

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

IN THE MATTER OF THE ACQUISITION)	
OF CONTROL OF CITIZENS UNITED)	
RECIPROCAL EXCHANGE AND)	
RECIPROCAL MANAGEMENT)	
CORPORATION, INC., BY MGG RMC SPV)	
LLC, MGG STRUCTURED SOLUTIONS)	
FUND LP, MGG STRUCTURED SOLUTIONS)	HEARING OFFICER'S
MASTER FUND (CAYMAN) LP, MGG)	REPORT
INVESTMENT GROUP GP LLC, MGG)	
INVESTMENT GROUP GP III LLC, MGG)	
INVESTMENT GROUP LP, KEVIN F.)	
GRIFFIN AND ERIC POE)	

Procedural History

In accordance with N.J.S.A. 17:27A-2, by a filing dated February 18, 2022, received by the New Jersey Department of Banking and Insurance (the “Department”) on February 23, 2022, and by an amended and restated filing dated December 5, 2022 received by the Department on December 6, 2022, MGG RMC SPV LLC, a Delaware limited liability company (the “Buyer”), MGG Structured Solutions Fund LP (formerly known as MGG Special Opportunities Fund LP), a Delaware limited partnership (“MGG SS Fund”), MGG Structured Solutions Master Fund (Cayman) LP (formerly known as MGG Special Opportunities Master Fund (Cayman) LP), a Cayman Islands exempted limited partnership (“MGG SS Master Fund” and together with the MGG SS Fund, the “MGG Funds”), MGG Investment Group GP LLC, a Delaware limited liability company (“MGG GP”), MGG Investment Group GP III LLC, a Delaware limited liability company (“MGG GP III” and together with MGG GP, the “MGG GPs”), MGG Investment Group LP, a Delaware limited partnership (the “MGG Investment Manager”), Kevin F. Griffin (“Kevin Griffin” and together with the Buyer, MGG Funds, the MGG GPs and the MGG Investment Manager, the “MGG Applicants”) and Eric S. Poe (“Eric Poe” and together with the MGG Applicants, “Applicants”) filed with the Department an application to acquire and change control (“Form A Filing” or “Proposed Acquisition of Control”) of Citizens United Reciprocal Exchange (“CURE” or the “Domestic Insurer”), (NAIC Company Code: 37028) and Reciprocal Management Corporation, Inc., a New Jersey corporation (“RMC” or the “Attorney-in-Fact” and along with CURE, the “Domestic Entities”).

The Proposed Acquisition of Control of the Domestic Entities will be effected pursuant to the Buyer's acquisition of all of the issued and outstanding voting common stock of RMC from the Sellers pursuant to a share purchase agreement, dated February 18, 2022, by and among the Buyer, RMC and the Sellers ("Purchase Agreement"). All of the issued and outstanding voting common stock of RMC is currently owned by the Eric Poe 2007 Irrevocable Trust ("EP Trust") and the Audrey Poe Knox 2007 Irrevocable Trust ("APK Trust" and together with the EP Trust, the "Sellers"). As a reciprocal inter-insurance exchange, CURE has no authorized, issued, or outstanding voting securities.

The Proposed Acquisition of Control also involves the following actions by the Buyer, which will occur immediately after the Buyer's acquisition of all of the issued and outstanding voting common stock of RMC. The Buyer will (i) restructure its own capital to create Preferred Units, Class A Units and Class B Units of the Buyer and convert all interests of the MGG Funds in the Buyer into Class A Units, (ii) issue Class B Units representing 25% of the total equity interests of the Buyer to Eric Poe, and (iii) issue Class A Units representing 5% of the total equity interests of the Buyer to Christopher Haga, who will serve as an independent manager of RMC. Additionally, after reconciliation of the working capital adjustment and the amounts provided by the Sellers to CURE between the signing of the Purchase Agreement and the closing of the Proposed Acquisition of Control, the Buyer may also issue non-voting Preferred Units.

Related to the Proposed Acquisition of Control, the MGG Funds will purchase surplus notes to be issued by CURE to the MGG Funds (the "Surplus Notes") in an aggregate amount of \$12.5 million, subject to the approval of the Commissioner of the Department ("Commissioner").

Pursuant to N.J.S.A. 17:27A-2(d), a public hearing was held on the Form A filing on December 21, 2022. Pursuant to N.J.A.C. 11:1-35.6(g), the public hearing was conducted based on the documents filed. The hearing panel and Department staff determined that the documents filed in connection with the proposed acquisition satisfied the requirements of N.J.S.A. 17:27A-2(b). Public comments were allowed to be submitted through the close of business on December 21, 2022. No comments were received and the record was closed on December 21, 2022.

