



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

-----X  
In the Matter of: X  
X  
PROPOSED ACQUISITION OF CONTROL OF: X  
PXRE REINSURANCE COMPANY, a X Docket No. EX07-41  
Connecticut domiciled reinsurance company X  
by X  
ARGONAUT GROUP, INC., a Delaware holding company X  
-----X

### ORDER

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, having read the record of the above captioned matter, do hereby adopt the findings and recommendations of Susan F. Cogswell, Deputy Insurance Commissioner, Hearing Office, which are contained in the attached Proposed Final Decision dated July 24, 2007 and issue the following orders, TO WIT:

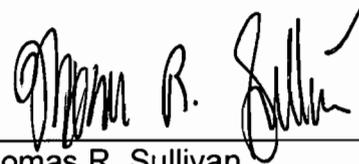
1. The Form A Application of the Applicant in which it seeks approval to acquire control of the Domestic Insurer is hereby approved.
2. The Applicant shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.
3. Within fifteen (15) days following the end of the month in which the proposed acquisition is consummated, the Domestic Insurer shall file an amended

Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

4. For a period of two (2) years, the Domestic Insurer shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, the status of the integration with the Applicant, changes to the business of the Domestic Insurer, changes in officers or Directors of the Domestic Insurer or the Applicant, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant or the Domestic Insurer.
5. The Applicant shall provide the Department with the names and titles of those individuals who will be responsible for filing transactions for prior approval pursuant to Conn. Gen. Stats. 38a-135 and 38a-136.
6. If the proposed transaction is not consummated within three (3) months of the date of this Order and the Applicant intends to consummate the proposed transaction, the Applicant shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicant's inability to consummate the proposed transaction; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicant and the Domestic Insurer.
7. The Applicant shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction

pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 24 day of July, 2007

A handwritten signature in black ink, appearing to read "Thomas R. Sullivan", written over a horizontal line.

Thomas R. Sullivan  
Insurance Commissioner



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### PROPOSED DECISION

#### I. INTRODUCTION

On April 11, 2007, Argonaut Group, Inc., a publicly traded Delaware holding corporation ("Argonaut" or "Applicant"), filed an Application on Form A ("Application") with the Connecticut Insurance Department (the "Department") pursuant to 38a-129 to 38a-140 of the Connecticut General Statutes requesting approval by the Insurance Commissioner of the State of Connecticut ("Commissioner" or "Insurance Commissioner") for the Proposed Acquisition of control or merger ("Merger") of PXRE Reinsurance Company, a domestic reinsurer organized under the laws of Connecticut ("PXRE RE" or "Domestic Insurer").

The Domestic Insurer is a wholly owned, indirect subsidiary of PXRE Group Ltd. ("PXRE") a Bermuda publicly-traded holding company to be renamed Argo Group International Holdings, Ltd. ("Argo").

Supplemental information was subsequently requested by the Department and provided by the Applicants. An Amended Application was filed with the Department on May 31, 2007.

The proposed Merger will be effected pursuant to the terms of the Agreement and Plan of Merger, ("Merger Agreement") dated as of March 14, 2007, as amended and restated June 8, 2007, by and between the Domestic Insurer, PXMS Inc, a Delaware corporation and wholly owned subsidiary of PXRE, ("PXMS") and the Applicant, when PXMS will merge with and into Argonaut, with Argonaut surviving as a wholly owned subsidiary of PXRE. At the effective time of the proposed Merger, each share of Argonaut common stock, issued and outstanding immediately prior to the closing will be converted into the right to receive 6.4672 of PXRE common shares.

On June 13, 2007, Insurance Commissioner Thomas R. Sullivan ("Commissioner") issued a notice of hearing, in which he ordered that a public hearing concerning the application for approval of the Proposed Acquisition of Control of the Domestic Insurer be held on July 6, 2007. The hearing notice was subsequently published in *The Hartford Courant*, once a week for two consecutive weeks during the period of June 14, 2007 to June 30, 2007, inclusive. The notice of hearing was also filed by the Department with the Office of the Secretary of State on June 14, 2007 and was published on the Department's Internet website. In accordance with section 38a-8-48 of the Regulations of the Connecticut State Agencies, the following were designated as parties to this proceeding: the Applicants and the Domestic Insurer.

