

DEC 18 2008

BEFORE THE DEPARTMENT OF INSURANCE
STATE OF NEBRASKA

FILED

IN THE MATTER OF THE)
ACQUISITION OF CONTROL OF)
SURETY LIFE INSURANCE)
COMPANY)

FINDINGS OF FACT,
CONCLUSIONS OF LAW,
RECOMMENDED ORDER AND
ORDER

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CAUSE NO.: C-1733

On October 31, 2008, Presidio Reinsurance Group, Inc., ("Applicant") filed an application ("Form A") seeking approval to acquire control of Surety Life Insurance Company ("Surety"), a Nebraska domestic life and health insurer. The application was filed pursuant to the Insurance Holding Company System Act, *Neb. Rev. Stat.* §44-2120, §44-2126 (Reissue 2004). The filing was subsequently supplemented on November 25, 2008, and December 11, 2008. A Notice of Public Hearing was issued December 10, 2008.

On December 17, 2008, a public hearing was held at the Nebraska Department of Insurance ("Department"). Eric Dunning served as hearing officer duly appointed by the Director of Insurance to preside over this matter. Tracy Gruhn, a licensed Notary Public, recorded the hearing. Christine Neighbors, General Counsel, and James Nixon, Chief Examiner, represented the Department. Applicant was present and represented by L. Chris Petersen, Esq., of Morris, Manning & Martin, LLP, and William Megna, Esq., of Megna Law Firm. Applicant presented testimony in favor of the acquisition through Dennis E. Heinzig, President and Chief Executive Officer. Exhibits were offered by Applicant and by the Department, and received into the record. Applicant waived notice

of the hearing and provided Surety with notice of the hearing as required by *Neb. Rev. Stat. §44-2127(2)*. No testimony or documentary evidence was offered in opposition to the proposed acquisition.

On the basis of the filings, correspondence and information provided to the Department, the hearing officer recommends approval of the application and finds, concludes, and recommends as follows:

FINDINGS OF FACT

1. On October 31, 2008, the Department received a verified Form A from the Applicant for approval to acquire control of Surety through the purchase of all issued and outstanding shares of stock from Surety's parent corporation, Allstate Life Insurance Company. The application and subsequent amendments were filed pursuant to the Insurance Holding Company System Act, *Neb. Rev. Stat. §44-2120, et seq.*, specifically §44-2126. The acquisition will result in Applicant exercising control of Surety as control is defined in the Act.

2. Surety is a domestic insurer organized under and governed by the laws of the State of Nebraska. Surety obtained its Certificate of Authority to transact the business of insurance in this state on November 19, 1960. Surety is currently a wholly owned subsidiary of Allstate Life Insurance Company, a life insurance company organized under the laws of the State of Illinois. Allstate Life Insurance Company is a wholly owned subsidiary of Allstate Insurance Company, an Illinois domiciled insurer, which, in turn, is a wholly owned subsidiary of Allstate Corporation.

3. Applicant is a Delaware corporation formed in 2007 by the shareholders of Presidio Excess Insurance Services, Inc., ("Presidio Excess"), to be the holding company of Presidio Excess and any other acquired insurers. Presidio Excess was founded in 1994 as Aon Managed Care, Inc., a California corporation. In 1996, the company's name was changed to Presidio Excess. In 2004, Presidio Excess was sold by Aon to its management, primarily Dennis E. Henzig and Douglas Stewart with FTVentures III, L.P., joining as a shareholder in 2007.

4. Applicant's stock is currently owned by Dennis E. Henzig (32.7%); Douglas Stewart (19.6%); and FTVentures III, L.P., (47.6%), a limited partnership. Neither the general partner of FTVentures III, L.P., nor any of the members, own more than five percent of the entity. Therefore, the ultimate control rests with FTVentures III, L.P.

