their personal holdings of Conversion Stock within one year of the effective date of the conversion are consistent with Section 914-A(h) of the Conversion Act.
26. Section 914-A(j) of the Conversion Act requires that the Plan of Conversion state that neither the converted stock company nor any other corporation participating in the conversion may repurchase any of its capital stock for three (3) years without the prior approval of the Commissioner
27. The provisions of the Plan of Conversion which prohibit Holding Company from repurchasing any of its stock within a three (3) year period after the effective date of the Conversion, are consistent with Section 914-A(j) of the Conversion Act.
28. Section 916-A(a) of the Conversion Act requires that subscription rights allocated among the officers and directors must be by a fair and equitable formula and must be subordinate to the subscription rights of the eligible members.
29. The Plan of Conversion's provisions for the allocation of Subscription Rights to directors, officers and employees of Educators is consistent with Section 916-A(a) of the Conversion Act in that the allocation is by a fair and equitable formula and is subordinate to the Subscription Rights of Eligible Members.
30. Section 921-A(b) of the Conversion Act prohibits the converted stock company from implementing any non-tax-qualified stock benefit plan for two (2) years after the conversion unless the plan is approved by a majority of votes eligible to be cast at a meeting of shareholders held not less than six (6) months after the effective date of the conversion.
31. The proposed Stock Compensation Plan provided for in the Plan of Conversion is consistent with Section 921-A(b) of the Conversion Act.
32. In accordance with Section 917-A of the Conversion Act, the Commissioner shall approve an alternative plan of conversion if the Commissioner finds each of the following:
  - a) The plan does not prejudice the interests of the members;
  - b) The plan is fair and equitable; and

- c) The plan is not inconsistent with the purpose and intent of the Conversion Act.
33. In accordance with Section 917-A of the Conversion Act, the Commissioner finds that:
- a) Educators' Plan of Conversion will not prejudice the interests of the members of Educators;
  - b) Educators' Plan of Conversion is fair and equitable; and
  - c) Educators' Plan of Conversion is not inconsistent with the purpose and intent of the Conversion Act.
34. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve an acquisition of control of a domestic insurer or a merger involving a domestic insurer.
35. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control or a merger 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 they are presently licensed;
  - b) The change in control or merger 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 or merger;
  - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or
  - g) The acquisition of control or merger is not in compliance with the laws of this Commonwealth, including the Conversion Act.

36. 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 Acquisition Application pertaining to Educators or the Merger Application pertaining to the EHC Subsidiaries.
37. Section 913-A of the Conversion Act provides that the Department may retain outside consultants, at the mutual company's expense, to assist the Department in its review of a proposed plan of conversion.
38. Section 1402 of the Insurance Holding Companies Act provides that the Department may retain outside consultants to assist the Department in its review of a proposed acquisition of control or merger of a domestic insurer.
39. The Department's retention of Curtis as an investment banker and valuation consultant was appropriate under Section 913-A of the Conversion Act and Section 1402 of the Insurance Holding Companies Act.
40. 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.



Member”) the notice of the members’ meeting (“Special Meeting”) to vote on the plan of conversion (“Plan of Conversion”); the notice shall be in the form contained in the conversion application and shall include the proxy statement/prospectus, any amendments or supplements thereto, and any other notice materials (“Notice Materials”).

