

**DEPARTMENT OF INSURANCE  
STATE OF KANSAS**

In the Matter of the Proposed	)	
Acquisition of Control of THE	)	
PYRAMID LIFE INSURANCE COMPANY	)	
	)	
By	)	Docket No. 2822-M
	)	
CERES GROUP, INC. and	)	
CONTINENTAL GENERAL INSURANCE	)	
COMPANY	)	

**ORDER**

NOW on this 24th day of July, 2000, the above matter comes before the Commissioner of Insurance of the State of Kansas upon the filing of a pre-acquisition notice pursuant to K.S.A. 40-3304 and K.A.R. 40-1-28 in the form of a Form A Statement Regarding the Proposed Acquisition of Control (“Form A Statement”) by Ceres Group, Inc. (“Ceres”) and its wholly owned subsidiary, Continental General Insurance Company (“Continental”) (Ceres and Continental are sometimes collectively referred to as the “Applicants”). The Form A Statement relates to the proposed acquisition of control of The Pyramid Life Insurance Company (“Pyramid”), a Kansas domestic insurance company, by the Applicants. The acquisition of control of Pyramid will occur through Continental’s purchase of all of the issued and outstanding common capital stock of Pyramid from United Insurance Company of America (“United” or “Seller”).

Seller is represented by its in-house attorney, Thomas P. Hyatte. Applicants are represented by heir attorney, William W. Sneed of Polsinelli, White, Vardeman & Shalton, P.C. The Kansas Insurance Department is represented by its General Counsel, Kathy Greenlee and by

Dan Watkins, Lawrence, Kansas. Also appearing for the Kansas Insurance Department are Don Gaskill, Chief Examiner, and Patrick Mulvihill of the Financial Surveillance Division.

All parties are relying on documentary and contractual representations filed with the Kansas Insurance Department. All parties waive notice and hearing pursuant to K.S.A. 77-533.

### **FINDINGS OF PUBLIC INTEREST AND POLICY**

The following declarations of public interest and policy are set forth:

The Commissioner finds and declares that it is consistent with the public interest, K.S.A. 40-3301 and the interest of policyholders to permit insurers:

- to engage in activities which will enable insurers to make better use of management skills and facilities;
- to diversify into new lines of business through acquisition and/or organization of subsidiaries;
- to have free access to capital markets which can provide funds for insurers to use in diversification programs;
- to implement sound tax-planning conclusions; and
- to serve the changing needs of the public and adapt to changing conditions of the social, economic and political environment so that insurers are able to compete effectively and to meet the growing public demand for institutions capable of providing a comprehensive range of financial services.

The Commissioner further declares that said public policy promotes the public interest by:

- facilitating the achievement of the objectives enumerated in K.S.A. 40-3301 and set out above;
- requiring disclosure of pertinent information relating to changes in control of an insurer;
- requiring disclosure by an insurer of material transactions and relationships between the insurer and its affiliates, including certain dividends paid by the insurer; and
- providing standards governing material transactions between the insurer and its affiliates.

The above declared policies and purposes are the criteria for making the findings and conclusions stated herein. Those findings and conclusions are based upon the statements made by the Applicants in the Form A Statement and accompanying documents made under oath and filed with the Kansas Insurance Department by the Applicants pursuant to K.S.A. 40-3304(b), which documents have, at the request of the Kansas Insurance Department, been amended and supplemented in certain respects. The order of approval includes conditions set forth herein.

Significant documents have been reviewed by representatives of the Financial Surveillance and Legal Divisions of the Kansas Insurance Department, and the Commissioner has had the benefit of their technical expertise and advice as provided in K.S.A. 77-546(c).

The purpose of the filing of the Form A Statement is to seek authority from the Kansas Insurance Department for the proposed acquisition of control of Pyramid by the Applicants. The terms and conditions of the proposed acquisition are more fully set forth in the Form A Statement filed with the Commissioner on April 20, 2000, pursuant to the Kansas Insurance Holding Companies Act, K.S.A. 40-3301 et seq.

The Applicants have submitted the following documents as Exhibits to the Form A Statement:

- Exhibit A Purchase Agreement.
- Exhibit B Biographical Affidavits for the Officers and Directors of Ceres and Continental.
- Exhibit C Organizational Chart of the Applicants and Affiliates.
- Exhibit D Subscription Documents for Ceres.
- Exhibit E Credit Agreement for Ceres (\$50,000,000).
- Exhibit F Commitment to Amend Credit Agreement for Ceres (Chase Manhattan Bank and Chase Securities, Inc.).
- Exhibit G Materials for Presentation to Participant Lenders.