5. The consideration for the acquisition is approximately \$19,000,000, and may fluctuate based upon market value of Surety's investment assets upon closing. Applicant will fund the acquisition from cash on hand and additional committed equity capital from FTVentures III, L.P., which will be infused into Applicant.

6. The parties executed a Stock Purchase Agreement dated as of September 29, 2008.

7. Applicant has no plans to have Surety declare an extraordinary dividend, liquidate Surety, sell its assets, or merge it with any other entity. Applicant does intend to change the board and management of Surety and transform its operations to a full

service domestic reinsurance company, specializing in the accident and health insurance market.

8. Applicant has filed all the documents and information required by law and requested by the Department.

CONCLUSIONS OF LAW

1. The Department and Director have jurisdiction over the subject matter of this proceeding.

2. On the basis of the materials filed, correspondence received and evidence presented at the hearing, the Director concludes as follows:

a. After the acquisition, Surety will satisfy the requirements for issuance of a Certificate of Authority to conduct business of insurance in the State of Nebraska and write the lines of insurance for which it is presently licensed.

b. The effect of the acquisition will not substantially lessen the competition in insurance in the State of Nebraska nor tend to create a monopoly therein nor violate the laws of the State of Nebraska.

c. The financial condition of Applicant is such that it would not jeopardize the financial stability of Surety or prejudice the interest of the policyholders of Surety.

d. The Applicant has no plans or proposals to liquidate Surety, to sell the assets of Surety without the approval of the Department, to consolidate or merge Surety with any person or persons without approval of the Department, or to make any other material change in the business operations or corporate structures of management which would be unfair and unreasonable to policyholders of Surety and not in the public interest.

e. The competence, experience and integrity of those persons who would control the operation of Surety are such that it would be in the interest of the policyholders of Surety and the public to allow the acquisition.

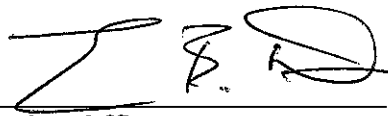
f. Applicant is not subject to the provisions of *Neb. Rev. Stat.* §44-6115 under the Demutualization Act; and

g. The acquisition is not likely to be hazardous or prejudicial to the public.

RECOMMENDED ORDER

Upon review of the testimony and evidence submitted, the hearing officer hereby recommends to the Director of Insurance that the application to acquire control of Surety Life Insurance Company be and the same is hereby approved.

Dated this 17th day of December, 2008.



Hearing Officer

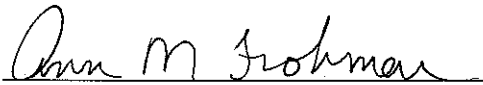
ORDER

I hereby certify that the foregoing Recommended Order is adopted as the Order of the Nebraska Department of Insurance in the matter of the acquisition of Surety Life Insurance Company, Cause No.: C-1733.

Within fifteen (15) days after acquiring the stock contemplated in this order, Applicant shall file with the Department an Insurance Holding Company System Registration Statement, and any other filings required, in accordance with *Neb. Rev. Stat.* §44-2132, *et seq.*

Dated this 18th day of December, 2008.

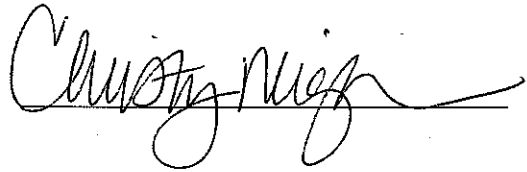
STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



ANN M. FROHMAN
Director of Insurance

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Order was sent L. Chris Petersen, Esq., Morris, Manning & Martin, LLP, 1333 H Street, N.W., Suite 820, Washington, D.C. 20005 and to William F. Megna, Esq., Megna Law Firm, 601 Ewing Street, Suite C-8, Princeton, NJ 08540 by electronic mail and by U.S. Mail, postage prepaid, on this 15th day of December, 2008.

A handwritten signature in black ink, appearing to read "Christopher Megna", written over a horizontal line.