- b) Educators shall provide to the Commissioner for review and comment prior to mailing the Notice Materials Educators proposes to send to each Eligible Member advising of the Special Meeting.
- c) Educators shall include a full copy of the Plan of Conversion, as approved by the Commissioner, the full Decision and Order, and the notice of the Special Meeting sent to each Eligible Member, with the Notice Materials.
- d) Educators shall not distribute the Notice Materials to any Eligible Members until the Pennsylvania Insurance Department (“Department”) has notified Educators in writing that it has no further comments on said materials, including any changes or additions to the Notice Materials that are made after the date hereof.
- e) Educators shall submit for the Commissioner’s approval any changes to the Plan of Conversion, including, but not limited to, changes in the subscription purchase limitations as set forth in the Plan of Conversion.
- f) Educators shall apprise the Department on a periodic basis of its efforts to ascertain the current mailing addresses of all Eligible Members prior to mailing of the Notice Materials.
- g) Educators shall mail the Notice Materials by United States Post Office Priority Mail or first class mail, or the equivalent thereof, postage prepaid, to the last known address of each Eligible Member, at least thirty (30) days before the date of the Special Meeting.
- h) Prior to mailing the Notice Materials to Eligible Members, Holding Company shall have received from the U.S. Securities and Exchange Commission (“SEC”) an order declaring Holding Company Registration Statement No. 333-128913 on Form S-1 effective under the Securities Act of 1933, as amended, and Holding Company shall have advised the Department in writing of the issuance of the order of the SEC. A copy of such order shall be filed with the Department within one (1) business day of the receipt thereof by Holding Company.
- i) Within two (2) business days after the first mailing of the Notice Materials to the Eligible Members, Educators shall file a full copy of the Notice Materials, exactly as mailed to the Eligible Members, with the Department.

- j) Prior to the effective date of the conversion, Educators shall submit for the Department's prior written approval any:
  - i) changes or additions to the Plan of Conversion or the exhibits thereto that are made subsequent to the date of this Order; and
  - ii) waiver of any condition precedent to completion of the transactions contemplated by the Plan of Conversion or the waiver of any other rights, duties or obligations of Educators set forth in the Plan of Conversion.
- k) In order to effectuate the conversion, the Plan of Conversion of Educators must be approved by the affirmative vote of two-thirds (2/3) of the Eligible Members who cast votes in person or by proxy at the Special Meeting, as required by Section 918-A of the Insurance Company Mutual-to-Stock Conversion Act, 40 P.S. §911-A, et seq., as amended (the "Conversion Act").
- l) Within two (2) business days after the conclusion of the Special Meeting, Educators shall provide written notice to the Department of the results of the votes cast at the Special Meeting.
- m) Within thirty (30) days of the Special Meeting, Educators shall file with the Department the minutes of the Special Meeting and the amended and restated articles of incorporation and bylaws which were adopted by the Eligible Members of Educators.
- n) In order to effectuate the conversion, the Eligible Members must have approved the Plan of Conversion and adopted the amended articles of incorporation, and Educators must have filed the amended articles of incorporation as adopted with the Secretary of the Commonwealth, as required by Section 918-A of the Conversion Act.
- o) Following approval by the Eligible Members in accordance with the Conversion Act, Educators shall effectuate the conversion as contemplated in the conversion application no later than 180 days following the date of this Order.
- p) No policy of Educators in force at the time of conversion shall be terminated by reason of the conversion. Additionally, the conversion shall not change, reduce or impair in any way the insurance obligations of Educators under any insurance policy issued or contract entered into by Educators.
- q) Educators shall publish this Decision and Order on its Internet website within five (5) business days after the date of this Decision and Order.

