

FORM A

**STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR MERGER
WITH A DOMESTIC INSURER**

UNITED NATIONAL SPECIALTY INSURANCE COMPANY

Name of Domestic Insurer

by

STATE NATIONAL COMPANIES, INC.

and

STATE NATIONAL INSURANCE COMPANY, INC.

Names of Acquiring Persons

Filed with the Office of the Commissioner of Insurance, State of Wisconsin

Dated June 8, 2016

Name, title, address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

David M. Cleff
Executive Vice President, General Counsel and
Secretary
State National Companies
1900 L. Don Dodson Drive
Bedford, TX 76021
(817) 265-2000 ext. 1219

With a copy to:

Kevin G. Fitzgerald
Foley & Lardner LLP
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
(414) 297-5841

ITEM 1. INSURER AND METHOD OF ACQUISITION

The name and address of the Domestic Insurer to which this application (this “**Form A**”) applies is: United National Specialty Insurance Company (“**UNSI**C” or the “**Domestic Insurer**”), Three Bala Plaza, Suite 300, Bala Cynwyd, PA 19004 (NAIC# 41335).

Diamond State Insurance Company (“**Diamond State**”) owns 100% of the issued and outstanding voting stock of the Domestic Insurer. The Domestic Insurer is under the ultimate control of Fox Paine International GP, Ltd., a Cayman Islands Exempted Company, which owns, indirectly, 100% of the outstanding voting stock of Diamond State.

The acquiring parties in this transaction are State National Companies, Inc. (“**SNC**”) and its wholly-owned subsidiary, State National Insurance Company, Inc. (“**State National**”) and, together with SNC, the “**Applicants**”). SNC is a Delaware corporation and State National is a Texas stock insurance corporation.

The Applicants intend to acquire control of UNSIC by causing State National to acquire 100% of the issued and outstanding stock of UNSIC pursuant to that certain Share Purchase Agreement (the “**Agreement**”) dated May 12, 2016, by and between Diamond State and State National. A true and correct copy of the Agreement is attached to this Form A as **Exhibit 1** and is incorporated herein by reference.

Pursuant to the Agreement, and subject to all required regulatory approvals, including the approval of this Form A by the Wisconsin Office of the Commissioner of Insurance (the “**Commissioner**”), State National intends to acquire all of the issued and outstanding shares of the capital stock of UNSIC (the “**Acquisition**”). As a result of the Acquisition, the Applicants will acquire the power to exercise all voting rights in the governance of UNSIC. The specific terms and conditions governing the acquisition are set forth in the Agreement. Certain material terms of the Agreement are summarized as follows:

- At the time the Agreement was signed, there were 42,000 shares of common stock of UNSIC issued and outstanding (the “**Common Stock**”).
- Prior to the closing of the Acquisition, UNSIC and Diamond State will enter into a quota share reinsurance agreement (the “**Reinsurance Agreement**”) whereby Diamond State will (i) 100% reinsure, at its cost, all of the liabilities of UNSIC relating to policies issued by UNSIC prior to the closing (the “**Pre-Closing Policies**”), including renewals of the Pre-Closing Policies (the “**Post-Closing Policies**”) which UNSIC is obligated by contract or applicable law to issue after the closing of the Acquisition, and (ii) administer, in all respects and at its cost, the Pre-Closing Policies and Post-Closing Policies.
- Prior to the closing of the Acquisition, and subject to receipt of regulatory approval, Diamond State will cause UNSIC to transfer assets, by dividend or distribution, to Diamond State such that UNSIC has \$10 million of capital at the closing of the Acquisition.

