

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

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

NATIONAL INSURANCE COMPANY OF WISCONSIN
Name of Domestic Insurer

By

WILMINGTON INSURANCE COMPANY
Name of Acquiring Person ("Applicant")

Filed with the Wisconsin Office of the Insurance Commissioner

Date: November 20, 2018

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

David N. Gearhart
Wilmington Insurance Company
1403 Silverside Road, Suite 3B
Wilmington, DE 19810
Telephone: (404) 558-1192
Email Address: david@wilmingtonholdings.com

With a copy to:

Noreen J. Parrett
Parrett & O'Connell, LLP
10 East Doty Street, Suite 615
Madison, WI 53573
Telephone: (608) 251-1967
Email: nparrett@parrettoconnell.com

INTRODUCTION

This Form A Statement (“Statement”) is submitted on behalf of Wilmington Insurance Company (“Applicant”). Applicant is a property and casualty insurance company domiciled in Delaware and founded in 1995 by Daniel Koch, who remains its president. It was granted its Delaware Certificate of Authority in 1997. Applicant was purchased by Gearson Partners Holdings, L.P. (f/k/a Gearson Fund Partners, L.P.) (“Gearson”) effective April 28, 2017. Applicant is a wholly owned subsidiary of Wilmington Holdings, Inc. (“Wilmington Holdings”), which is, in turn, a wholly owned subsidiary of Gearson. Wilmington Insurance Agency is also a wholly owned subsidiary of Wilmington Holdings. Gearson is a privately owned holding company formed as a limited partnership that is owned by David N. Gearhart, Marshall Shutt and Clifford Thompson together with 45 limited partners. Schutt Capital Management, managed by Marshall Shutt, is the only Gearson limited partner that has greater than a 10% interest.

Applicant writes homeowners, fire and commercial multi-peril only in Delaware; however, it is also licensed in North Dakota and Washington, D.C. Applicant’s current policyholder surplus is \$3,200,000 with a Risk Based Capital ratio of 682.3% (as of 12/31/17). It has an A rating from Demotech and has a history of strong underwriting that has kept the company profitable. All of Applicant’s operations are conducted from its Wilmington, Delaware office, under the management of Daniel Koch, its President and Chief Executive Officer, Scott Foltz, Vice President, and Kate Wright Menase, Chief Financial Officer and Treasurer.

ITEM 1. INSURER AND METHOD OF ACQUISITION

National Insurance Company of Wisconsin
250 South Executive Drive
Brookfield, WI 53005

The acquisition will be in the form of a reverse merger (the “Merger”). The Agreement and Plan of Merger (“Merger Agreement”) is attached to this Statement as **Exhibit A**. It is intended that Applicant will merge into National Insurance Company of Wisconsin (“NICW”) with NICW as the surviving entity (“Surviving Corporation”). As a part of the same transaction, NICW seeks to redomesticate to Delaware, change its name to Wilmington Insurance Company and become licensed as a nondomestic insurer in Wisconsin. Applicant’s current owners will retain ownership of the Surviving Corporation post-merger and Applicant’s current management will continue to manage the Surviving Corporation post-merger.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

(a) Name and address of the applicant.

Wilmington Insurance Company
1403 Silverside Road, Suite 3B
Wilmington, DE 19810

(b) Nature of its business operations and future business.

Applicant is a stock insurance company domiciled and writing a property and casualty business only in Delaware. Post-merger, Applicant intends to continue to write property and casualty lines of business and to gradually expand its property and casualty writings into other states where NICW is currently licensed. See Business Plan, **Exhibit G**.

Applicant is owned by Wilmington Holdings which, in turn, is owned by Gearson. Wilmington Holdings' only current purpose is to hold the stock of Applicant and Wilmington Insurance Agency. Gearson acts as an investment vehicle to hold the investments of the limited partnership.

NICW has not written new policies since 2015 but has legacy long term care policies that are still in effect and disability income insurance with no in-force policies but with claims still outstanding (the "Legacy Business"). The long term care business is 100% reinsured by Ability Insurance Company ("Ability") and is administered by Lifepans, Inc., a third-party administrator. NICW and Ability are negotiating the recapture of the long term care business from Ability. The current intent is to keep the long term care business on NICW's, and ultimately Wilmington's, books. NICW and Ability have had initial conversations and the parties have tentatively agreed to commutation. An actuarial analysis has been prepared which we have previously shared with the OCI, and the parties have prepared a draft Recapture Agreement but the transaction has not yet been completed.