- r) Educators shall follow the procedures for the subscription and community stock offerings (“Conversion Offering”) as specified in the Plan of Conversion.
- s) Educators shall further consult with the Department before proceeding should the Conversion Offering not be fully subscribed.
- t) Educators shall, within thirty (30) days of the conclusion of the Conversion Offering, provide a report to the Department; such report shall indicate the number of shares and percentage of total shares purchased by the directors, officers and employees of Educators.
- u) No director, officer or person acting in concert with a director or officer shall acquire any capital stock of Holding Company, Educators or their legal successors (collectively “Affiliates”) for a three (3) year period after the effective date of the Conversion except through a broker-dealer or upon the prior approval of the Commissioner consistent with Section 914-A(g) of the Conversion Act.
- v) Within five (5) business days after the Conversion Offering, Educators shall provide to the Department for review and comment a copy of the Feldman Financial Advisors, Inc. (“Feldman”) update of the appraisal of the estimated pro forma market value of Educators after the conclusion of the Conversion Offering stating that the final offering price is consistent with the estimated pro forma market value of Educators (“Final Update”).
- w) On the effective date of the conversion, Educators and/or Holding Company shall file with the Department:
  - i) any certificates and other documents requested by the Department in connection with the consummation of the Conversion;
  - ii) written certifications executed by the President and Treasurer of both Educators and Holding Company that all conditions in the Decision and Order have been satisfied except for those permitted by the Department to be satisfied after the effective date; and
  - iii) written certifications of undertakings to satisfy any such post-closing conditions in accordance with the terms of this Decision and Order.
- x) On the last day prior to the effective date of the Conversion, the President and Chief Executive Officer of Educators shall certify that, to the best of his knowledge, the Notice Materials, as of the Special Meeting date and the effective date of the Conversion, did not contain any misstatement of a material fact or any omission of a material fact necessary to make the

statements made in the Notice Materials, in light of the circumstances under which they were made, not misleading.

- y) Educators and Holding Company shall notify the Department immediately if any event occurs subsequent to the issuance of this Order and prior to the effective date of the Conversion that does or could cause: (a) the Notice Materials; or (b) the Findings of Fact set forth in the Decision (including the pro forma appraisal update report prepared by Feldman dated November 30, 2005), to contain any misstatement of a material fact or any omission of a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.
- z) Educators shall file with the Department, within one (1) business day of receipt thereof, any updates it receives to the March 17, 2005 Keefe, Bruyette & Woods opinion letter concerning the fairness of the consideration to be paid to the stockholders of Eastern Holding Company, Ltd., in connection with the Reorganization.
- aa) Educators shall, within five (5) days of the effective date of the Conversion, provide to the Department a copy of all final executed documents relative to the conversion of Educators.
- bb) Educators shall, within sixty (60) days of the effective date of conversion, send a notice to its producers, in a form acceptable to the Department, giving notice of the Conversion.
- cc) For three (3) years following the effective date of the Conversion, Educators shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions to Holding Company, without the prior approval of the Commissioner, unless said distribution has been approved by the Department as a transaction between affiliates filed under 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.
- dd) For three (3) years following the effective date of the Conversion, Holding Company shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions to its shareholders, without the prior approval of the Commissioner.
- ee) For three (3) years following the effective date of the Conversion, Educators and Holding Company shall not voluntarily withdraw any certificate of authority to engage in the business of insurance in the Commonwealth of Pennsylvania.

- ff) For three (3) years following the effective date of the Conversion, Educators shall not attempt to or actually redomesticate to another jurisdiction.
  - gg) All necessary regulatory filings are made and approvals are obtained prior to consummation of the reorganization plan.
  - hh) Applicants shall provide a list of closing documents within five (5) days after consummation of the subject transactions 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.
  - ii) Educators and Holding Company shall notify the Department within two (2) business days after the receipt of any written notice of any legal or administrative proceeding challenging or in any way relating to the Conversion.
2. The request from Educators to change its name subsequent to the Conversion to "Eastern Life and Health Insurance Company" is hereby approved, subject to any requirements of other regulatory authorities, appropriate notice being given promptly to all relevant policyholders, certificateholders, producers and other interested persons, and the filing of the Articles of Amendment with the Pennsylvania Department of State.

In approving this transaction, the Department has relied upon information provided to it by Educators and Holding Company, as well as consultants retained by said parties and the Department. Nothing in this determination shall be considered as an endorsement or recommendation of the conversion or an investment in the stock of Holding Company or as any opinion regarding the future revenues, earnings or stock prices of Holding Company. The Department has not reviewed the proposed transaction

or related documents for compliance with federal law, including but not limited to the federal securities laws, or the laws of any other state.

This Order is effective immediately.

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M. Diane Koken  
Insurance Commissioner  
Commonwealth of Pennsylvania