The following individuals participated in and/or testified at the public hearing on behalf of the Applicant and the Domestic Insurer:

Mark W. Haushill, Senior Vice President and Chief Financial Officer, Argonaut Group, Inc. and Daniel Cotter, Esq., Assistant Vice President and Deputy General Counsel for Regulatory Affairs, Argonaut Group, Inc. represented the Applicants.

Bruce J. Byrnes, Esq., Secretary & General Counsel, PXRE Reinsurance Company represented the Domestic Insurer.

Allison J. Tam, Esq., and Ellen M. Dunn, Esq., LeBoeuf, Lamb, Greene & MacRae LLP represented both the Applicant and the Domestic Insurer.

The following Department staff participated in the public hearing:

Beth Cook, Esq., Counsel, Kathy Belfi, Chief Examiner, Financial Analysis & Compliance, and Lynn Hein, Supervisory Examiner, Financial Analysis & Compliance.

Pursuant to the published hearing notice, the public was given an opportunity to speak at the hearing or to submit written comments no later than the close of business on July 2, 2007, by an Order dated June 14, 2007. No public officials or members of the public signed up to speak, spoke at the hearing, or submitted written testimony.

## II. FINDINGS OF FACT

After reviewing the exhibits entered into the record of this proceeding, and based on the written and oral testimony of the witnesses, the undersigned makes the following findings of fact:

1. Argonaut is a Delaware publicly-traded holding company that is a national underwriter of specialty insurance products in a niche area of the property and casualty market. The principal business address of Argonaut is 10101 Reunion Place, Suite 500, San Antonio, Texas 78216.

2. Argonaut, through its insurance subsidiaries, offers a full line of products and services designed to meet the coverage and claims handling needs of businesses in three primary segments: excess and surplus lines, select markets, and public entity.
3. Argonaut's insurance operations consist principally of 12 property and casualty insurance companies including both admitted and non-admitted surplus lines insurers.
4. On the admitted side, Argonaut's lead property and casualty insurance company is Argonaut Insurance Company, an Illinois-domiciled insurance company; on the surplus lines side, the lead company is Colony Insurance Company, a Virginia-domiciled insurance company.
5. As of March 31, 2007, Argonaut had assets of approximately \$3.8 billion and consolidated stockholder's equity of approximately \$882 million.
6. PXRE RE is a Connecticut domiciled property and casualty reinsurance company that is licensed in 28 states and is an accredited reinsurer in 22 jurisdictions. Its statutory home office is located at One Commercial Plaza, Hartford, Connecticut 06103 and its main administrative office is located in Edison, New Jersey.
7. The Domestic Insurer is a wholly-owned, indirect subsidiary of PXRE Group Ltd. a Bermuda publicly traded holding company to be renamed Argo Group International Holdings, Ltd. PXRE Group Ltd. may be referred to a "PXRE" or "Argo".

8. There are no employees of the Domestic Insurer located in Connecticut.
9. PXRE RE has not written direct business in the United States in recent years; it has acted solely as a reinsurer, and is in a run-off mode.
10. PXRE RE has stopped writing new business other than for two intercompany reinsurance agreements with an affiliate, Peleus Reinsurance Ltd., ("Peleus Re").
11. Pursuant to the terms of the Agreement and Plan of Merger, ("Merger Agreement") dated as of March 14, 2007, by and between the Domestic Insurer, PXMS, and the Applicant, as amended and restated as of June 8, 2007, PXMS will merge with and into Argonaut, with Argonaut surviving as a wholly owned subsidiary of PXRE.
12. At the effective time of the Merger, each share of Argonaut common stock, issued and outstanding immediately prior to the closing will be converted into the right to receive 6.4672 of PXRE common shares.
13. The total value of Argo upon the closing of the proposed Merger is anticipated to be approximately \$1.411 billion.
14. No loans will be a source of any of the consideration to effect the proposed Merger.
15. The nature and amount of the consideration to be paid in connection with the proposed Merger was determined by arm's length negotiation between the parties to the Merger Agreement.

