

STEVENS & LEE

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September 30, 2015

Mr. Stephen J. Johnson, Deputy Commissioner
 Pennsylvania Insurance Department
 1326 Strawberry Square
 Harrisburg, Pennsylvania 17120

Re: Professional Casualty Association
 Physicians' Insurance Program Exchange

Conversion to Stock Form Pursuant to the Pennsylvania Medical Professional Liability
 Reciprocal Exchange-to-Stock Conversion Act

Dear Mr. Johnson:

This letter is submitted on behalf of Professional Casualty Association ("PCA") and Physicians' Insurance Program Exchange ("PIPE") and constitutes the application for the conversion of each of PCA and PIPE to stock form pursuant to the Pennsylvania Medical Professional Liability Reciprocal Exchange-to-Stock Conversion Act (the "Conversion Act").

On July 27, 2015, Professional Third Party, L.P. ("PTP"), the Attorney-in-Fact for PCA adopted a Plan of Conversion from Reciprocal to Stock Form (the "PCA Plan") pursuant to the Conversion Act. PCA does not have a subscribers' advisory committee or equivalent governing body.

On July 30, 2015, the Board of Directors of PIPE adopted a Plan of Conversion from Reciprocal to Stock Form (the "PIPE Plan") pursuant to the Conversion Act. That Board of Directors is constituted pursuant to the PIPE Declaration of Organization and is the equivalent governing body to a subscribers' advisory committee. On that same day, Physicians' Insurance Program Management Company ("PIPMC"), the Attorney-in-Fact for PIPE, also approved the PIPE Plan.

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Description of the Proposed Conversions

Formation of a Single Holding Company and Stock Insurance Company

The PCA Plan and the PIPE Plan (together, the “Plans”) are interdependent, meaning neither can be completed without the completion of the other.

Under the Plans, PCA and PIPE have caused the formation of a new holding company called Professional Casualty Holdings, Inc. (“Holdings”). PCA has caused the formation of a new corporation called PCA Conversion Corp., which will be the successor by merger to PCA and used to effect the conversion of PCA from reciprocal to stock form pursuant to the Conversion Act. Similarly, PIPE has caused the formation of a new corporation called PIPE Conversion Corp., which will be the successor by merger to PIPE and used to effect the conversion of PCA from reciprocal to stock form pursuant to the Conversion Act. Under the Plans, PIPE Conversion Corp. will merge with and into PCA Conversion Corp. and PCA Conversion Corp. will be renamed “Professional Casualty Association” (“New PCA”). New PCA, this new stock insurance company, will become wholly-owned by Holdings.

Holdings will use a portion of the proceeds from the conversion offering, described below, to purchase the stock of New PCA and to further add to its capitalization.

We respectfully request that the Department license both PCA Conversion Corp. and PIPE Conversion Corp. as stock insurance companies for purposes of satisfying the requirements of 40 P.S. §3501 relating to the definition of the “stock company” in the conversion of each of PCA and PIPE. Neither PCA Conversion Corp. nor PIPE Conversion Corp. will conduct business until after all the following have occurred: (a) the merger of PIPE Conversion Corp. into PCA Conversion Corp., (b) the change in name of PCA Conversion Corp. to Professional Casualty Association, (c) the amendment of the Articles and Bylaws of Professional Casualty Association to the forms submitted herewith, (d) the appointment of the insurance company board of directors and officers, and (e) appropriate capitalization of the resulting Professional Casualty Association. All those steps will be accomplished on the closing date of the conversion transactions.

Because the new stock-form Professional Casualty Association will commence business only after the foregoing steps are effected, we further request that neither PIPE Conversion Corp. nor PCA Conversion Corp. be required to be capitalized until the point in time when PCA Conversion Corp. (as the new Professional Casualty Association) issues its shares to Holdings in the closing of the conversion. See 40 Pa.C.S.A. § 3515.

