

BEFORE THE
PENNSYLVANIA INSURANCE DEPARTMENT

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IN RE: ARI MUTUAL INSURANCE COMPANY
PUBLIC INFORMATIONAL HEARING

* * * * *

BEFORE: Steve Johnson, Deputy
Insurance Commissioner
Jodi Frantz, Department
Counsel, Kim Rankin,
Director of Company
Licensing and Financial
Analysis, Amy Daubert,
Deputy Chief Counsel,
Cressinda Bybee, Senior
Insurance Company
Licensing Specialist

HEARING: Wednesday, October 7, 2015
9:00 a.m.

LOCATION: PA Insurance Department
901 North 7th Street
Harrisburg, PA 17110

WITNESSES: None

Reporter: Bernadette M. Black

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P R O C E E D I N G S

COMMISSIONER JOHNSON:

Good morning. Welcome to the Pennsylvania Insurance Department's Public Informational Hearing on the transaction involving the proposed plan of conversion submitted by ARI Mutual Insurance Company, which I'll refer to as ARI, from a Pennsylvania mutual property insurance company to a Pennsylvania stock property insurance company.

I'm Steve Johnson, Deputy Insurance Commissioner for the Office of Corporate and Financial Regulation. I'm responsible for licensing and financial oversight, including onsite financial examinations of approximately 275 domestic insurance companies, 1,400 non-domestic insurance companies, and 230 continuing care retirement communities. My regulatory authority extends to eligible surplus lines

1 insurance companies and risk retention
2 groups.

3 In addition, as Deputy
4 Commissioner, I'm responsible, with
5 the able assistance of my staff, for
6 the review of all corporate
7 transactions involving Pennsylvania
8 domestic insurance companies. And I
9 will assist Commissioner Miller in
10 making a decision on the proposed plan
11 of conversion and corresponding change
12 of control of ARI.

13 I would like to
14 introduce members of the Department
15 staff responsible for reviewing the
16 filing who are here today with me.
17 Kim Rankin to my left is the Director
18 of Company Licensing and Financial
19 Analysis, Jodi Frantz to my right is
20 Department Counsel, and Cressinda
21 Bybee in the back is our Senior
22 Insurance Company Licensing
23 Specialist.

24 As part of the review of
25 the proposed conversion of ARI to a

1 stock insurance company, the
2 Department engaged Boenning and
3 Scattergood. Tony Latini and James
4 Adducci are in our audience on behalf
5 of Boenning and Scattergood, Inc.
6 Tony Latini will make a presentation
7 later today.

8 ARI filed the proposed
9 plan of conversion with the Department
10 on April 9th, 2015. The plan was
11 submitted for approval under the
12 Insurance Company Mutual-to-Stock
13 Conversion Act and Article 14 of the
14 Insurance Company Law of 1921. In
15 conjunction with the Mutual-to-Stock
16 Conversion, AmTrust Financial
17 Services, Inc., which I'll refer to as
18 AmTrust, a Delaware corporation,
19 submitted a request on April 14th,
20 2015 for approval to acquire control
21 of all the capital stock of ARI upon
22 consummation of the previously
23 referenced conversion. The Department
24 will refer to the proposed plan of
25 conversion and the acquisition filing

1 collectively as the filing.

2 The Department published
3 a notice of the filing in the
4 Pennsylvania Bulletin on May 9th,
5 2015. The notice invited interested
6 persons to provide comments to the
7 Department about the filing. The
8 Department has not received any
9 comments on the transaction. Public
10 portions of the filing and related
11 documents have been and remain
12 available on the Department's internet
13 website, www.insurance.pa.gov, and at
14 the Department's offices in
15 Harrisburg. In addition, there is an
16 index of all of the documents that are
17 contained in the public files. Copies
18 of the public file index are available
19 for inspection at the registration
20 table. You may submit a pre-paid
21 request for copies of particular
22 documents by fax or by email. The
23 government rate for copying is 25
24 cents per page.

25 As I noted earlier, the

1 subject of the hearing today is the
2 proposed conversion of ARI and the
3 corresponding proposed acquisition of
4 control of the capital stock of ARI by
5 AmTrust upon consummation of the
6 conversion. The purpose of today's
7 hearing is not to reach a final
8 decision on the filing before the
9 Department. Instead, the purpose of
10 the hearing is to receive comments
11 from interested persons to aid the
12 Department in ultimately reaching a
13 decision on the transaction. The
14 Insurance Department will make a
15 decision based upon the standard set
16 forth in the Mutual-to-Stock
17 Conversion Act and the Insurance
18 Holding Companies Act.

