

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

Sheboygan Falls Insurance Company

(Name of Domestic Insurer)

By

Atlantic States Insurance Company

(Name of Acquiring Person (Applicant))

Filed with the insurance department of

Wisconsin

(State of domicile of Insurer being acquired)

Date: July 29, 2019

Name, Title, Address and Telephone Number of Individual to Whom Notices and  
Correspondence Concerning This Statement Should be Addressed:

Jeffrey D. Miller  
Executive Vice President and Chief Financial Officer  
Atlantic States Insurance Company  
1195 River Road  
Marietta, Pennsylvania 17547  
Phone: (717) 426-1931  
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With a Copy to:

Robert R. Long, Jr.  
Senior Vice President, General Counsel  
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OF INSURANCE

## PREFACE

This Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer (this "Statement") seeks approval of the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") pursuant to WI ST Chap. 611, Subch. V and Wis. Adm. Code, Chap. INS 40, Subch. I, for the merger (the "Merger") of Sheboygan Falls Insurance Company ("Sheboygan Falls") with and into Atlantic States Insurance Company ("Atlantic States").

**ITEM 1. INSURER AND METHOD OF ACQUISITION.**

**(a) Name and Address of Domestic Insurer.**

This Statement relates to the proposed Merger of Sheboygan Falls, a Wisconsin-domiciled stock property/casualty insurance company, with and into Atlantic States, a Pennsylvania-domiciled stock casualty insurance company. Atlantic States would be the surviving company in the Merger.

The location of the principal executive offices of Atlantic States and Sheboygan Falls is 1195 River Road, Marietta, Pennsylvania 17547, telephone: (717) 426-1931.

**(b) Method of Acquisition of Control.**

Atlantic States and Sheboygan Falls executed an Agreement and Plan of Merger (the "Agreement") dated as of July 24, 2019. Atlantic States includes a copy of the Agreement as Exhibit 1 to this Statement.

**ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT.**

**(a) Name and Address of the Applicant.**

The name of the applicant is Atlantic States. The address of Atlantic States' principal executive offices is 1195 River Road, Marietta, Pennsylvania 17547.

**(b) Business Operations of the Applicant.**

The principal business activity of Atlantic States, which began operations in 1986, is the operation of a property and casualty insurance business. Atlantic States is a wholly owned subsidiary of Donegal Group Inc. ("DGI"), an insurance holding company majority owned by Donegal Mutual Insurance Company ("Donegal Mutual")

In the mid-1980s, Donegal Mutual recognized the desirability, as a mutual insurance company, of developing additional sources of capital and surplus so it could remain competitive and have sufficient surplus to expand its business and ensure its long-term viability. Donegal Mutual determined to implement a downstream holding company structure as one of its business strategies. Accordingly, in 1986, Donegal Mutual formed DGI as a downstream holding company. DGI simultaneously formed Atlantic States as its wholly owned insurance subsidiary.

In connection with the establishment of DGI, Donegal Mutual and Atlantic States entered into a proportional reinsurance agreement, or pooling agreement. Under the

pooling agreement, Donegal Mutual and Atlantic States pool substantially all of their respective premiums, losses and expenses. The underwriting pool homogenizes the risk characteristics of business Donegal Mutual and Atlantic States write directly. The underwriting pool allocates to Atlantic States 80% of the business Donegal Mutual and Atlantic States cede to the underwriting pool.

Since Donegal Mutual established DGI in 1986, Donegal Mutual and the insurance subsidiaries of DGI have conducted business together as the Donegal Insurance Group, while each entity has retained its separate legal and corporate existence. As the Donegal Insurance Group, Donegal Mutual and DGI's insurance subsidiaries share a combined business plan to enhance market penetration and underwriting profitability. As such, Donegal Mutual and DGI's insurance subsidiaries share the same business philosophies, the same management, the same employees and the same facilities and offer generally complementary insurance products.

Donegal Mutual and the insurance subsidiaries of DGI underwrite a broad line of personal and commercial coverages, consisting of private passenger and commercial automobile, homeowners, commercial multi-peril, workers' compensation and other lines of insurance. The products Donegal Mutual and DGI's insurance subsidiaries offer are generally complementary, which permits the Donegal Insurance Group to offer a broad range of products in a given market and to expand the Donegal Insurance Group's ability to service an entire personal lines or commercial lines account. Distinctions within the products Donegal Mutual and DGI's insurance subsidiaries offer generally relate to specific risk profiles within similar classes of business, such as preferred tier products versus standard tier products.

For further information regarding the business the insurance companies of the Donegal Insurance Group conduct, Atlantic States makes reference to Donegal Mutual's Insurance Holding Company System Annual Registration Statement for the year ended December 31, 2018 as filed with OCI.