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The Conversion Offering

According to the Plans, Holdings will offer its common stock at the price of \$10 per share. Each of PCA and PIPE has utilized the services of Feldman Financial Advisors, Inc. ("Feldman"), which has generated a pro forma valuation of each of PCA and PIPE on an "as-converted" basis in accordance with the Conversion Act. The gross amount of the offering will be determined according to the combined pro forma valuations of PIPE and PCA performed by Feldman. The preliminary midpoint valuation by Feldman is \$14,000,000 for PCA and \$11,000,000 for PIPE, for a combined total of \$25,000,000. The valuation range for PCA is from \$11,900,000 at the minimum to \$16,100,000 at the maximum. The valuation range for PIPE is from \$9,350,000 at the minimum to \$12,650,000 at the maximum for PIPE. The combined valuation ranges from \$21,250,000 at the minimum to \$28,750,000 at the maximum.

Subscription Offering: The eligible subscribers of PCA and PIPE are granted the first priority to purchase the Holdings common stock pursuant to subscription rights granted to them. Persons who become policyholders subsequent to the eligibility record date but before the offering has been concluded are granted second priority, with employees and directors of the attorneys-in-fact having third priority.

Community Offering: Shares that are not purchased in the subscription offering are next offered to the community, with preference given to former policyholders of PCA and PIPE and insurance producers with a relationship with PCA and PIPE, as well as to Diversus as a standby purchaser (see next section).

Standby Investment by Diversus

In connection with the Plan, Holdings and Diversus, Inc. ("Diversus") have entered into a Stock Purchase Agreement dated September 25, 2015 (the "Stock Purchase Agreement"). Diversus has agreed to purchase at least \$10 million and may purchase up to the minimum of the valuation range (presently, \$21,250,000) of Holdings' common stock to the extent not taken up in the subscription offering or by others in the community offering.

Diversus is raising a combination of debt and equity capital to enable it to make this standby investment. It has raised or projects to raise \$16.1 million in equity and \$5 million in senior debt provided by Oak Street Funding, its existing senior lender. As you are aware, Diversus has a separate agreement to purchase PIPE Management for \$10 million. As originally conceived, the conversion offering, merger with Diversus and acquisition of PIPE Management were to occur in the following sequence: (1) completion of conversion offering by Holdings with Diversus acting as standby investor, (2) completion of merger between Holding and Diversus (described below), and (3) completion of the acquisition of PIPE Management for \$10 million funded with conversion proceeds.

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It now appears that the PIPE Management acquisition will close before the conversion and merger. Therefore the sequence will be reversed. Diversus will first complete the acquisition of PIPE Management and then the conversion and merger will be completed. Diversus will use \$10 million of the \$21.1 million of available funds to fund the acquisition of PIPE Management. Diversus then will have \$11.1 million in proceeds to fund the standby purchase and will supplement this with a bridge loan of up to \$10 million to reach a total of \$21,100,000. Holdings will succeed to these amounts by operation of law in the Diversus-Holdings merger, discussed below. The bridge loan would be immediately repaid after completion of the conversion and merger from conversion proceeds. Regardless of the sequence, Holdings (renamed Diversus) is in exactly the same position at the conclusion of the transactions. As originally conceived, Diversus would have used \$10 million of conversion proceeds to purchase PIPE Management from its owners. Now Diversus will use the same conversion offering proceeds to repay the bridge loan since the PIPE Management owners will have already been paid. Importantly, Diversus will not need to draw upon the bridge loan to the extent policyholders or other investors in the subscription and community offerings purchase at least \$10 million of Holdings common stock.

Diversus and certain shareholders of Diversus are deemed to control PCA, as set forth in a certain Decision and Order of the Department dated June 2, 2014.