Findings of Fact

CURE is a New Jersey domestic reciprocal inter-insurance exchange engaged in providing property and casualty insurance, organized since March 29, 1990, and commencing business in New Jersey on June 1, 1990. CURE is also licensed in the states of Michigan and Pennsylvania. RMC serves as attorney-in-fact for CURE and directly manages CURE's operations.

As a reciprocal inter-insurance exchange, CURE has no authorized, issued, or outstanding voting securities. RMC currently has 600,000 shares of voting common stock issued and outstanding, which are beneficially owned by the Sellers. The Sellers equally own 50% of the 600,000 common stock shares of RMC. RMC has no preferred stock issued or outstanding.

The MGG Applicants are part of the MGG Group, which provides bespoke investing solutions to mid-size and growing companies. The Buyer is a newly formed entity as of November 15, 2021 and organized for the purpose of making the investment in RMC and effecting the Proposed Acquisition of Control, and as such, does not have financial statements. Currently, MGG SS Fund has 73% controlling ownership interests of the Buyer while MGG SS Master Fund has 27% controlling ownership interests. MGG SS Fund and MGG SS Master Fund are controlled by MGG GP and MGG GP III, respectively.¹ MGG GP and MGG GP III are 100% controlled by Kevin Griffin, Manager, and the ultimate controlling entity. After the Proposed Acquisition of Control, MGG SS Fund will have 51.1% controlling ownership interests of the Buyer while MGG SS Master Fund will have 18.9%, Eric Poe will have 25% and Christopher Haga will have 5% controlling ownership interests of the Buyer.

The Applicants' Proposed Acquisition of Control of the Domestic Entities will be effectuated pursuant to the Buyer's acquisition of all of the issued and outstanding capital stock of RMC pursuant to the Purchase Agreement. As consideration for acquiring all of the issued and outstanding capital stock of RMC, the purchase price under the Purchase Agreement ("Purchase Price") will consist of (i) \$15 million, plus (ii) Closing Cash, less (ii) Closing Company Indebtedness, plus (iii) the amount by which the Closing Net Working Capital exceeds the Net Working Capital Target (but only if that is a positive number), less (iv) the amount by which the Net Working Capital Target exceeds the Closing Net Working Capital (but only if that is a positive

¹ On April 19, 2022, a Disclaimer of Control in relation to the Buyer's acquisition of control of the Domestic Insurer was filed by the MGG GPs on behalf of three institutional investors and an MGG Group fund owning non-controlling interests (the "Disclaimer Applicants"). The Disclaimer was conditionally granted to the Disclaimer Applicants in relation to the Domestic Insurer and will be effective upon an Order approving the Proposed Acquisition of Control.

number), plus (v) the Operational Advancement Amount, less (vi) the Seller Transaction Costs, as each such capitalized term is defined in the Purchase Agreement.

The Purchase Price will be subject to (i) post-closing adjustments and (ii) non-exhaustive holdback amounts of (A) \$300,000 for the payment of any purchase price adjustment that may be owed to the Buyer and (B) \$1.3 million for the payment of any indemnification obligations that may be owed to the Buyer, each in accordance with the terms of the Purchase Agreement. The Purchase Price payable by the Buyer will be paid in cash and the Seller Note (as defined below).

The Proposed Acquisition of Control also involves the Buyer issuing Class B Units representing 25% of the total equity interests of the Buyer to Eric Poe immediately after the Buyer's acquisition of 100% of the issued and outstanding capital stock of RMC from the Sellers, in exchange for \$1.00 and other valuable consideration, including receipt of consideration in the form of the Seller Note (as defined below) and certain adverse reserve development exposure as credit enhancement for CURE.

Additionally, the MGG Fund will purchase surplus notes in an aggregate amount of \$12.5 million, subject to the Commissioner's approval. The Applicants agree the Surplus Notes will comply at all times with all relevant laws and statutory requirements, including but not limited to relevant state laws and statutory accounting principles, and such laws and requirements supersede any provisions of the Surplus Notes that do not comply.

The sources of consideration for payment of the Purchase Price and the funding of the Surplus Notes will come from existing capital commitments to the MGG Funds. A portion of the Purchase Price will be in the form of a promissory note in the amount of \$2 million issued by the Buyer to the EP Trust (the "Seller Note"). The Seller Note will be payable in two years but such payment may be accelerated to six months in certain circumstances. The closing of the Proposed Acquisition of Control is not subject to any third-party financing contingency. The Seller Note will not exceed 50% of the Purchase Price.