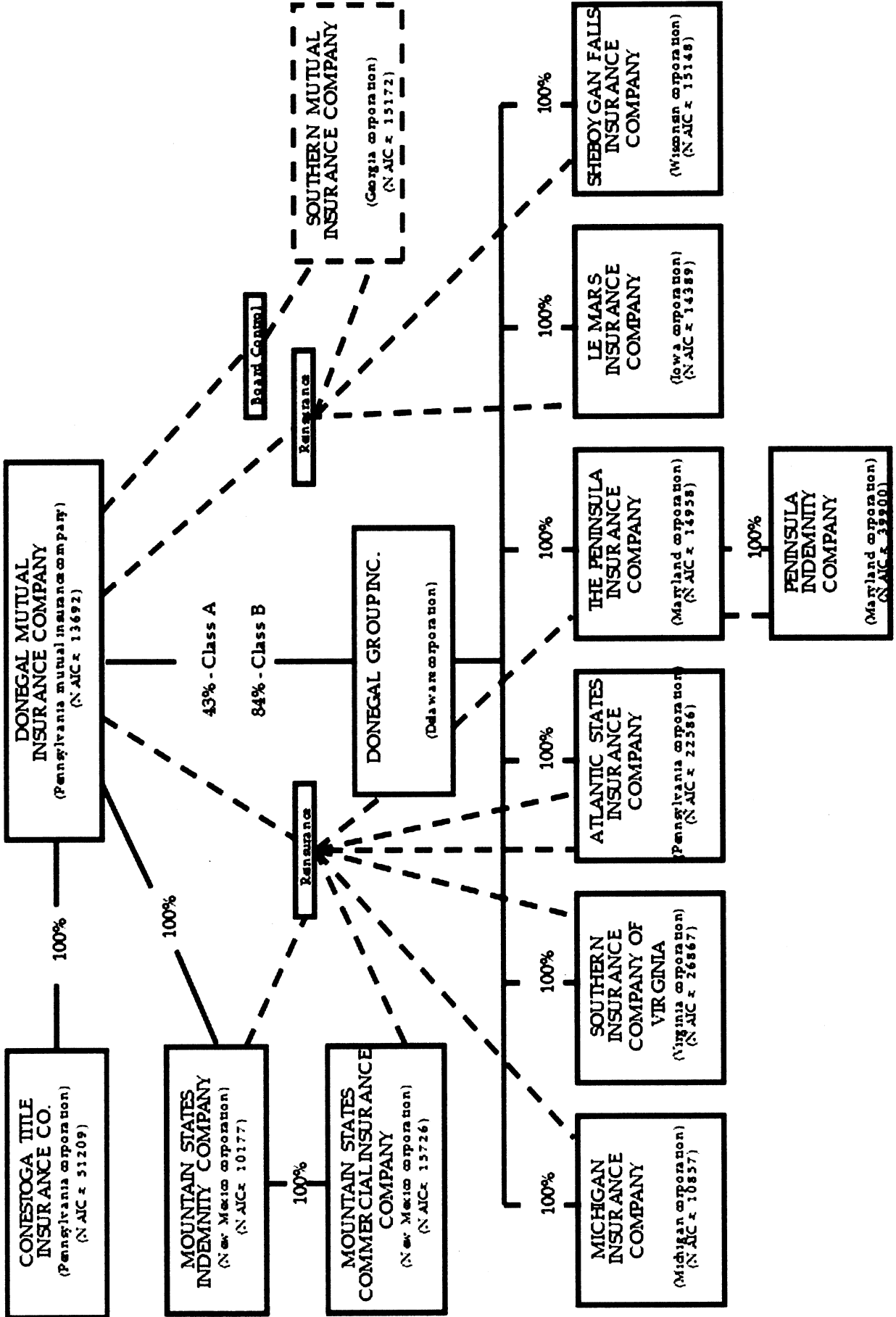
As of June 30, 2019, Donegal Mutual owned approximately 43% of the outstanding Class A common stock (one-tenth of a vote per share) of DGI and approximately 84% of the outstanding Class B common stock of DGI (one vote per share), thereby providing Donegal Mutual with approximately 72% of the aggregate voting power in DGI. The remainder of DGI's outstanding Class A common stock and Class B common stock as of June 30, 2019 was held by public stockholders.

**(c) Organization Chart.**

A chart presenting the identities of and interrelationships among Donegal Mutual, DGI and DGI's insurance subsidiaries appears on the next page of this Statement. The chart includes the NAIC number for each of the entities that is an insurance company.

No court proceedings involving a reorganization or liquidation are pending with respect to Donegal Mutual, DGI or any of the insurance subsidiaries of DGI.

CORPORATE STRUCTURE - DONEGAL MUTUAL INSURANCE COMPANY - JUNE 30, 2019



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

Atlantic States' directors and executive officers and their business addresses are set forth below. Atlantic States has furnished the biographical affidavits of all directors and executive officers of Atlantic States to OCI as part of its UCAA expansion application.