In addition, Diversus has filed a Form A dated July 22, 2015 in accordance with 40 P.S. § 991.1402 seeking approval for the acquisition of control of PIPE. It is now anticipated that such Form A will be approved prior to the completion of the conversion and the execution of the standby investment, and therefore at such time Diversus will also control PIPE. Accordingly no other acquisition of control statement on Form A, in accordance with 40 P.S. § 991.1402, is required in connection with Diversus' purchase of stock of Holdings in the offering.

Subsequent Merger of Holdings and Diversus

Immediately after the conversion is effected and the offering is closed, Diversus will merge with and into Holdings (the "Diversus Merger"). As a result of the Diversus Merger, Holdings will succeed to the business, assets and liabilities of Diversus, including the ownership of Diversus' subsidiaries. The terms and conditions of the Diversus Merger are subject to continued negotiations between Diversus and a special committee of independent directors of Holdings. Further, Holdings' special committee has engaged the services of an independent investment banking firm to provide advice as to the fairness of the ultimate exchange ratio in the transaction. When such matters have been resolved, the parties intend to enter into a merger agreement that is consistent with the terms of the Plans of Conversion. A copy of the executed merger agreement will be filed as an amendment and supplement to this application promptly after execution.

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Acquisition of Control Statement

As a result of the Diversus Merger, the shareholders of Diversus will exchange their shares of Diversus for shares of common stock of Holdings. Holdings will have a single class of common stock issued and outstanding and all Diversus shareholders will receive shares of that common stock. Therefore, the existing structure where Diversus has Series A and Series B Common Stock as well as Series A Preferred Stock will be eliminated.

Based upon a projection of the pro forma shareholdings of Holdings upon consummation of all the transactions referenced herein, it is anticipated that Enstar Investments, Inc. (“Enstar”) will own in excess of 25% of the outstanding common stock of Holdings (not including the effect of unexercised options or “earnout shares” representing contingent future acquisition consideration). Enstar has informed us that it intends to file an acquisition of control statement on Form A, in accordance with 40 P.S. § 991.1402.

Combination of the Attorneys-In-Fact

As a result of the conversion of the reciprocals to stock form, including the merger of their operations into a single insurance company, the role of the former attorneys-in-fact will be eliminated. However, pursuant to the Plans, new PCA is to remain externally managed by a separate management company consisting of the same staff of PTP (augmented by the staff of PIPE Management Company). Therefore, it is proposed that PTP and PIPE Management Company will be combined into a new management company, wholly-owned by Diversus, called Diversus Management, Inc. This combination will occur by merging each of PTP and PIPE Management Company with and into Diversus Management, Inc., which will succeed to all of the assets, liabilities, and operations of the other companies by operation of law. A Management Agreement will be put in place between Diversus Management, Inc. and New PCA. Approval of that Management Agreement is hereby requested and supporting materials are set forth below. The Management Agreement will mimic the current form of Attorney-in-Fact Agreement for PCA and will contain the same percentage fee and expense provisions. The Management Agreement will remove obsolete references to a reciprocal, subscribers, and the like; and will contain the required provisions for related-party service contracts under the Insurance Holding Companies Law, as well as required provisions under the Managing General Agent law. The forms to appoint Diversus Management, Inc. as a defined “Managing General Agent” pursuant to 40 P.S. §311.1 et seq. are included in the attachments hereto.

Effect of the Transactions and Business Plan

In general, the proposed conversion of PIPE and PCA and their subsequent combination will result in a single, well-capitalized insurer, with a larger policyholder base and the ability to compete and grow in the physician professional liability space. In the conversion, New PCA

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will have access to a portion of the subscription offering proceeds, as necessary, to add to the existing surpluses of PCA and PIPE. In the future, New PCA will have access to capital through its parent corporation and the capital markets.

New PCA will be managed by the existing staff of PTP, with additions from PIPMC, from PTP's existing location in King of Prussia, Pennsylvania. All PIPMC staff (except Eugene Ziemba, Sr.) will move from their present location to the PTP office. The business will continue to concentrate on Pennsylvania physicians and ancillary healthcare providers, plus existing activities in South Carolina and pending admission in Michigan. However, New PCA will explore writing healthcare professional liability business in other states, either on an admitted or surplus lines basis, in order to make use of its capital base and existing management abilities. Additional states will be considered on an individual basis and appropriate approvals to write will be secured in the future. Otherwise, there are no material changes contemplated to the operations of New PCA.

