

JUL 21 2014

FILED

BEFORE THE DEPARTMENT OF INSURANCE  
STATE OF NEBRASKA

IN THE MATTER OF THE	)	FINDINGS OF FACT, CONCLUSIONS
ACQUISITION OF CONTROL OF	)	OF LAW, AND ORDER
PREFERRED PROFESSIONAL	)	
INSURANCE COMPANY	)	CAUSE NO.: C-2089

On June 9, 2014, ProMutual Group, Inc. (“ProMutual Group”) and Medical Professional Mutual Insurance Company (“ProMutual”) filed an application (“Form A”) seeking approval to acquire control of Preferred Professional Insurance Company (“PPIC”), a Nebraska domestic insurer. The application was filed, and supplemented, pursuant to the Insurance Holding Company System Act, Neb. Rev. Stat. §§ 44-2120 to 44-2153. Applicants waived the notice requirements set forth in Neb. Rev. Stat. §§ 44-2120 to 44-2153, including but not limited to the notice provisions of Neb. Rev. Stat. § 44-2127. A Notice of Public Hearing was issued on July 3, 2014.

On July 17, 2014, a public hearing was held at the Nebraska Department of Insurance (“Department”). Director of the Nebraska Department of Insurance, Bruce R. Ramage presided over the hearing. Brandis Courser, a licensed Notary Public, was present and recorded the hearing. Christine Neighbors, Deputy Director and General Counsel, and Justin Schrader, Chief Financial Examiner, represented the Department.

Applicants were present and represented by Erin Bagley, Vice President and General Counsel of ProMutual. Applicants presented testimony in favor of the acquisition through Gregg Hanson, CEO and President of ProMutual. Exhibits were offered by Applicants, and by the Department, and received into the record. 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 Director approves the application and finds, concludes, and recommends as follows:

#### FINDINGS OF FACT

1. On June 9, 2014, the Department received a verified Form A from the Applicants for approval to acquire control of PPIC through an Agreement and Plan of Merger. The application and subsequent amendments were filed pursuant to the Insurance Holding Company System Act, Neb. Rev. Stat. §§ 44-2120 to 44-2153, specifically § 44-2126. The Merger Agreement will result in Applicants gaining control of PPIC as control is defined in the Act.

2. PPIC is a domestic insurer organized under and governed by the laws of the State of Nebraska. PPIC obtained its Certificate of Authority to transact the business of property and casualty insurance in this state on July 19, 1976. PPIC is currently a stock-based property and casualty insurance company.

3. ProMutual is a Massachusetts mutual insurance company and the parent company of the Coverys group of companies. Coverys is headquartered in Boston, Massachusetts and provides medical professional liability insurance to healthcare professionals and institutions in twenty-six states. Coverys had approximately \$362.8 million in direct written premium as of December 31, 2013. ProMutual was formed in

1995 from the assets and customer base of the former Massachusetts Joint Underwriting Association.

4. ProMutual Group is a Massachusetts holding company and a direct wholly owned subsidiary of ProMutual. Following the transaction, PPIC will be a direct wholly owned subsidiary of ProMutual Group, and therefore, ProMutual will be the ultimate controlling party of PPIC.

5. Alpha Merger Co. is a Nebraska corporation and an indirect, wholly owned subsidiary of ProMutual formed for the purpose of the proposed acquisition. Catholic Health Initiatives (“Shareholder Representative”) is a national nonprofit health system acting as the Shareholder Representative for purposes of the proposed transaction.

6. On May 9, 2014, ProMutual, Alpha Merger Co., the Shareholder Representative, and PPIC executed an Agreement and Plan of Merger. The Merger Agreement provides for the transaction to close following, among other things, the approval of the Board of Directors of each company, the shareholders of PPIC, and the proper regulatory approval of each state where approval is necessary.

7. As consideration for the transaction, the Merger Agreement provides that all outstanding shares of common stock of PPIC will be cancelled and converted into the right to receive a portion of the Merger Consideration. The Merger Consideration will be funded by ProMutual Group’s cash on hand, which will be received as a capital contribution from ProMutual. The Merger Consideration consists of \$280,000,000, less an extraordinary dividend of no more than \$99,963,984.96 to be paid on a pro rata basis to the shareholders of PPIC prior to closing. Of the total Merger Consideration, an

escrow amount equal to \$49,000,000 and an advancement of expenses to the Shareholder Representative equal to \$1,000,000 will be withheld in escrow at the closing. Alpha Merger Co. will merge with and into PPIC, with PPIC continuing as the surviving corporation. All shares of Alpha Merger Co. will be converted into and become one share of common stock of PPIC, and PPIC will become a direct wholly owned subsidiary of ProMutual Group and an indirect, wholly owned subsidiary of ProMutual.

8. Upon consummation of the Merger, the Articles of Incorporation and Bylaws of PPIC will be amended. Applicants have proposed post-merger directors for PPIC, and the executive officers of PPIC will not change as a result of the merger. Other than that described, Applicants have no plans or proposals to cause PPIC to declare an extraordinary dividend, to liquidate PPIC, or to sell its assets to any person or persons. It is the Applicants' intention for PPIC to continue its day to day operations in Nebraska and to expand its current business model over the next three years.

9. 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, PPIC will satisfy the requirements for 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 Applicants is such that it would not jeopardize the financial stability of PPIC or prejudice the interest of the policyholders of PPIC.

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

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

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

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

ORDER

IT IS THEREFORE ORDERED that the Agreement and Plan of Merger be approved. Within fifteen (15) days after closing, Applicants 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 21 day of July, 2014

STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE

  
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BRUCE RAMGE  
Director of Insurance

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Order was sent to Erin B. Bagley, Vice President, General Counsel, Medical Professional Mutual Insurance Company, One Financial Center, 13th Floor, Boston, Massachusetts 02111, and to Robert J. Sullivan, Esq., Skadden, Arps, Slate, Meagher & Flom LLP, Four Times Square, New York, New York 10036, by U.S. Mail, postage prepaid, on this 21 day of July, 2014.

  
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