Unless otherwise indicated below, the business address of all such persons is Atlantic States Insurance Company, 1195 River Road, Marietta, Pennsylvania 17547. None of such persons has been convicted in a criminal proceeding (excluding minor traffic violations) during the past ten years.

Directors of Atlantic States:

<u>Name and Address</u>	<u>Position with Atlantic States</u>	<u>Principal Occupation for Past Five Years</u>
Scott A. Berlucchi 17 Lansing Street Auburn, NY 13021	Director	President and Chief Executive Officer of Auburn Memorial Hospital, Auburn, New York
Robert S. Bolinger 543 W. Sixth Street Lititz, PA 17543	Director	Retired bank executive
Kevin G. Burke	President, Chief Executive Officer and a Director	President and Chief Executive Officer of Donegal Mutual since 2018; Executive Vice President and Chief Operating Officer of Donegal Mutual from 2014 to 2018.
Michael K. Callahan 4121 Oregon Pike Ephrata, PA 17522	Director	President of Benchmark Construction Company, Inc.
Patricia A. Gilmartin 931 Hedgewyck Lane Elizabethtown, PA 17022	Director	Retired insurance agent
Jack L. Hess 3002 Hempland Rd, Suite 1 Lancaster, PA 17601	Director	Retired certified public accountant

<u>Name and Address</u>	<u>Position with Atlantic States</u>	<u>Principal Occupation for Past Five Years</u>
John E. Hiestand 243 Blossom Trail Mount Joy, PA 17552	Director	Self-employed provider of insurance administrative services
Barry C. Huber 360 Winding Way Lancaster, PA 17602	Director	Retired certified public accountant
Kevin M. Kraft, Sr. 519 Walnut Street Columbia, PA 17512	Director	Chief Executive Officer, Clyde W. Kraft Funeral Home, Inc.
Jon M. Mahan One South Street, 17th Floor Baltimore, MD 21202	Director	Managing Director, Stifel Nicolaus & Company
S. Trezevant Moore, Jr. 263 Tressler Blvd. 9th Floor Stamford, CT 06901	Director	Managing Director, Lima One Capital, LLC
Donald H. Nikolaus	Director	Retired after serving as President and Chief Executive Officer of Donegal Mutual from 1981 to 2018.
Richard D. Wampler, II 4420 Avon Drive Harrisburg, PA 17112	Director	Retired certified public accountant



Executive Officers (to the extent not listed above as Directors):

<u>Name and Address</u>	<u>Position with Atlantic States</u>	<u>Principal Occupation for Past Five Years</u>
Richard G. Kelley	Senior Vice President, Field Operations	Senior Vice President, Field Operations of Donegal Mutual since 2018; Senior Vice President of Donegal Mutual for more than the past five years
Jeffrey D. Miller	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer of Donegal Mutual
Sanjay Pandey	Senior Vice President and Chief Information Officer	Senior Vice President and Chief Information Officer of Donegal Mutual
Daniel J. Wagner	Senior Vice President and Treasurer	Senior Vice President and Treasurer of Donegal Mutual

**ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION.**

**(a) Consideration.**

Because the Agreement provides for the merger of one stock insurance company (Sheboygan Falls) with and into another stock insurance company (Atlantic States), no consideration would be payable to the policyholders of Sheboygan Falls in connection with the Merger. Further, because both Sheboygan Falls and Atlantic States are wholly owned subsidiaries of DGI, no consideration would be payable to DGI, as the sole stockholder of Sheboygan Falls, in connection with the Merger.

**(b) Criteria.**

The Board of Directors of Sheboygan Falls believes the Merger would be beneficial to its policyholders and its other constituencies for the following reasons:

- Donegal Mutual and Atlantic States intend to maintain and expand the marketing, underwriting and claims servicing functions of Sheboygan Falls in Wisconsin.
- Donegal Mutual and Atlantic States intend to strengthen and expand the independent agency relationships of Sheboygan Falls.
- Donegal Mutual and Atlantic States intend to enhance the products and services Sheboygan Falls currently provides to policyholders in Wisconsin.
- The Merger will result in economies of scale and reduced operating expenses, which will allow Donegal Mutual and Atlantic States to provide competitive pricing to the insurance markets in Wisconsin.

**ITEM 5. APPLICANT'S FUTURE PLANS FOR THE INSURER.**

(a) Atlantic States has submitted a UCAA expansion application to obtain a license to transact insurance business in Wisconsin and intends to continue offering similar products, rates and forms as Sheboygan Falls currently offers, using the same facilities, management, employees and technology systems Sheboygan Falls currently uses. The Merger will not substantially lessen competition in any line of insurance in Wisconsin or tend to create a monopoly in the state.