Repurchases of Holdings Stock

40 Pa.C.S.A. §3503(j) requires the Plans to contain a provision that prohibits Holdings or New PCA from repurchasing any shares of Holdings for a three year period without the prior approval of the Department, except under limited circumstances. Holdings anticipates there will be a limited trading market for its stock, and therefore there will be a need to assist in maintaining some liquidity for its investors. Therefore, Holdings hereby requests that the Department grant an advance approval for Holdings to have the ability purchase up to 5% of its outstanding shares in each of the 3 years following the completion of the Plans. Holdings would make purchases under this approval if, in the judgment of its board, there was a need to provide liquidity and if Holdings had adequate funds to make purchases. Please note that this request does not apply to New PCA, so surplus or other funds of the insurance company would not be used for this purpose.

Submission of Required Documents

In accordance with the provisions of 40 Pa.C.S.A. §3502(c)(1), we are enclosing for filing the following documents:

Annex I - Plans: Contains the PCA Plan and the PIPE Plan required to be submitted under 40 Pa.C.S.A. §3502(c)(1)(i).

Annex - Valuation: Contains the independent evaluations of pro forma market value of PCA and PIPE required by the Conversion Act, performed by Feldman Financial Advisors, Inc., also required to be submitted under 40 Pa.C.S.A. §3502(c)(1)(i).

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Annex III - Proxy Materials: Contains the respective forms of notice of the subscribers meeting of each of PCA and PIPE, and the respective forms of proxy to be solicited from eligible subscribers of each of PCA and PIPE, all required to be submitted under 40 Pa.C.S.A. §3502(c)(1)(iii) and §3502(c)(1)(iv).

Annex IV – Stock Insurance Companies: This Annex contains the various materials relating to the organization of PCA Conversion Corp., PIPE Conversion Corp., and the new Professional Casualty Association. As required by 40 Pa.C.S.A. §3502(c)(1)(v), this Annex contains the proposed forms of Articles and Bylaws for the stock company. This Annex includes the transitory Articles and Bylaws for PCA Conversion Corp. and for PIPE Conversion Corp., which are in effect during the period in which neither corporation conducts any business other than the required merger with the exchange; and the permanent Articles and Bylaws of new Professional Casualty Association that will be in effect immediately following the combination of PCA Conversion Corp. and PIPE Conversion Corp. and will apply once the corporation begins conducting the business of insurance.

Annex V – Standby Stock Purchase Agreement: Contains the Stock Purchase Agreement between Diversus and Holdings for the Diversus' standby investment in Holdings.

Annex VI – The Management Companies: This Annex contains the various materials relating to the combination of the attorneys-in-fact for PCA and PIPE with and into Diversus Management, Inc. These materials include a Form D for the approval of the Management Agreement proposed to be entered into between New PCA and Diversus Management, Inc. Applicants hereby request confidential treatment of the form of Management Agreement. This is a confidential, non-public document.

Annex VII – Professional Casualty Holdings, Inc.: This Annex contains the Amended and Restated Articles of Incorporation and Bylaws of Holdings.

SEC Registration Statement

We will provide you a copy of the registration statement on Form S-1 that Holdings files regarding the Plans as soon as the registration statement is filed with the Securities and Exchange Commission.

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Filing Fees

A filing fee of \$2,500 for each of the conversions of PCA and PIPE, respectively, is enclosed. Please inform us if any further filing fees are required.

Please direct any questions concerning these matters to me during the review process, and I will provide a prompt response.

Very truly yours,

STEVENS & LEE



Scott H. Spencer

SHS:lic

cc: Alan A. Waring