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CLIENT/MATTER NUMBER  
027702-0102

September 9, 2016

ADVANCED VIA E-MAIL

Ms. Kristin L. Forsberg  
Insurance Financial Examiner  
Bureau of Financial Analysis and Examinations  
State of Wisconsin  
Office of the Commissioner of Insurance  
125 South Webster Street  
P.O. Box 7873  
Madison, WI 53707-7873

Re: Form A – Acquisition of Control of United National Specialty Insurance Company by State National Companies, Inc. and State National Insurance Company, Inc.

Dear Ms. Forsberg:

Reference is made to the above-captioned Form A filing, and to the Share Purchase Agreement attached thereto as Exhibit 1 (the “**Agreement**”). Capitalized words used in this letter but not defined herein have the meaning ascribed to such words in the Agreement.

In Section 1.05 of the Agreement, State National Insurance Company, Inc. (“**State National**”) and Diamond State Insurance Company (“**Seller**”) agreed to enter into an Escrow Agreement (the “**Escrow Agreement**”), and State National agreed to deposit \$145,000 (the “**Escrow Amount**”) into the Escrow Account established pursuant to the Escrow Agreement. The parties’ intent was for the deposit to serve as “earnest money” with respect to the proposed acquisition, and to be released to the Seller at Closing. To that end, the Closing Purchase Price was defined by Article XI of the Agreement to be the Purchase Price, net of the Escrow Amount. The Agreement also contained provisions (including Section 2.03(a)) that provided for the release of the Escrow Amount to Seller at Closing.

While the parties fully intended to enter into the Escrow Agreement concurrently with the signing of the Agreement, they were unable to identify a willing and suitable escrow agent in light of the small size of the Escrow Amount. The parties continued to seek an appropriate escrow agent until very recently, at which point State National and Seller mutually agreed to forego the escrow arrangement. In order to memorialize that decision, State National and Seller entered into the First Amendment to the Share Purchase Agreement (the “**Amendment**”) dated September 1, 2016 and attached to this letter as Exhibit 1. The Amendment removes Section 1.05 and other provisions of the Agreement that related to the Escrow Account and Escrow Amount, changes certain definitions, and otherwise

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changes the Agreement to reflect the parties' agreement to not enter into an Escrow Agreement in connection with the proposed acquisition.

In addition, the Amendment makes one other change to the Agreement in order to better reflect the parties' intent. Specifically, it clarifies that the Pre-Closing Policies required to be reported on Section 4.22 of the Disclosure Schedules are only those policies that are in force as of the Closing Date, not all policies ever issued by United National Specialty Insurance Company.

Please do not hesitate to contact me should you have any questions or should you require additional information.

Very truly yours,



Kevin G. Fitzgerald

Enclosures

cc: David M. Cleff, Esq. (w/o enclosures)  
Elise M. Clarke, Esq. (w/o enclosures)

## FIRST AMENDMENT TO THE SHARE PURCHASE AGREEMENT

This FIRST AMENDMENT TO THE SHARE PURCHASE AGREEMENT (this "Amendment Agreement") is made as of September 1, 2016, by and between State National Insurance Company, Inc., a Texas corporation ("Purchaser"), and Diamond State Insurance Company, an Indiana corporation (the "Seller").

### RECITALS

A. Purchaser and the Seller are parties to that certain Share Purchase Agreement dated as of May 12, 2016 (the "Purchase Agreement"). Capitalized terms not otherwise defined in this Amendment Agreement shall have the meanings given to such terms in the Purchase Agreement.

B. The parties desire to amend the Purchase Agreement as set forth herein.

### AGREEMENT

The parties to this Amendment Agreement, intending to be legally bound, agree as follows:

1. The Purchase Agreement is hereby amended by deleting the following sections from the Purchase Agreement in their entirety and replacing such sections with "[Reserved]": Section 1.5 and Section 2.03(a).

2. The Purchase Agreement is hereby amended by amending and restating Section 4.22 in their entirety to read as follows:

**Section 4.22. Insurance Policies Issued by the Company.** The Company's Pre-Closing Policies reported as in-force as of the Closing Date are those set forth on Section 4.22 of the Disclosure Schedules.

3. The Purchase Agreement is hereby amended by deleting (i) the definition of "Escrow Account" and the reference to "Escrow Amount" in the defined terms table, in each case in Article XI and (ii) and the second and third sentences of Section 8.03 in their entirety.

4. The Purchase Agreement is hereby amended by deleting the reference to the Escrow Agreement in the list of Exhibits on page iii of the Purchase Agreement and replacing such reference with "[Reserved]".

5. The Purchase Agreement is hereby amended by amending and restating the following definitions in Article XI in their entirety to read as follows:

a. "Ancillary Agreements" means the Quota Share Reinsurance Agreement.

b. "Closing Purchase Price" means (a) the Estimated Statutory Capital plus (b) seven million three hundred fifty thousand dollars (\$7,350,000).

6. Except as it has been specifically amended pursuant to this Amendment Agreement, all provisions of the Purchase Agreement shall remain in full force and effect.

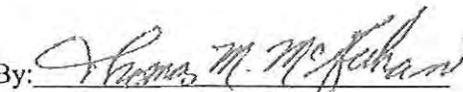
[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this First Amendment to the Share Purchase Agreement as of the day and year first above written.

**STATE NATIONAL INSURANCE COMPANY, INC.**

By:   
Name: Terry Ledbetter  
Title: CEO

**DIAMOND STATE INSURANCE COMPANY**

By:   
Name: Thomas M. McGeehan  
Title: Chief Financial Officer