The nature and amount of consideration for the acquisition was determined through arms-length negotiations. The Applicants have no plans to liquidate nor sell any assets of the Domestic Insurer other than asset sales in the ordinary course of business.

The Buyer will be managed by a board of managers (the "Buyer Board") that will be initially comprised of the following individuals: (i) Kevin Griffin; (ii) Hadley Ma; (iii) Christopher Haga, a manager who is not employed by the Buyer or its affiliates; (iv) Eric Poe; and (v) a fifth

manager, who will be independent of, but selected by, Eric Poe, and who has not yet been selected. The Applicants have no present plans or intentions to change the executive officers of RMC or CURE. Eric Poe, who currently serves as the Chief Executive Officer and Secretary of RMC and CURE, will continue serving in those capacities following the closing of the Proposed Acquisition of Control. In that regard, RMC and Eric Poe will enter into an employment agreement (the “Executive Employment Agreement”) pursuant to which RMC will engage Eric Poe as Chief Executive Officer of RMC and any of RMC’s subsidiaries for an initial term ending on March 15, 2025, subject to renewal for an additional two-year term unless RMC elects not to renew the Executive Employment Agreement. Also, Leslie H. Yesner, who currently serves as the Chief Financial Officer of RMC and CURE, will continue serving in such capacities following the closing of the Proposed Acquisition of Control. RMC maintains a board of directors which will be comprised of the same individuals serving on the Buyer Board as described above. After the consummation of the Proposed Acquisition of Control and in the ordinary course of business, the Applicants may evaluate CURE’S investments, operations, products and services, including investment management services provided to CURE, and determine that changes are necessary or advisable. Subject to applicable state insurance regulatory requirements, including those under New Jersey law, the Applicants may seek to make any further changes that the Applicants deem necessary or advisable in light of such evaluation or future developments. Additionally, RMC and the Applicants have agreed to certain financial safeguards and limitations as described in a Capital Maintenance Agreement (as described below).

As a condition of approval, the Applicants submitted a Capital Maintenance Agreement executed for the benefit of CURE by and among RMC, the Buyer (and together with RMC, the “Operator Support Providers”), and the MGG Funds, the MGG GPs, the MGG Investment Manager, Kevin Griffin and Eric Poe (and together with Kevin Griffin, the MGG Funds, the MGG GPs and the MGG Investment Manager, the “Investor Support Providers”) to cause CURE to maintain a minimum Authorized Control Level, Risk-Based Capital (“RBC”) level of 300% or higher at all times during a period of five (5) years from the consummation of the transaction.

The Applicants provided five-year pro-forma financial projections of the Domestic Insurer under its planned and stressed scenarios. Under its planned scenario, surplus is projected to increase each year over the projection period and RBC is projected in excess of 600% each year over the projection period. Under its stressed scenario, surplus is projected to increase each year,

except one, over the projection period and RBC is projected in excess of 340% each year over the projection period.

The Buyer is a newly formed entity with capital commitments from the MGG Funds to make payment of the Purchase Price and the funding of the Surplus Notes. The Applicants provided audited financial statements with unqualified opinions for the MGG SS Fund for the periods ending December 31, 2020 (with a commencement date of September 8, 2020) and December 31, 2021. The Applicants also provided audited consolidated financial statements for MGG Special Opportunities Fund (Cayman) LP now known as MGG Structured Solutions Fund (Cayman) LP (“MGG SS Fund Cayman”) for the period of December 21, 2020 (commencement of operations) to December 31, 2021, which include the financial results of MGG SS Master Fund. The MGG SS Fund and MGG SS Fund Cayman reflected positive net income for 2020 and 2021 as well as positive cash flow and capital for both reporting periods. The Applicants provided combined unaudited financial statements for the MGG Investment Manager, MGG GP and MGG Investment Group GP II LLC for the periods of 2016 through 2021. The Applicants also provided confidential financial information for Kevin Griffin and Eric Poe.

Analysis

N.J.S.A. 17:27A-2(d)(1) provides that the Commissioner shall approve an acquisition of control of a domestic insurer unless he or she finds that one or more of the seven disqualifying factors set forth therein exist. The statute provides in pertinent part:

(1) The Commissioner shall approve any merger or other acquisition of control ... unless, after a public departmental hearing thereon, he [or she] finds that:

(i) After the change of control the domestic insurer ... would not 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;

(ii) The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in this State or tend to create a monopoly therein ... [applying the competitive standard as set forth in the statute];

(iii) The financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders;

(iv) The financial condition of any acquiring party is such that (a) the acquiring party has not been financially solvent on a generally accepted accounting principles basis, or if an insurer, on a statutory accounting basis, for the most recent three fiscal years immediately prior to the date of the proposed acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been in existence); (b) the acquiring party has not generated net before-tax profits from its normal business operations for the latest two fiscal years immediately prior to the date of acquisition (or for the whole of such lesser period as such acquiring party and any predecessors thereof shall have been in existence); or (c) the acquisition debt of the acquiring party exceeds 50% of the purchase price of the insurer;

(v) The plans or proposals which the acquiring party has to liquidate the 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 insurer and not in the public interest;

(vi) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the merger or other acquisition of control; or

(vii) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.