Attached to this Statement as **Exhibit C** are Applicant's current Articles of Incorporation and Bylaws.

(c) Organizational chart; court proceedings.

Applicant's organizational chart is included with this Statement as **Exhibit D**. There are no court proceedings with respect to any entity shown on the organizational chart.

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

Applicant is a wholly owned subsidiary of Wilmington Holdings which is, in turn, wholly owned by Gearson. The directors and officers of Applicant, Wilmington Holdings and Gearson are:

Applicant

(a) Directors:

Daniel Koch
David Gearhart
Clifford Thompson
Marshall Schutt
Brad Hogan

(b) Officers:

Daniel Koch, President and Chief Executive Officer
Scott Foltz, Senior Vice President
Kate Wright Menase, Chief Financial Officer and Treasurer

Wilmington Holdings

(a) Directors:

Daniel Koch
David Gearhart
Clifford Thompson
Marshall Schutt

(b) Officers:

David Gearhart, Chairman and Chief Executive Officer
David Koch, President
Kate Wright Menase, Chief Financial Officer and Treasurer

Gearson

Gearson is a limited partnership with a Delaware limited liability company, Wilmington Holdings GP, LLC, as its general partner and David Gearhart as its sole manager. The members of Wilmington Holdings GP, LLC are David Gearhart, Marshall Schutt and Clifford Thompson. Schutt Private Investment Fund, LP, managed by Marshall Schutt,

has an interest in Gearson that is greater than 10%. No other person has a limited partnership interest in Gearson that reaches 10 percent.

Biographical Affidavits for each of the Directors and Officers of Applicant, Wilmington Holdings and Gearson are a part of this Form A filing but are being sent under separate cover. *Applicant is requesting confidential treatment with respect to the Biographical Affidavits.*

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

(a) Nature, source and amount of funds or other considerations used, or to be used, in effecting the merger or other acquisition of control.

The total merger consideration is \$8,500,000 (“Merger Consideration”). The Merger Consideration will be partially paid prior to closing the Merger transaction through a dividend from NICW to its parent company, National Services, Inc. (“National Services”), as discussed in Item 5 below (the “Pre-Closing Dividend”). The parties have targeted the dividend amount at \$5,500,000; however, in recognition of the Wisconsin Office of the Commissioner of Insurance’s (“OCI”) approval authority over the dividend amount, Section 1.7(a) and (b) of the Merger Agreement sets the dividend at \$5,500,000 or such lesser amount as the OCI may approve. See Section 1.7(a) and (b) of Merger Agreement, **Exhibit A**. Also deducted from the Merger Consideration are NICW’s transaction costs as defined in Section 9.2 of the Merger Agreement and \$1,000,000 (“Holdback Amount”) to act as a cushion in the event the reserves established for the Legacy Business are insufficient. See Section 1.7(b) of the Merger Agreement, **Exhibit A**.

The sole source of the funds for payment of the amount of the Merger Consideration remaining after payment of the Pre-Closing Dividend will be one or more payments made to National Services by Wilmington Holdings at or following the closing of the Merger. The source of Wilmington Holdings’ funds to make such payments will be dividends from Applicant (to the extent such dividend is made prior to closing the Merger) or from the Surviving Corporation (to the extent such dividend is made post-closing), as such dividends are approved by the OCI and the Delaware Department of Insurance (“DE DOI”), as applicable. The amount owed to National Services post-closing is partially guaranteed by Wilmington Holdings through a Promissory Note made payable to National Services, the form of which is Exhibit A to the Merger Agreement. The Surviving Corporation is not obligated on the Promissory Note.