16. Upon completion of the proposed Merger, PXRE, which will be the holding company of the combined companies, will continue to have its headquarters in Bermuda.

17. After the Merger, the following will be officers of Argo:

Mark E. Watson III, President and Chief Executive Officer

Robert P. Myron, Executive Vice President and Chief Financial Officer

Nadia Dattilo, Controller

David J. Doyle, Secretary

18. After the Merger, the following will be members of the board of directors of Argo:

Gary V. Woods

F. Sedgwick Browne

H. Berry Cash

Bradley Cooper

Mural Josephson

Hector DeLeon

Allan W. Fulkerson

David Hartoch

Frank Maresh

Philip McLoughlin

John R. Power, Jr.

Fayez F. Sarofim

Mark E. Watson III

19. The biographical affidavits of the new members of the boards of directors and officers of Argo, which include each individual's educational background, professional credentials, and employment history, are included in the record and the files of the Insurance Department.
20. Following completion of the proposed Merger, Argo will serve as the holding company of the combined Argonaut and PXRE groups.
21. Following completion of the proposed Merger, the Domestic Insurer will continue to operate in substantially the same manner therefore there are no specific plans with respect to the integration of the Domestic Insurer.
22. PXRE's existing reinsurance operations, including the Domestic Insurer, will continue in run-off with the new reinsurance operations of the combined group to be written through Peleus.
23. It is estimated that the run-off will be completed by June 30, 2021.
24. Following completion of the proposed Merger, PXRE may consider strategic alternatives for the Domestic Insurer, including a possible sale, merger or redomestication of the Domestic Insurer.
25. The books and records of the Domestic Insurer are currently maintained at the main administrative offices in Edison, New Jersey. There are no plans to change that arrangement.

26. During the 12 calendar months preceding the filing of the application, neither the Applicant, nor any person controlling, controlled by or under common control with, the Applicant nor any of the executive officers or directors of the Applicant has effected transactions in any voting securities of the Domestic Insurer.
27. Neither the Applicant, nor its affiliates, nor any person listed as a director or executive officer of the Applicant, nor anyone based upon interviews or at the suggestion of such acquiring party made any recommendations to purchase any voting securities of the Domestic Insurer during the 12 calendar months preceding the filing of the Application.
28. There are no contracts, arrangements, understandings or agreements with broker-dealers as to the solicitation of any voting security of the Domestic Insurer in which the Applicant, any affiliates of the Applicant, or any person listed as a director or executive officer of the Applicant is involved.
29. Following the announcement of the Proposed Transaction, the Applicant was assigned the following ratings:

	<b>Standard &amp; Poor's</b>	<b>A.M. BEST</b>
Financial Strength Rating	No rating required	No rating required
Long term Issuer	BBB-(ON)	bbb (OS)
Preferred Stock	BB	Bb+

30. The Domestic Insurer's financial strength rating is B+ from A.M. Best.

31. The waiting period required by the Hart-Scott Rodino Anti-Trust Improvement Act of 1976 in connection with the proposed Merger received early termination effective April 17, 2007.
32. The proposed Merger will not substantially lessen competition of insurance in the State of Connecticut or tend to create a monopoly therein.