Upon a thorough review of the documents submitted into evidence, the hearing panel and Department staff have determined that none of the seven disqualifying factors set forth above should result if the Proposed Acquisition of Control is effectuated. Each of these conditions is discussed below.

First, after the acquisition, the Domestic Insurer will continue to meet the requirements to transact the business for which it is presently licensed pursuant to Title 17 of the New Jersey Statutes. There is nothing in the record to indicate that, after the proposed transaction, the Domestic Insurer would not be able to continue to satisfy the requirements to transact the business for which they are presently licensed.

Second, it does not appear that the proposed transaction will substantially lessen competition in the New Jersey insurance market or tend to create a monopoly therein. N.J.S.A. 17:27A-2(d)(1)(ii) provides that in applying this competitive standard, the standard set forth in N.J.S.A. 17:27A-4.1(d) shall apply. That statute utilizes a complex formula based on the market shares of the insurers involved in the transaction. The statute by its terms does not apply if, as an immediate result of the acquisition, there would be no increase in the overall market share of the involved insurer after the acquisition. See N.J.S.A. 17:27A-4.1(b)(2)(d). Here, none of the MGG Applicants and their subsidiaries write any property and casualty insurance business. Accordingly, there would be no increase post acquisition in the market share of the Domestic Insurer in the New Jersey insurance market. As a result, the Proposed Acquisition of Control will not violate the competitive standard set forth in N.J.S.A. 17:27A-4.1 because it does not substantially lessen competition in New Jersey or tend to create a monopoly therein.

Third, it does not appear that the financial condition of the Applicants will jeopardize the financial condition of the Domestic Insurer. The Applicants provided audited financial statements with unqualified opinions for the MGG SS Fund for the periods ending December 31, 2020 (with a commencement date of September 8, 2020) and December 31, 2021. The Applicants also provided audited consolidated financial statements for MGG SS Fund Cayman for the period of December 21, 2020 (commencement of operations) to December 31, 2021, which include the financial results of MGG SS Master Fund. The MGG Funds have sufficient shareholder equity and positive net income preceding the Proposed Acquisition of Control.

Fourth, it appears that the financial condition of the MGG Funds is such that they have been solvent on a basis of generally accepted accounting principles (GAAP) since inception of the funds and for the year-end period immediately prior to the date of the Proposed Acquisition of Control. The Applicants' external auditor issued unqualified opinions relating to the MGG SS Fund and the MGG SS Fund Cayman's financial statements, including consolidated balance sheets as of December 31, 2021, the related consolidated statements of income, comprehensive income, shareholders' equity, cash flows and the related notes. Based on audited financial statements, the MGG SS Fund had total partner capital of \$158 million at the year-end of 2021 and \$81 million at the year-end of 2020; and, reported net income of \$64.5 million in 2021 and \$5.0 million in 2020 with cash on hand of \$27.7 million at the end of 2021 and \$2.7 million at the end of 2020. Further, based on audited consolidated financial statements, MGG SS Fund Cayman had total partner

capital of approximately \$37 million at the year-end 2021; and, reported net income of \$13.2 million in 2021 (with a commencement date of December 20, 2020) and cash on hand of \$4.6 million at the end of 2021. The sources of consideration for payment of the Purchase Price and the funding of the Surplus Notes will come from existing capital commitments to the MGG Funds. The closing of the Proposed Acquisition of Control is not subject to any third-party financing contingency. A portion of the Purchase Price will be the Seller Note in the amount of \$2 million but will not exceed fifty percent (50%) of the Purchase Price. Accordingly, the requirement that the acquisition debt may not exceed fifty percent (50%) of the purchase price is satisfied.