The Holdback Amount is intended to provide a cushion in the event the reserves set aside by Ability in the trust account (“Trust Account”) that it maintains for the Legacy Business under its reinsurance agreement with NICW are not sufficient to cover the projected losses. The Holdback Amount remains with the Surviving Corporation, even though Wilmington Holdings has the obligation to make the post-merger Merger Consideration payments. The Merger Agreement requires that an actuarial analysis be completed at post-merger anniversary years three, four and five, with partial payment to National Services of the Holdback Amount in each

of those years provided the required reserve amount for the Legacy Business established by the actuarial analysis in each of those years equals or exceeds the amount in the Ability Trust Account. Provided the required reserve amount established by the actuarial analysis is held in the Ability Trust Account at the third, fourth and fifth anniversaries of the Merger, Wilmington Holdings will pay to National Services 50%, 25% and 25% on each such anniversary respectively. See Section 1.8(a) through (c) of the Merger Agreement, **Exhibit A**. The funds for Wilmington Holdings' payment will come from dividends paid to it by the Surviving Corporation, to the extent such dividends are approved by the DE DOI. See Section 1.7(a) and (b) of the Merger Agreement, **Exhibit A**. If the Ability Trust Account is less than the required reserve amount established by the actuarial analyses at the third, fourth and fifth anniversaries of the Merger, but greater than the amount of the Holdback Amount that would otherwise have been released in that year, then the Merger Agreement contains a formula by which some lesser amount of the Holdback Amount will be released to National Services in each of those anniversary years. See Section 1.8(d) of the Merger Agreement, **Exhibit A**. If at the third anniversary of the Merger, the actuarial analysis establishes that the amount in the Ability Trust Account, minus the amount of the Holdback Amount that was scheduled to be released in that year, does not equal the required reserves, then no part of the Holdback Amount for that year will be paid to National Services. Section 1.8(d) contains a similar formula for determining whether any part of the Holdback Amount can be released in anniversary years four and five. The Merger Agreement also provides that National Services has no obligation to increase the amount in the Trust Account by any deficiency that may be established by the actuarial analyses. See Section 1.8(e) of the Merger Agreement, **Exhibit A**.

The Merger Agreement, **Exhibit A**, Section 1.9, contemplates the possibility that NICW's reinsurance agreement with Ability may be commuted. In that event, Wilmington Holdings will order an actuarial analysis to establish the required reserve at that time for the Legacy Business. The required reserve established by the actuarial analysis will be compared to the amount in the Trust Account that Ability returns to the Surviving Corporation and all or part of the Holdback Amount will be returned by Wilmington Holdings to National Services in accordance with the formula established in the Merger Agreement, **Exhibit A**, Section 1.9.

We are including as **Exhibit B** flow charts that show the flow of funds between the parties.

(b) Criteria used in determining the nature and amount of such consideration.

The Merger Consideration was determined through arms-length negotiations by the parties. The parties took into consideration that NICW is not currently writing business and its Legacy Business, consisting of long term care and disability income policies currently in run-off, presents exposure to Applicant both because of the lines of business and because of the financial position of its reinsurer. Applicant relied in part on actuarial reports that it received from PricewaterhouseCoopers, LLP for the disability income business and on United Health Actuarial Services, Inc. for the long term care business in determining the adequacy of the reserves for the Legacy Business and the funding of the Trust Account by Ability.

ITEM 5. APPLICANT'S FUTURE PLANS FOR THE INSURER (plans to declare an extraordinary dividend, or to liquidate the insurer, to sell the insurer's assets, merge the insurer or any other material change in its business operations, corporate structure or management)

Under Section 1.7(a) of the Merger Agreement, immediately prior to closing the transaction, NICW will declare and pay to National Services a dividend of \$5,500,000 or such lesser amount as is approved by the Wisconsin OCI. Thereafter, the remaining Merger Consideration will be paid by Wilmington Holdings to National Services. Wilmington Holdings' payments to National Services will be funded by such dividend distributions from the Surviving Corporation as are approved by the DE DOI. See Section 1.8 of the Merger Agreement, **Exhibit A**.

As a part of the Merger transaction, NICW will redomesticate to Delaware and will change its name to Wilmington Insurance Company. NICW's current board of directors and its officers will resign as of the closing and Applicant's current directors and officers will assume the same positions with merged company. See **Exhibit E** for Applicants current and proposed post-merger officers and directors.