- At the closing of the Acquisition, State National will acquire all of the Common Stock, and the Applicants will thereby acquire control of UNSIC.
- As consideration for the Common Stock, and subject to the terms and conditions of the Agreement, State National will pay to Diamond State at the closing an aggregate cash purchase price of Seven Million Three Hundred Fifty Thousand Dollars (\$7,350,000) plus the Statutory Capital of UNSIC as of prior to the Closing, determined in accordance with the terms of the Agreement (the “**Purchase Price**”), as described more thoroughly in Item 4 below.
- The Agreement contains representations and warranties by the parties, and imposes certain pre-closing covenants and post-closing indemnification obligations on the parties, in each case that are either customary for acquisitions of this nature or otherwise suitable for this particular Acquisition.
- The closing of the Acquisition is subject to closing conditions that are either customary for acquisitions of this nature or otherwise suitable for this particular Acquisition, including, without limitation, conditions relating to the receipt of regulatory approvals, accuracy at the closing date of certain representations and warranties made in the Agreement, compliance with pre-closing covenants, the absence of any Company Material Adverse Effect or Purchaser Material Adverse Effect (as those terms are defined in the Agreement), and the delivery of certain closing documentation.
- It is anticipated that the closing of the Acquisition will occur on the third (3rd) Business Day following the day on which the last of the closing conditions are satisfied or waived, or on such other date as State National and Diamond State may mutually agree in writing; in each case subject to the satisfaction or waiver of all conditions precedent set forth in the Agreement, including the approval of this Form A by the Commissioner.

This statement is submitted for the purpose of obtaining the approval of the Commissioner pursuant to Section 611.72 of the Wisconsin Statutes and the applicable provisions of the Wisconsin Administrative Code.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANTS

(a) The Applicants

The name and address of the Applicants are as follows:

State National Companies, Inc.
1900 L. Don Dodson Drive
Bedford, TX 76021

State National Insurance Company, Inc.
1900 L. Don Dodson Drive
Bedford, TX 76021

(b) The Applicants Business Operations

SNC is a Delaware corporation, and State National is a Texas stock insurance corporation organized under Chapters 822 and 861 of the Texas Insurance Code. SNC is publicly traded on the Nasdaq Global Select Market (NASDAQ) under the stock symbol “SNC.” While SNC is publicly traded, one shareholder (the “**Shareholder**”) identified below in Item 3 holds more than 10% of the voting stock of SNC. State National is an indirect, wholly-owned subsidiary of SNC. Other than the Shareholder, no person or persons possess any rights to control the business or operations of SNC or State National.

The principal business of the Applicants and their affiliates (the “**State National Group**”) is providing property and casualty insurance in two niche markets across the United States. The State National Group’s Program Services segment provides access to the U.S. property and casualty insurance market to general agents and other insurance carriers in exchange for ceding fees, and its Lender Services segment provides Collateral Protection Insurance, which insures personal automobiles and other vehicles held as collateral for loans made by credit unions, banks and specialty finance companies.

The Applicants intend to maintain the current business operations of the State National Group as set forth above for the foreseeable future.

(c) Organization Chart

The chart attached hereto as **Exhibit 2(c)** lists the present identities of, and inter-relationships among, the Applicants and all known affiliates of the Applicants. Such chart indicates the percentage of ownership interests, type of organization, and state or other jurisdiction of domicile of each person that is owned or controlled by the Applicant or by any such person. SNC’s control of these subsidiaries is maintained by its direct or indirect ownership of voting securities of the subsidiaries. There are no court proceedings involving a reorganization or liquidation pending with respect to any such person.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANTS

Identity of Officers, Directors and Owners

Following are the names and titles of the respective directors, executive officers and owners of the Applicants at the effective date of the Acquisition unless otherwise indicated:

SNC Directors

Name	Title
Terry Ledbetter	Chairman, Chief Executive Officer, Director
Gene Becker	Director
Marsha Cameron	Director
David King	Director
Fred Reichelt	Director

SNC Officers

Name	Title
Terry Ledbetter	Chairman and Chief Executive Officer
Matthew Freeman	President
David Hale	Executive Vice President, Chief Financial Officer and Chief Operating Officer
David Cleff	Executive Vice President of Business Affairs, General Counsel and Secretary
John Pearson	Executive Vice President and National Sales Manager
Lonnie Ledbetter III	Executive Vice President of Service
Bradford Luke Ledbetter	Executive Vice President and Chief Underwriting Officer – Program Services

State National Directors

Name	Title
Terry Ledbetter	Chairman, Chief Executive Officer, Director
David Hale	Treasurer, Director
Lonnie Ledbetter III	Secretary, Director
Mary Billingsley	Director
Lonnie Ledbetter	Director
Bradford Luke Ledbetter	Director
Fred Reichelt	Director