### III. DISCUSSION

Section 38a-132(b) of the Connecticut General Statutes specifically requires the approval of the proposed acquisition of control of the Domestic Insurer unless it is determined that:

- (A) After the change of control, the Domestic Insurer would not be able to satisfy the requirements for the issuance of licenses to write the lines of business for which it is presently licensed;
- (B) The effect of the merger or other acquisition of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly in Connecticut;
- (C) The financial condition of the acquiring party is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interests of its policyholders;
- (D) The plans or proposals which the acquiring party has to liquidate the Domestic Insurer, sell its assets or consolidate or merge it with any person, or make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurer and not in the public interest;

- (E) The competence, experience and integrity of those persons who would control the operations of the Domestic Insurer are such that it would not be in the interest of the policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control; or
- (F) The acquisition of control of the Domestic Insurer is likely to be hazardous or prejudicial to those buying insurance.
  - A. The ability of the Domestic Insurer to satisfy the requirements for the issuance of a licenses to write the line or lines of business for which it is presently licensed following the proposed acquisition of control.**

The Domestic Insurer is a domestic insurance company currently licensed pursuant to section 38a-41 of the Connecticut General Statutes. Section 38a-72 of the Connecticut General Statutes requires that a domestic stock property and casualty reinsurance company must have a minimum of \$2,000,000 in capital and \$2,000,000 in paid-in surplus in the aggregate. The Domestic Insurer currently satisfies the requirements for the issuance of a license to write the lines of business for which it is licensed.

As noted in the findings of fact, following consummation of the Merger, the Applicant has no plans or proposals to liquidate the Domestic Insurer, to sell its assets, merge, or consolidate the Domestic Insurer with any other person or entity. There are no plans for the Domestic Insurer to enter into any material contract, agreement, arrangement or transaction of any kind with any person or entity.

The Applicant also submitted evidence that the information contained in the biographical affidavits for the directors and officers of Applicant proposed for the Domestic Insurer attest to the competence, experience and integrity of the individuals

who will be responsible for the governance and operation of the Domestic Insurer, and should insure the safe and expert operation of the Domestic Insurer following the Proposed Acquisition.

Accordingly, it is the conclusion of the Insurance Department that the evidence contained in the record supports a finding that the Applicant will be able to satisfy the requirements for the issuance of the necessary license of an insurer for which it is presently licensed following the proposed acquisition of control of the Domestic Insurer.

**B. Whether the effect of the Proposed Acquisition would be to substantially lessen competition of insurance in this state or tend to create a monopoly herein.**

The Applicants do not currently transact direct insurance business in Connecticut. Therefore, it is hereby concluded that the effect of the acquisition of control by the Applicant will not substantially lessen competition of insurance or tend to create a monopoly in Connecticut.

**C. Whether the financial condition of the Applicant is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interests of their policyholders.**

Based on the written testimony and the evidence contained in the record, there is no evidence that would indicate the financial condition of the Applicant might jeopardize the financial condition of the Domestic Insurer, or prejudice the interest of the policyholders.

**D. Whether the plans or proposals which the Applicant has to liquidate the Domestic Insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurer and not in the public interest.**

The record reveals that the Applicant has no current plans or proposals to liquidate the Domestic Insurer, to sell its assets, or consolidate or merge it with any other entity.

Accordingly, the record supports the conclusion that there are no plans or proposals for the Domestic Insurer that are unfair and unreasonable to policyholders of the Domestic Insurer or not in the public interest.

**E. Whether the competence, experience and integrity of those persons who would control the operation of the Domestic Insurer are such that it would not be in the interest of the policyholders of the Domestic Insurer and of the public to permit the Proposed Acquisition or other acquisition of control.**

The record includes the biographical affidavits of those individuals who will serve as members of the board and as officers of the Applicant and the Domestic Insurer following the change of control. The biographical affidavits disclose each individual's educational background, professional credentials and their employment history. In addition, the Applicant has represented, and the biographical affidavits confirm, that during the last ten years none of the proposed directors or officers of the Applicant and Domestic Insurer have been convicted in a criminal proceeding (excluding minor traffic violations) or have been convicted or otherwise penalized for violating any federal or

state law regulating the business of insurance securities or banking, (or in the case of an alien person, such equivalent provision as applicable). During the last ten years, none of the proposed directors or officers of the Applicant have been the subject of any proceeding under the Federal Bankruptcy Code, (or in the case of an alien person, such equivalent provision as applicable) or have been affiliated with a business or organization which has been subject to such proceeding.

