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CONFIDENTIAL

VIA ELECTRONIC MAIL

September 28, 2009

Mr. B. Michael Verne
Premerger Notification Office
Bureau of Competition
Federal Trade Commission
7th & Pennsylvania Avenue, NW
Washington, DC 20580

Dear Mike:

I am writing to confirm our discussion of September 15, 2009 regarding the non-reportability under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR Act") of the proposed transaction discussed below.

Proposed Transaction

Buyer currently owns approximately 22% of the voting securities of Target. The Proposed Transaction involves the acquisition by Buyer of all of the remaining issued and outstanding voting securities of Target that it does not currently hold.

The purchase price payable at closing is $15 million in cash and promissory notes with an aggregate principal amount of $29 million. The promissory notes will bear interest at a 5% annual rate. There are two formulas based on growth in profits under which additional purchase price consideration could be paid out post-closing. Under the first formula, the selling shareholders and option holders can receive additional consideration based on a formula focused on 2011 profitability. Participation in receiving possible additional payment under the second formula is optional. Each selling shareholder and option holder can elect by a certain date post-closing if he or she wants to participate in the optional additional payment opportunity under the second formula and must pay to Buyer a percent of his or her previously received transaction consideration to participate in this option. Under the second formula, the additional consideration is focused on 2013 profitability.

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Under the two formulas, the additional payments may be zero and are subject to an aggregate transaction consideration ceiling of approximately $81 million. Accordingly, the minimum the selling shareholders and option holders will receive is $44 million, the payment at closing, and the maximum they can receive is $81 million. You should assume that the amount of the transaction consideration that will be paid to the option holders will be less than $1 million – the outstanding options at issue do not have any current voting rights with regard to the election of directors and will be terminated at closing.

Buyer believes that there is a reasonable basis for estimating the contingent portion of the acquisition price – Buyer has made its estimate after conducting calculations with assumptions including what it regards as the likely growth in profits of the Target. You should assume that Buyer's calculation will be adopted in good faith by the board of Buyer's ultimate parent or a delegee of that board within 60 days prior to closing as a reasonable estimate of the acquisition price.

Assuming it is an acceptable fair market valuation methodology for HSR purposes to value the voting securities already owned by Buyer at the same price per share as the shares to be acquired are valued under Buyer's acquisition price estimate, you should assume that this fair market valuation of the already held shares also would be adopted in good faith by the board of Buyer's ultimate parent or a delegee of that board within 60 days prior to closing.

The combination of (1) Buyer's estimate of the acquisition price ($44 million plus its estimate of any additional purchase price payments it anticipates making under the two formulas); and (2) the value of the shares of Target already held by Buyer (determined under the fair market valuation methodology described above) results in an aggregate value of less than $65.2 million.

Buyer understands that the controlling selling shareholders believe they will receive contingent payments such that the Buyer would hold in excess of $65.2 million in voting securities as a result of the Proposed Transaction. However, Buyer believes that the assumptions those shareholders are operating under are unrealistically optimistic as to the future profitability and that factors are not likely to be achieved under which any contingent pay-out amounts would result in Buyer holding $65.2 million or more in voting securities combining the value of the shares to be acquired with those already held.

As a condition of the Proposed Transaction, Buyer is making a capital infusion into Target in the amount of $25 million prior to closing of the Proposed Transaction and immediately following the signing of the purchase agreement for the Proposed Transaction. The capital infusion is structured in the form of the acquisition by Buyer of $25 million worth of a class of preferred stock of Target. The preferred stock carries no current voting rights with

regard to the election of directors. The preferred stock is only entitled to vote for directors in situations involving the non-payment of dividends for multiple dividend payment periods.

As a condition of the Proposed Transaction, there also are various ancillary agreements being entered into as described below. First, a subsidiary of Buyer has existing reinsurance agreements with a subsidiary of Target. On or before the date of the capital infusion described above, those existing reinsurance agreements will be amended resulting in Buyer's subsidiary increasing the amount it reinsures for Target's subsidiary, an insurance company. The reinsurance agreement amendments will be negotiated at arm's length and at market rates. Second, there are various agreements between Target and affiliates of the selling shareholders that will be amended before closing. You should assume that these existing agreements originally were on terms favorable to the affiliates of the selling shareholders. To the extent that Buyer has not been able to get all of these agreements renegotiated at a market rate, the terms that Target will be subject to post-closing will be closer to market rate terms than they were before. Third, prior to closing, the Target will form a new entity and shall cause the ownership interests in that entity to transfer to the selling shareholders. The Target will then enter into a quota share reinsurance agreement with this entity. However, the terms of the quota share reinsurance agreement are based on arm's length negotiations and market rates. Fourth, Buyer will enter into a non-compete and non-solicitation agreement with the major selling shareholders. However, there will not be additional consideration paid to these shareholders for entering into such agreement. Fifth, Buyer will enter into employment agreements with certain employees of Target. Payments under the employment agreements will be for rendering future services.

Analysis and Conclusions

You confirmed that the Proposed Transaction as described above is not reportable under the HSR Act. Specifically you agreed:

(1) The parties can treat the acquisition price for the shares to be acquired as determined under 16 C.F.R. § 801.10. See ABA Section of Antitrust Law, Premerger Notification Practice Manual (4th Ed. 2007), Interpretation #94.

(2) The value of the voting securities of Target already held by Buyer is the fair market value of those shares. It is acceptable to value the fair market value of those shares for HSR purposes by attributing to them the same per share value as the voting securities to be acquired are valued under Buyer's acquisition price estimate.

(3) The overall value of the shares of Target to be held by the acquiring person as a result of the Proposed Transaction (the estimate of the acquisition price plus the fair market value of the voting securities of Target already held by Buyer) would be an amount below the $65.2 million HSR Size of the Transaction Test. This valuation controls for HSR purposes regardless of whether post-closing it turns out that payments made to the selling shareholders are

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greater than were estimated by the acquiring person. (Based on your confirmation regarding the preceding sentence, my understanding is that the acquired person in the Proposed Transaction, like the acquiring person, is entitled to rely upon the valuations done by the acquiring person's board or its delegee in not filing under the HSR Act – please let me know if this conclusion is not correct.)

(4) The capital infusion payment is not part of the acquisition price for HSR purposes. The acquisition of the preferred stock as a part of the capital infusion is an HSR exempt acquisition of non-voting securities under 15 U.S.C. §18a(c)(2) given that the holder only has voting rights with regard to the election of directors upon the occurrence of certain events (i.e., the non-payment of dividends for multiple dividend payment periods). See ABA Section of Antitrust Law, Premerger Notification Practice Manual (4th Ed. 2007), Interpretation #65.

(5) The cancellation of the options (which do not entitle the holders to current voting rights with regard to the election of directors) is an exempt event for HSR purposes. Specifically, the options are exempt convertible voting securities under 16 C.F.R. § 802.31, and consideration paid for the options is not included in the acquisition price or transaction valuation for HSR purposes.

(6) Interest paid under the promissory notes discussed above does not constitute part of the acquisition price for the Proposed Transaction. See ABA Section of Antitrust Law, Premerger Notification Practice Manual (4th Ed. 2007), Interpretation #112.

(7) None of the ancillary agreements described above would impact or change the acquisition price for the Proposed Transaction or otherwise be viewed as constituting additional transaction consideration for HSR valuation purposes.

* * *

Please let me know as soon as possible if you disagree with any of the conclusions discussed above, or if I have misunderstood any aspect of your advice. Thank you for your assistance in this matter.

Sincerely,

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AGREE -
BV
10/8/09