State National Officers

Name	Title
Terry Ledbetter	Chairman and Chief Executive Officer
Matthew Freeman	President
Lonnie Ledbetter III	Secretary
David Hale	Treasurer
David Cleff	Assistant Secretary

SNC Owners as of March 31, 2016

Name	Ownership Interest
Terry L. Ledbetter, Sr.	28.771% of SNC's voting stock is held by Terry Ledbetter individually and through trusts and a private foundation for which Terry Ledbetter is the grantor

Biographical Affidavits and Authority for Release of Information

Biographical Affidavits and completed releases as required by the Commissioner are enclosed with this Form A under separate cover.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

- (a) State National will purchase UNSIC for the Purchase Price referenced in Item 1 above. The Purchase Price will be paid entirely in cash. The source of the funds for the purchase will be State National's [unassigned surplus]. No part of the purchase price will be obtained through third-party financing.
- (b) The Purchase Price is a result of arms' length negotiations between the parties. The Applicants were represented by independent legal advisors, and Diamond State was represented by independent financial and legal advisors, in the negotiations between the parties.

ITEM 5. FUTURE PLANS OF INSURER

- The Applicants intend to cause the directors and officers of UNSIC to be replaced with the following persons:

UNSIC Directors

Name	Title
Terry Ledbetter	Chairman, Chief Executive Officer, Director
Gene Becker	Director
Marsha Cameron	Director
David King	Director
Fred Reichelt	Director

UNSIC Officers

Name	Title
Terry Ledbetter	Chairman and Chief Executive Officer
Matthew Freeman	President
Lonnie Ledbetter III	Secretary
David Hale	Treasurer
David Cleff	Assistant Secretary

To the extent not provided in Item 3 above, Biographical Affidavits and completed releases as required by the Commissioner for the above-named persons are enclosed with this Form A under separate cover.

- Diamond State, at the request of the Applicants, intends to cause UNSIC to redomesticate from Wisconsin to Texas immediately after the closing of the Acquisition, and has filed the appropriate paperwork with the Commissioner and the Texas Department of Insurance to facilitate such redomestication.
- Except as described above or elsewhere in this Form A, the Applicants have no current plans or proposals to cause UNSIC to declare an extraordinary dividend, to liquidate UNSIC, to sell any of UNSIC's assets, to merge UNSIC with any person or persons or to make any other material change in UNSIC's business operations, corporate structure or management.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

As a result of the Acquisition, State National will acquire all of the issued and outstanding shares of the common stock of UNSIC, which will consist of 42,000 shares as of the date of closing. The terms and conditions of the Acquisition of the common stock of UNSIC are set forth in the Agreement. The terms and conditions of the Acquisition were arrived at through arms' length negotiations between the Applicants and Diamond State.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

Other than as set forth in the Agreement, neither the Applicants nor any of their affiliates or any of the persons listed in Item 3 has a beneficial interest in, or the right to acquire a beneficial interest in, the voting securities of UNSIC.

ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

The Agreement reflects the current agreement between State National and Diamond State in relation to the Acquisition.

State National is party to an Alliance Agreement (the “**Alliance Agreement**”) by and among State National and its affiliates and subsidiaries, Nephila Capital, Ltd., acting on the behalf of the entities it manages (“**Nephila**”) and Nephila Holdings, Ltd. (“**Holdings**”) dated November 15, 2015, as amended, whereby Holdings has an option to acquire ownership of UNSIC from State National and, in certain circumstances, State National has an option to sell a portion of its ownership of UNSIC to Holdings. Certain material terms of the Alliance Agreement are summarized below:

- State National and Nephila agree to transition some of the admitted insurance business written by State National and its affiliates and subsidiaries which is reinsured by Nephila to UNSIC after the closing of the Acquisition (the “**Nephila Transition**”).
- For three years after the later of (i) January 1, 2020 and (ii) the date which is three years after the date on which the Nephila Transition begins, Holdings has the option, subject to regulatory approval, to purchase 90% of the ownership of UNSIC from State National (the “**Purchase Option**”) for a purchase price equal to (a) Seven Million Three Hundred Fifty Thousand Dollars (\$7,350,000), plus (b) any fees paid by State National to unaffiliated parties related to the Acquisition, plus (c) 100% of the capital and surplus of UNSIC.
- If Holdings exercises the Purchase Option, Nephila agrees to pay State National management fees with respect to UNSIC after the date on which Holdings closes on its purchase of 90% of the ownership of UNSIC under the Purchase Option (such date the “**Holdings Purchase Date**”).