Furthermore, no proposed director or officer of the Applicant or Domestic Insurer has had a revocation, suspension or disciplinary sanction imposed against him or her by a governmental agency. None of the filed biographical affidavits contain any information that reflects negatively on the integrity of these individuals. The competence, experience, and integrity of those persons who would control the operations of the Domestic Insurer after the Proposed Acquisition is such that it would be in the interest of policyholders of the Domestic Insurer, and in the public interest to permit the Proposed Acquisition.

**F. Whether the acquisition is likely to be hazardous or prejudicial to those buying insurance.**

Based on the financial strength of the Applicant, the affirmation that the current plans of the Applicant for the Domestic Insurer will provide a strong and stable financial environment for the Domestic Insurer, it is hereby concluded that the proposed acquisition of control of the Domestic Insurer is not likely to be hazardous to those buying insurance.

Accordingly, assuming compliance with all of Connecticut's insurance statutes and regulations, it is reasonable to conclude that the proposed acquisition of control of the Domestic Insurer is not likely to be hazardous to those buying insurance.

#### IV. RECOMMENDATION

Accordingly, based on the foregoing findings of fact and discussion, the written testimony and exhibits submitted, the record of the July 6, 2007 public hearing, and the recommendation of the Insurance Department staff, the undersigned concludes that the Applicant has satisfied the statutory criteria as provided in section 38a-132(b) of the Connecticut General Statutes. Accordingly, the undersigned concludes that pursuant to the relevant section 38a-132(b) of the Connecticut General Statutes that after the proposed acquisition of control (a) the Domestic Insurer will be able to meet the requirements for licensing in this state; (b) the effect of the acquisition of control will not be to substantially lessen competition in this state or tend to create a monopoly therein; (c) the financial condition of the Applicant is not such as might jeopardize the financial stability of the Domestic Insurer, or prejudice the interest of its policyholders; (d) the plans or proposals for the Domestic Insurer are not unfair and unreasonable to their policyholders, and are in the public interest; (e) the competence, experience and integrity of the management of the Applicant is such that it would be in the interest of policyholders of the Domestic Insurer, and of the public to permit the proposed acquisition of control; and (f) the acquisition of control of the Domestic Insurer is not likely to be hazardous or prejudicial to those buying insurance.

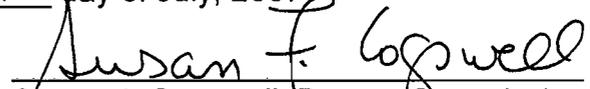
Accordingly, the undersigned recommends the following order be issued by the Commissioner of Insurance:

1. The Form A Application of the Applicant in which it seeks approval to acquire control of the Domestic Insurer is hereby approved.
2. The Applicant shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.
3. Within fifteen (15) days following the end of the month in which the proposed acquisition is consummated, the Domestic Insurer shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.
4. For a period of two (2) years, the Domestic Insurer shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, the status of the integration with the Applicant, changes to the business of the Domestic Insurer; changes in officers or Directors of the Domestic Insurer or the Applicant, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant or the Domestic Insurer.
5. The Applicant shall provide the Department with the names and titles of those individuals who will be responsible for filing transactions for prior approval pursuant to Conn. Gen. Stats. 38a-135 and 38a-136.
6. If the proposed transaction is not consummated within three (3) months of the date of this Order and the Applicant intends to consummate the proposed transaction, the Applicant shall submit to the Commissioner a statement, which

shall include (1) the reason for the Applicant's inability to consummate the proposed transaction; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicant and the Domestic Insurer.

7. The Applicant shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 24<sup>th</sup> day of July, 2007

  
Susan F. Cogswell, Deputy Commissioner  
Hearing Officer