

BEFORE THE 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 Northwestern	:	<u>as amended</u> , 40 P.S. §§991.1401,
Insurance Company	:	991.1402, and 991.1403
	:	
	:	Order No. ID-RC-08-06

DECISION AND ORDER

AND NOW, on this 20th day of June, 2008, Joel Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania (“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 Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. Northwestern Insurance Company (“Northwestern”) is a stock property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Valley View, Pennsylvania.
2. 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.
3. 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 is a subsidiary of Venbrook Group.

4. Jason D. Turner (“Turner”) is an individual with his principal place of business in Woodland Hills, California. Turner owns 36.7% of the voting securities of Venbrook Group.
5. William Lopatin (“Lopatin”) is an individual with his principal place of business in Beverly Hills, California. Lopatin owns 33.0% of the voting securities of Venbrook Group.
6. Marc J. Bishara (“Bishara”) is an individual with his principal place of business in Woodland Hills, California. Bishara owns 30.3% of the voting securities of Venbrook Group.
7. Turner, Lopatin and Bishara are the current ultimate controlling persons of Northwestern.
8. 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.
9. 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 95.61% of the issued and outstanding capital stock of Knight.
10. 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. Venbrook and Knight each hold 50% ownership interests of KnightBrook.

Acquisition Filing

11. 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 Commissioner for approval or disapproval.
12. On March 3, 2008, 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 KnightBrook for approval to acquire a controlling interest of Northwestern.
13. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

14. On March 29, 2007, 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 thirty day period, ending April 28, 2008.
15. The Department received no comments regarding the Application during the thirty day comment period.

Description of the Proposed Acquisition

16. As described in the Application, on March 27, 2008, Venbrook, Venbrook Group, Knight and KnightBrook entered into a Contribution and Indemnification Agreement (“Agreement”).
17. As described in the Application, on March 27, 2008, Venbrook, Knight and KnightBrook entered into an Operating Agreement (together with Agreement referred to as “Agreements”).
18. As described in the Application and pursuant to the Agreements, Venbrook would acquire up to 50% of the ownership interest of KnightBrook in exchange for 100% of the issued and outstanding capital stock of Northwestern and a cash contribution.
19. As described in the Application and pursuant to the Agreements, KnightBrook would directly hold 100% of the issued and outstanding capital stock of Northwestern.
20. As described in the Application and permitted by the Agreements, Knight and Venbrook would each indirectly hold 50% of the ownership interest of Northwestern.

Standards for Review

21. 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.
22. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

23. 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.

24. 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).
25. 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).
26. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Northwestern is required to maintain a minimum paid up capital stock of \$1,000,000 to write the classes of insurance for which it is presently licensed.
27. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Northwestern is required to maintain a minimum paid in surplus of \$500,000 to write the classes of insurance for which it is presently licensed.
28. Upon completion of the transaction, Northwestern will have paid up capital in an amount that will satisfy the statutory minimum required of a stock property insurance company licensed to write the classes of authority currently held by Northwestern.
29. Upon completion of the transaction, Northwestern will have paid in surplus in an amount that will satisfy the statutory minimum required of a stock property insurance company licensed to write the classes of authority currently held by Northwestern.

Competitive Impact

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

Financial Condition of Knight

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 persons.

33. The Department has reviewed the financial condition of Knight as of March 31, 2008, and determined that it would not pose any impediments to the change in control nor jeopardize the financial condition of Northwestern.

Plans for the Acquired Insurer

34. 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.
35. As provided in the Application, KnightBrook has disclosed that it intends to cause the merger of Northwestern with and into Excess Reinsurance Company as soon as possible after consummation of the acquisition.

Management

36. 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.
37. Biographical affidavits for all directors and executive officers of KnightBrook were provided as part of the Application and the Department reviewed all affidavits that were submitted.
38. The Department is satisfied that the persons who would control the operations of Northwestern have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
39. 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 Commissioner has jurisdiction to review and approve the change in control of Northwestern.
2. Under Section 1402 of the Insurance Holding Companies Act, the 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 Commissioner has not found that any of the above conditions are present with respect to the change in control of Northwestern.
4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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	:	
	:	Order No. ID-RC-08-06

ORDER

Upon consideration of the foregoing, the 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 Northwestern Insurance Company (“Northwestern”), as detailed in the Application, is hereby approved, subject to this Order and the following conditions:

KnightBrook shall provide availability to a copy of the closing documents to the Insurance Department within five (5) business days of consummation of the subject transaction.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.

Joel Ario
Acting Insurance Commissioner
Commonwealth of Pennsylvania