Except for the Agreement and the Alliance Agreement, there are no contracts, arrangements or understandings directly or indirectly related to any voting securities of UNSIC to which the Applicants, their affiliates, or any person listed in Item 3 is a party, including but not limited to: transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits or the giving or withholding of proxies.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

There have been no direct or indirect purchases of any voting securities of UNSIC by the Applicants, their affiliates or any person listed in Item 3 during the twelve calendar months preceding the filing of this Form A.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Except for the Agreement, neither the Applicants, their affiliates or any person listed in Item 3, or to the knowledge of the Applicant, any other person based upon interviews or at the suggestion of the Applicants, their affiliates or any person listed in Item 3, has made any recommendations to others to acquire any shares of the voting securities of UNSIC during the twelve calendar months preceding the filing of this Form A.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

There are no agreements, contracts or understandings with any broker-dealer as to the solicitation of voting securities of UNSIC for tender.

ITEM 12. FINANCIAL STATEMENTS

Financial statements for the Applicants for the preceding five fiscal years, in addition to similar information covering the period from the end the Applicants' last fiscal year, and the certification of such financial statements by an independent accountant, are attached to this Form A as **Exhibit 12**, as noted below.

Financial Statements	Exhibit
SNC's Previous Five (5) Fiscal Years Audited GAAP Financial Statements and Certificates	12-A
SNC's Q1 2016 GAAP Financial Statement	12-B
State National's Previous Five (5) Fiscal Years Audited Annual Statements and Certificates	12-C
State National's Q1 2016 Quarterly Statement	12-D

Three-year financial projections for UNSIC, as required by Section 601.42, Wis. Stat., are attached to this Form A as **Exhibit 12-E**.

ITEM 13. AGREEMENT REQUIREMENTS FOR ENTERPRISE RISK MANAGEMENT

The Applicants agree to provide, to the best of their knowledge and belief, the information required by form F within fifteen days after the end of the month in which the acquisition of control occurs.

ITEM 15. SIGNATURE AND CERTIFICATION

Pursuant to the requirements of ch. Ins 40, Wis. Adm. Code, State National Companies, Inc. and State National Insurance Company, Inc. have caused this application to be duly signed on their behalf in the city of Bedford and state of Texas on the 8th day of June, 2016.

State National Companies, Inc. and State National Insurance Company, Inc.

Attest:

By: [Signature]
 [NAME] Terry L. Ledbetter

[Signature]
 [NAME] Matthew A. Freeman

Their: Chief Executive Officer

President

Certification

The undersigned deposes and says that he has duly executed the attached application dated June 8, 2016, for and on behalf of State National Companies, Inc. and State National Insurance Company, Inc., and that he is the Chief Executive Officer of such companies and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

[Signature]
 (Signature)

Terry L. Ledbetter
 (Type or Print Name)

State of Texas)
) ss
 County of Tarrant)

The foregoing instrument was acknowledged before me this 8th day of June, 2016.

[Signature]
 (Signature)

Deana Howell
 (Type or Print Name)



LIST OF EXHIBITS

- Exhibit 1:** Share Purchase Agreement (without exhibits)
- Exhibit 2(c):** Organization Chart of the State National Companies
- Exhibit 3:** Biographical Affidavits and Authority for Release of Information
- Exhibit 12:** Financial Statements of the Applicants and their Affiliates
- Exhibit 12-A* SNC's Previous Five (5) Fiscal Years Audited GAAP Financial Statements and Certificates
- Exhibit 12-B* SNC's Q1 2016 GAAP Financial Statement
- Exhibit 12-C* State National's Previous Five (5) Fiscal Years Audited Annual Statements and Certificates
- Exhibit 12-D* State National's Q1 2016 Quarterly Statement
- Exhibit 12-E* Three-year Financial Projections for UNSIC