Fifth, except as may arise in the ordinary course of business or as otherwise described in the Form A Filing, the Applicants have no present plans or proposals to cause CURE to declare an extraordinary dividend, to liquidate CURE, to sell CURE'S assets to or merge CURE with any person or persons or to make any other material change in CURE'S business operations, structure or management. Further, the Applicants submitted a Capital Maintenance Agreement (as described above) executed for the benefit of CURE by the Operator Support Providers and the Investor Support Providers to cause CURE to maintain a minimum Authorized Control Level, RBC level of 300% or higher at all times during a period of five (5) years from the consummation of the transaction. The Applicants provided five-year pro-forma financial projections of the Domestic Insurer under its planned and stressed scenarios. Under its planned scenario, surplus is projected to increase each year over the projection period and RBC is projected in excess of 600% each year over the projection period. Under its stressed scenario, surplus is projected to increase each year, except one, over the projection period and RBC is projected in excess of 340% each year over the projection period.

Sixth, there is nothing in the record from which it may be concluded that the competence, experience, and integrity of the persons who will control the operations of the Domestic Insurer are such that it would not be in the best interest of the policyholders and of the public to permit the acquisition of control.

Seventh, there is nothing in the record from which it may be concluded that the proposed transaction is likely to be hazardous or prejudicial to the insurance buying public for the reasons set forth above.

Recommendation

Based on the foregoing analysis, the hearing panel and Department staff recommend that the proposed transaction be approved.

Upon a thorough review of the foregoing, I concur with the findings, analysis and recommendations of the hearing panel and Department staff. I therefore recommend that the proposed transaction be approved.

12/22/2022
Date

Lauren Glantzberg
Lauren Glantzberg
Hearing Officer

LG RMC and CURE by MGG Applicants and Eric Poe HO rpt/ORDERS

Exhibits List

In the Matter of the Acquisition of Control of Citizens United Reciprocal Exchange (“Domestic Insurer”) and Reciprocal Management Corporation, Inc. (“Attorney-in-Fact” and along with CURE, the “Domestic Entities”) by MGG RMC SPV LLC (“Buyer”), MGG Structured Solutions Fund LP (“MGG SS Fund”), MGG Structured Solutions Master Fund (Cayman) LP (“MGG SS Master Fund” and together with the MGG SS Fund, the “MGG Funds”), MGG Investment Group GP LLC, (“MGG GP”), MGG Investment Group GP III LLC (“MGG GP III” and together with MGG GP, the “MGG GPs”), MGG Investment Group LP, (“MGG Investment Manager”), Kevin F. Griffin (“Kevin Griffin” and together with the Buyer, the MGG Funds, the MGG GPs and the MGG Investment Manager, the “MGG Applicants”) and Eric S. Poe (“Eric Poe” and together with the MGG Applicants, the “Applicants”)

- Exhibit 1 Form A Statement and related filings received on February 23, 2022, dated as of February 18, 2022
- Exhibit 2 Amended and Restated Form A Statement dated as of March 2, 2022
- Exhibit 3 Amendment No. 1 to the Amended and Restated Form A Statement, dated as of April 1, 2022
- Exhibit 4 Supplemental information dated as of April 21, 2022. Applicants provided revised exhibits
- Exhibit 5 Supplemental information dated as of May 10, 2022. Applicants provided (Audited) Financial Statements for RMC for year December 31, 2021
- Exhibit 6 Supplemental information dated as of May 24, 2022. Applicants provided (Unaudited) Combined Financial Statements for year December 31, 2021
- Exhibit 7 Amendment No. 2 to the Amended and Restated Form A Statement, dated as of December 5, 2022
- Exhibit 8 Waiver of 20–day notice of hearing submitted by Eric S. Poe, Chief Executive Officer, on behalf of RMC
- Exhibit 9 Waiver of 20–day notice of hearing submitted by Eric S. Poe Chief Executive Officer, on behalf of the Domestic Insurer
- Exhibit 10 Waivers of 20–day notice of hearing submitted by Cynthia J. Borrelli, Esq., Bressler Amery & Ross, P.C. on behalf of Applicant MGG Applicants, including RMC SPV, LLC, MGG Structured Solutions Fund LP, MGG Structured Solutions Master Fund (Cayman) LP, MGG Investment Group GP LLC, MGG Investment Group GP III LLC, and MGG Investment Group LP
- Exhibit 11 Waiver of 20–day notice of hearing submitted by Applicant Kevin F. Griffin

- Exhibit 12 Waiver of 20–day notice of hearing submitted by Applicant Eric S. Poe
- Exhibit 13 Affidavit of Publication of Notice of Hearing in The Record, reflecting publication on December 14, 2022
- Exhibit 14 Affidavit of Publication of Notice of Hearing in Courier Post, reflecting publication on December 14, 2022
- Exhibit 15 Affidavit of Publication of Notice of Hearing in Star Ledger, reflecting publication on December 14, 2022