- Exhibit H Ceres Convertible Preferred Stock (Subscription Document and Certificate of Amendment of Certificate of Incorporation of Ceres).
- Exhibit I Executive Summary.
- Exhibit J Milliman & Robertson, Inc. Letter to the Kansas Insurance Department (3/28/00).
- Exhibit K Administrative Services Agreement.
- Exhibit L Approval by Nebraska Department of Insurance of Administrative Services Agreement for Continental.
- Exhibit M Tax Sharing Agreement.
- Exhibit N Form D Statements for Administrative Services Agreement and Tax Sharing Agreement.
- Exhibit O Disclaimers of Affiliation or Control for Messrs. Spass, Doctoroff and Gruber.
- Exhibit P Financial Statements.

The staff of the Kansas Insurance Department has inspected and reviewed the contents of the Form A Statement and all Exhibits attached thereto and found that the filing of the Form A Statement and Exhibits attached thereto is in accordance with K.S.A. 40-3304 and related regulations and that the Form A Statement and Exhibits attached thereto have provided the information required under Kansas statutes to enable the Commissioner to render a decision on the application.

#### **FINDINGS OF FACT AND CONCLUSIONS OF LAW**

1. Pyramid, a Kansas stock life and health insurance company, was organized under the laws of Kansas on May 26, 1913 and became authorized to do business in Kansas on August 10, 1914.

2. United, an Illinois stock life and health insurance company, owns 100% of issued and outstanding common capital stock of Pyramid.

3. Continental, a Nebraska life and health insurance company, became authorized to do business in Kansas on December 29, 1969.

4. Ceres owns 100% of the issued and outstanding common capital stock of Continental.

5. The stock of Ceres is publicly traded on the NASDAQ, but principally owned by two investment groups: (i) International Managed Care L.L.C. (“IMC”), a Delaware limited liability company that owns approximately 27.8% of issued and outstanding common capital stock of Ceres; and (ii) International Managed Care (Bermuda), L.P. (“IMCB”), a Bermuda limited partnership that owns approximately 13.5% of the issued and outstanding common capital stock of Ceres. The ultimate controlling person of IMC is Insurance Partners, L.P. (“IP”), a Delaware limited partnership, and the ultimate controlling person of IMCB is Insurance Partners Offshore, L.P. (“IPO”), a Bermuda limited partnership. The ultimate controlling person of IP is Insurance GenPar MGP, Inc. (“IP General Partner”), a Delaware corporation, and the ultimate controlling person of IPO is Insurance GenPar (Bermuda) MGP, Ltd. (“IPO General Partner”), a Bermuda corporation. Each of IP General Partner and IPO General Partner is the sole general partner of a limited partnership, which, in turn, is the sole general partner of another limited partnership, which, in turn, is the sole general partner of IP or IPO. There are three stockholders of IP General Partner and IPO General Partner (collectively the “General Partners”), as follows: (i) Robert A. Spass, who owns 40% of the issued and outstanding common capital stock of each of the General Partners; (ii) Daniel L. Doctoroff, who owns 30% of the issued and outstanding common capital stock of each of the General Partners; and (iii) Steven B. Gruber, who owns 30% of the issued and outstanding common capital stock of each of

the General Partners. Each of Messrs. Spass, Doctoroff and Gruber has filed a Disclaimer of Control or Affiliation concerning Ceres (Exhibit O).

6. The Applicants filed a duly certified copy of the Form A Statement with the Kansas Insurance Department on April 20, 2000. A duly certified copy of the Form A Statement was also sent to Pyramid on April 20, 2000.

7. Review of evidence establishes that, after the acquisition of control as proposed in the Form A Statement, the Applicants will be able to satisfy the requirements necessary for maintaining the business of Pyramid to the satisfaction and protection of the policyholders.

8. Evidence has been introduced that, after the acquisition of control as proposed in the Form A Statement, Pyramid will be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed.

9. Evidence has been introduced that the acquisition of control, as proposed in the Form A Statement, will neither substantially lessen competition in insurance in the State of Kansas nor tend to create a monopoly therein.

10. No evidence has been introduced to establish that the financial condition of the Applicants will jeopardize the financial stability of Pyramid or prejudice the interest of the policyholders. Applicants have agreed to certain conditions set forth herein to maintain the financial stability of Pyramid and protect policyholders.

11. Evidence has been introduced which shows that the Applicants have no plans or proposals to liquidate Pyramid, 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 which would be unfair or unreasonable to the policyholders or Pyramid or not be in the public interest.

12. Evidence has been introduced to establish that the competence, experience and integrity of those persons who will control the operations of Pyramid after the acquisition are such that it will be in the interest of the policyholders and of the public to permit the acquisition.

13. Evidence has been introduced to establish that the acquisition will not be hazardous or prejudicial to the insurance-buying public.

14. The Form A Statement is in compliance with the provisions of the Kansas Insurance Holding Companies Act, K.S.A. 40-3301 et seq.

15. The evidence submitted supports approval of the proposed acquisition of control of Pyramid by the Applicants.

16. In connection with the acquisition of control as proposed in the Form A Statement, Applicants intend for Pyramid to enter into the following affiliated agreements immediately after the acquisition of control is effected:

(a) Administrative Services Agreement (“Administrative Services Agreement”) with Ceres Administrators, L.L.C., a Delaware limited liability company that is wholly owned by Ceres; and

(b) Tax Sharing Agreement (“Tax Sharing Agreement”) with Ceres and all of its subsidiaries.