(b) Atlantic States maintains an excellent financial condition and, as a member of the Donegal Insurance Group, has an A.M. Best rating of A (Excellent). At December 31, 2018, Atlantic States had total admitted assets of \$822.9 million and surplus as regards policyholders of \$194.4 million. For the year ended December 31, 2018, Atlantic States had net earned premiums of \$457.3 million. Atlantic States includes three-year financial projections as Exhibit 2 to this Form A and makes reference to additional details with respect to such financial projections it included with its UCAA expansion application.

(c) Atlantic States also executed an Agreement and Plan of Merger (similar to the Agreement in terms and effect) dated as of July 24, 2019 with Le Mars Insurance Company ("Le Mars"), an Iowa-domiciled stock property/casualty insurance company, whereby Le Mars would merge with and into Atlantic States following receipt of all required regulatory approvals. Atlantic States would be the surviving company in the merger with Le Mars.

(d) Atlantic States has no plans or proposals to declare an extraordinary dividend, to liquidate or sell any of its assets or to merge with any company other than Sheboygan Falls and Le Mars, as described in this Form A, or to make any other material change in its business operations, corporate structure or management.

**ITEM 6. VOTING SECURITIES TO BE ACQUIRED.**

Upon the consummation of the Merger and without any action on the part of Atlantic States, Sheboygan Falls or DGI as the holder of all of the outstanding capital stock of Sheboygan Falls and of Atlantic States:

- 1) Each share of common stock, par value \$1.00 per share, of Sheboygan Falls issued and outstanding immediately before the Effective Time, shall automatically be canceled and extinguished.
- 2) Each share of common stock, par value \$5.00 per share, of Atlantic States issued and outstanding immediately before the Effective Time, shall remain issued and outstanding and be unaffected by the Merger.

**ITEM 7. OWNERSHIP OF VOTING SECURITIES.**

DGI currently owns all of the outstanding shares of common stock of each of Sheboygan Falls and Atlantic States. DGI will own all of the outstanding shares of common stock of Atlantic States following the Merger.

**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.**

Not applicable.

**ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS.**

**(a) Exhibits:**

- (1) Agreement and Plan of Merger dated as of July 24, 2019 between Atlantic States Insurance Company and Sheboygan Falls Insurance Company.
- (2) Three-year financial projections of Atlantic States Insurance Company.

**(b) Financial Statements:**

- (1) Annual Statement of Atlantic States Insurance Company for the year ended December 31, 2014\*
- (2) Annual Statement of Atlantic States Insurance Company for the year ended December 31, 2015\*
- (3) Annual Statement of Atlantic States Insurance Company for the year ended December 31, 2016\*
- (4) Annual Statement of Atlantic States Insurance Company for the year ended December 31, 2017\*
- (5) Annual Statement of Atlantic States Insurance Company for the year ended December 31, 2018\*

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\* Filed previously with the NAIC.

**ITEM 13. AGREEMENT REQUIREMENTS FOR ENTERPRISE RISK MANAGEMENT**

Atlantic States makes reference to the Form F Donegal Mutual filed with the Pennsylvania Insurance Department for the year ended December 31, 2018.

**ITEM 14. SIGNATURE AND CERTIFICATION.**

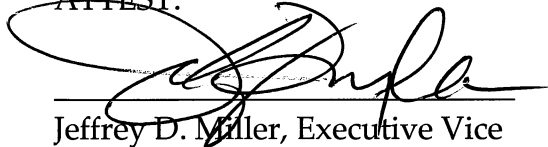
**SIGNATURE**

Pursuant to the requirements of chapter Ins 40 of the Wisconsin Administrative Code, Atlantic States Insurance Company has caused this Statement to be duly signed on its behalf in the Borough of Marietta and Commonwealth of Pennsylvania on the 29<sup>th</sup> day of July, 2019.


(SEAL)

ATLANTIC STATES INSURANCE COMPANY

ATTEST:




Jeffrey D. Miller, Executive Vice  
President and Chief Financial Officer

By:   
Kevin G. Burke, President  
and Chief Executive Officer

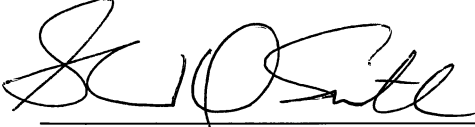
**CERTIFICATION**

The undersigned deposes and says that he has duly executed the attached Statement dated July 29, 2019 for and on behalf of Atlantic States Insurance Company; that he is the President and Chief Executive Officer of such company and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with this instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

  
Kevin G. Burke, President  
and Chief Executive Officer

COMMONWEALTH OF PENNSYLVANIA:  
COUNTY OF LANCASTER:

Subscribed and sworn to this 29<sup>th</sup> day of July, 2019.



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Sheri O. Smith

Notary Public

My commission expires: *January 10, 2021*

