

In the Matter of the Acquisition of Control  
of Sheboygan Falls Mutual Insurance Company  
by Donegal Mutual Insurance Company

PROPOSED DECISION

Case No. 07-C30859

Petitioners.

Roger A. Peterson, Hearing Examiner, Presiding

APPEARANCES

For the Office of the  
Commissioner of Insurance:

Present in person

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PRELIMINARY

Pursuant to a Notice of Hearing dated May 14, 2007, a hearing was held at 10:10 a.m. on May 18, 2007, to determine whether the Petitioner's application for

approval of the plan for acquisition of control should be granted. Based on the record, the Hearing Examiner makes the following:

PROPOSED FINDINGS OF FACT

(1) Donegal Mutual Insurance Company, 1195 River Road, Marietta, Pennsylvania, is a mutual insurance company domiciled in the State of Pennsylvania (the Petitioner).

(2) Sheboygan Falls Mutual Insurance Company, 511 Water Street, Sheboygan Falls, Wisconsin, is a Wisconsin domestic mutual insurance company.

(3) The Petitioner filed with the Office of the Commissioner of Insurance (Commissioner) an application for approval of the acquisition of control of Sheboygan Falls Mutual Insurance Company (plan).

(4) The Petitioners were served with a Notice of Hearing.

(5) The Petitioners fulfilled the filing requirements of s. Ins 40.02, Wis. Adm. Code.

(6) The plan will not violate the law or be contrary to the interest of the insureds of Sheboygan Falls Mutual Insurance Company or of the Wisconsin insureds of any participating nondomestic corporation.

(7) After the acquisition of control, Sheboygan Falls Mutual Insurance Company will be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed.

(8) The effect of the acquisition of control will not be to create a monopoly or substantially to lessen competition in any type or line of insurance in Wisconsin.

(9) The financial condition of Donegal Mutual Insurance Company is not likely to jeopardize the financial stability of Sheboygan Falls Mutual Insurance Company or to prejudice the interests of its Wisconsin policyholders.

(10) There are no immediate plans or proposals to make significant changes to senior management or the employees of the domestic mutual insurance company, Sheboygan Falls Mutual Insurance Company, or to request an extraordinary dividend, to liquidate, to sell its assets, or to consolidate or merge with any person, or to materially change the current operations. Eventually, Petitioner expects to convert Sheboygan Falls Mutual Insurance Company to a stock company, if approved by the Commissioner and the policyholders pursuant to s. 611.76, Wis. Stat., and it is expected that the company would be purchased by an affiliate of the Petitioner. The Petitioner has agreed to not assert any rights as a policyholder of Sheboygan Falls Mutual Insurance Company, in the event of a demutualization under s. 611.76, Wis. Stat., by reason of the retrocessional reinsurance agreement. The Petitioner plans to elect new members to the Board of Directors of Sheboygan Falls Mutual Insurance Company after the Contribution Note Purchase Agreement goes into effect. The Petitioner has agreed to not close the existing office of Sheboygan Falls Mutual Insurance Company for the first

five years after the Closing, and in the fifth to tenth year the office may be closed only with the affirmative vote of 8 directors of Sheboygan Falls Mutual. The transactions as described by the Petitioner, are fair and reasonable to the policyholders of Sheboygan Falls Mutual Insurance Company and in the public interest.

(11) The competence and integrity of the persons who will control the operation of the domestic stock insurance corporation, Sheboygan Falls Mutual Insurance Company, and its proposed parent, Donegal Mutual Insurance Company, are such that it will be in the interest of the policyholders and the public to permit the acquisition of control.

PROPOSED CONCLUSION OF LAW

(12) The proposed findings of fact set forth above establish that the requirements of s. 611.72 and chs. 227 and 617, Wis. Stat., and ch. Ins 40, Wis. Adm. Code, have been satisfied and approval of the plan should be granted.

PROPOSED ORDER

NOW, THEREFORE, based upon the findings of fact and conclusion of law, I hereby recommend that:

(13) The Petitioner's request for approval of the plan for acquisition of control should be approved.

Dated at Madison, Wisconsin, this 18<sup>th</sup> day of May, 2007.



Roger A. Peterson  
Hearing Examiner