The Articles of Incorporation and Bylaws of the Surviving Corporation will be the current Articles of Incorporation and Bylaws of the Applicant. They are attached as **Exhibit D**. There are no changes from Applicant's current Articles of Incorporation and Bylaws.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

This is a merger transaction. In accordance with the Merger Agreement, at closing by virtue of the Merger, each share of NICW's common stock that is issued and outstanding as of the closing date will be cancelled and converted into the right to receive payment equal to the per share Merger Consideration, which will be payable at the time and as specified in the Merger Agreement. Each share of NICW's common stock that is unissued or held in treasury will be cancelled. See Section 1.6(a) and (b) of the Merger Agreement, **Exhibit A**. See also Sections 1.7(a) and (b), 1.8 and 1.9 of the Merger Agreement, **Exhibit A**, on payment of the Merger Consideration.

Also, each share of common stock of Applicant that is issued and outstanding at closing will be converted into one share of common stock of the Surviving Corporation. See Section 1.6(c) of the Merger Agreement, **Exhibit A**. Once the Merger has been completed, the only stock issued and outstanding will be the stock of the Surviving Corporation, with Wilmington Holdings as the sole shareholder.

The terms of the Merger were arrived at by the parties through arms-length negotiations. Both National Services and Wilmington Holdings consider the terms and conditions of the Merger Agreement, including the consideration, to be fair.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

Not applicable.

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

Not applicable.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Not applicable.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Not applicable.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

Applicant engaged Propel Advisory Group, Inc. in the transaction. A copy of Applicant's agreement with Propel Advisory Group, Inc. is included with this Form A as **Exhibit H**.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

Items (a) – (c): Following is a list of all exhibits, including financial statements, to this Statement:

- Exhibit A - Agreement and Plan of Merger.
- Exhibit B - Funds Flow Charts.
- Exhibit C - Wilmington Insurance Company's Current Articles of Incorporation and Bylaws. There will be no changes to Applicant's current Articles of Incorporation and Bylaws.
- Exhibit D - Wilmington Insurance Company's Organizational Chart.
- Exhibit E - Current directors and officers of Wilmington Insurance Company, Wilmington Holdings Corporation and Gearson Partners Holdings, LP. Biographical Affidavits are included with this Statement but are being sent under separate cover. *Applicant requests confidential treatment with respect to the Biographical*

Affidavits.

- Exhibit F - Surviving Corporation Three-Year Financial Projections. *Applicant requests confidential treatment with respect to the Three-Year Financial Projections.*
- Exhibit G - Business Plan for Surviving Corporation. *Applicant requests confidential treatment with respect to the Business Plan.*
- Exhibit H - Propel Broker Agreement.
- Exhibit I - Audited Annual Statements for Wilmington Insurance Company for years 2013 through 2017.
- Exhibit J - Financial statements for Gearson Partners Holdings, L.P. (f/k/a Gearson Partners Fund, L.P.) for years 2013 through 2017. We are also including the Agreement of Limited Partnership of Gearson Partners Holdings, LP. *Because these are not public records and are proprietary to Gearson Partners Holdings, LP, we request confidential treatment of all documents in Exhibit J.*
- Exhibit K - National Services, Inc. and National Insurance Company of Wisconsin Board Resolutions Approving Merger.
- Exhibit L - Wilmington Holdings Corporation and Wilmington Insurance Company Board Resolutions Approving Merger.

ITEM 13. AGREEMENT REQUIREMENTS FOR ENTERPRISE RISK MANAGEMENT

Applicant agrees to provide, to the best of its knowledge and belief, the information required by Form F within fifteen (15) days after the end of the month in which the acquisition of control occurs.

Not Applicable.

(signature page to follows)

ITEM 14. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE -

Pursuant to the requirements of ch. Ins 40, Wis. Adm. Code, Wilmington Insurance Company has caused this application to be duly signed on its behalf in the city of Wilmington and state of Delaware on the day of 17th, November, 2018.

(SEAL)

WILMINGTON INSURANCE COMPANY

By: David Gerhart
Name: David Gerhart
Title: Chairman

Attest:

Daniel Koch
Name and Title: Daniel Koch
President, CEO

The undersigned deposes and says that he has duly executed the attached application dated November 17, 2018, for and on behalf of Wilmington Insurance Company; that he/she is the Chairman of such company and that he/she is authorized to execute and file such instrument. Deponent further says that he/she is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

David Gerhart
Name: David Gerhart
Title: Chairman

Subscribed and sworn to this
17 day of November, 2018.

Dana Walker
Notary Public
My commission expires on: March 11, 2019