17. The Applicants submitted the Administrative Services Agreement and Tax Sharing Agreement to the Kansas Insurance Department with the Form A Statement (Exhibits K and M, respectively) and also submitted Form D Statements prepared in accordance with K.A.R. 40-1-28 for each agreement seeking approval of the same pursuant to K.S.A. 40-3306 (Exhibit N).

18. Review of the evidence establishes that the terms of the Administrative Services Agreement and the Tax Sharing Agreement are fair and reasonable subject to conditions set forth herein.

19. Review of the evidence establishes that the charges or fees to be paid by Pyramid pursuant to the Administrative Services Agreement and the Tax Sharing Agreement are reasonable subject to conditions set forth herein.

20. No evidence has been introduced to establish that the expenses to be incurred or payments to be received by Pyramid under either the Administrative Services Agreement or the Tax Sharing Agreement will be allocated to Pyramid in a way that does not conform with customary insurance accounting practices consistently applied.

21. No evidence has been introduced to establish that the books, accounts and records of each party to the Administrative Services Agreement and the Tax Sharing Agreement will be maintained in a manner that does not clearly and accurately disclose the nature and details of the transactions.

22. No evidence has been introduced to establish that, immediately after the Administrative Services Agreement and the Tax Sharing Agreement become effective, Pyramid's surplus as regards policyholders will not be reasonable in relation to Pyramid's outstanding liabilities or inadequate to its financial needs.

23. The evidence submitted supports approval of the Administrative Services Agreement and the Tax Sharing Agreement subject to the conditions set forth herein.

**IT IS THEREFORE, BY THE COMMISSIONER OF INSURANCE, ORDERED THAT:**

1. The application by Continental and Ceres to acquire control of Pyramid in the manner set forth in the Form A Statement and Exhibits attached thereto is hereby approved



pursuant to K.S.A. 40-3304, provided the acquisition is effected within sixty (60) days of the date of this Order, and further, provided that such approval is subject to the following:

(a) The charges to be paid by Pyramid pursuant to the Administrative Services Agreement shall be at cost for the first two years. After two years, fees up to 6% of the cost of the allowed charges under the Agreement may be allowed provided such fees can be paid from underwriting profits of Pyramid;

(b) Except for the Administrative Services Agreement and the Tax Sharing Agreement, no other inter-company transactions shall be allowed for three years. After three years, all inter-company transactions shall be subject to approval of the Commissioner;

(c) Pyramid shall pay dividends only when such dividends can be paid from net underwriting profits and Applicant shall at all times maintain Pyramid's RBC level at 400% or more, unless the Commissioner, upon written request allows otherwise;

(d) Applicant and Pyramid agree not to enter into financial reinsurance transactions. Applicant and Pyramid agree to submit all other reinsurance transactions to the Commissioner for approval for three years from the date of this Order;

(e) Applicant and Pyramid agree that no restatement of reserves will be made without approval of the Commissioner;

(f) Applicant agrees to make no additional acquisitions prior to retirement of debt incurred in this transaction unless approved by Commissioner; and

(g) Applicant will seek to maintain United representation on Pyramid's Board of Directors so long as United holds preferred stock of Ceres.

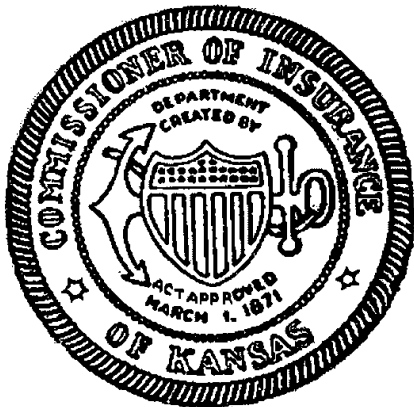
2. The Administrative Services Agreement and the Tax Sharing Agreement are hereby approved pursuant to K.S.A. 40-3306 and the conditions stated above, and may be

effected by the parties thereto immediately after the closing of the acquisition, provided the acquisition is effected within sixty (60) days of the date of this Order.

3. By agreeing to this Order, the parties hereby waive their right to a hearing, as provided in K.S.A. 40-3304(d) and K.S.A. 77-527(b).

4. The Commissioner of Insurance retains jurisdiction over the subject matter of this proceeding and over the parties for the purpose of entering such further Order or Orders as may be deemed proper.

**IT IS SO ORDERED THIS 24th DAY OF JULY, 2000, IN THE CITY OF TOPEKA,  
COUNTY OF SHAWNEE, STATE OF KANSAS.**



/s/ Kathleen Sebelius

Kathleen Sebelius

Commissioner of Insurance

ACKNOWLEDGED AND AGREED:

/s/

Ceres Group, Inc.

ACKNOWLEDGED AND AGREED:

/s/

United Insurance Company of America