19 The entire record of the
20 filing, including the transcript of
21 the hearing, will be reviewed by the
22 Department before any final
23 conclusions are reached. The
24 Department will closely consider any
25 comments about the filing presented

1 here today. Once again, no final
2 decision will be rendered at the
3 conclusion of today's hearing.

4 This is a public
5 informational hearing. All interested
6 persons are invited to provide their
7 comments or raise questions for the
8 parties and the Department's
9 consideration. Comments and the
10 information gathered here today will
11 be considered, along with other
12 material the Department has received,
13 as it continues its review and
14 analysis of the filing. Accordingly,
15 the hearing is being recorded by a
16 court reporter. The Department will
17 review the transcript of today's
18 hearing as part of the examination of
19 the filing. A copy of the transcript
20 will be available on our website.

21 All testimony from the
22 parties to the transaction will be
23 sworn. However, because of the nature
24 of today's proceeding, Cross
25 Examination or interrogation of

1 speakers will not be permitted.
2 Although ARI and AmTrust may be asked
3 questions by members of the general
4 public, they are not required to
5 respond to those questions today. The
6 Department may have questions for ARI
7 and AmTrust or representatives of ARI
8 and AmTrust. We would ask the
9 companies' representatives to respond
10 to the questions to the best of their
11 ability, but may supplement any
12 answers in writing.

13 In fact, following
14 today's hearing, the Department will
15 require written responses to all
16 questions raised during the hearing,
17 irrespective of whether they are
18 raised by the public or by the
19 Department. And we'll make those
20 responses available on our website.

21 We will begin this
22 morning with presentation by ARI,
23 which will include a presentation by
24 its consultants, Griffin Financial
25 Group, LLC and Feldman Financial

1 Advisors, Inc. Following that will be
2 a presentation by AmTrust. The
3 Department may have questions for ARI
4 and AmTrust or the representatives
5 from Griffin Financial Group, LLC and
6 Feldman Financial Advisors, Inc.
7 Next, the Department's consultants,
8 Boenning and Scattergood, will make a
9 presentation.

10 Then the public comment
11 period of the hearing will begin. Any
12 individual wishing to speak should
13 sign up at the registration table if
14 you haven't already done so. When
15 speaking, please indicate if you are
16 speaking on your behalf. If you are
17 speaking in a representative capacity,
18 please identify your role and
19 relationship to the represented
20 organization. Your remarks should be
21 specific and relate to the filing that
22 is before the Department. As noted
23 earlier, any public commenter may pose
24 questions to the companies. Such
25 question should be given to the

1 Department in writing.

2 At the conclusion of the
3 public comment portion of the hearing,
4 the Department may have questions for
5 representatives of ARI or AmTrust. At
6 the end of the question and answer
7 portion of the hearing, if time
8 permits, the members of the general
9 public may present any additional
10 comments. Then ARI and AmTrust will
11 have the opportunity to present a
12 brief closing statement. We'll begin
13 with the presentation from ARI.
14 Karen?

15 MS. FULTON:

16 Good morning. My name
17 is Karen Fulton. I am the President,
18 Chief Executive Officer, and member of
19 the Board of ARI Mutual Insurance
20 Company. I have served ARI and its
21 predecessor companies for over 35
22 years and have been in my current
23 position since July 1st, 1993. In
24 this position, in conjunction with the
25 senior management of ARI and the Board

1 of ARI, I have been involved in the
2 extensive analysis, review, and
3 determination for the filing of the
4 plan of conversion that is the subject
5 of today's hearing.

6 Before we get started, I
7 would like to just take a moment to
8 thank Deputy Commissioner Johnson and
9 the entire staff of the Pennsylvania
10 Insurance Department for your
11 dedication and your service.

12 I will focus my oral
13 remarks today on three topics: One,
14 who is ARI? Two, the process that led
15 us here. And third, why we believe
16 that it is the best alternative for
17 ARI Insurance.

18 Who is ARI? ARI was
19 formed in 1879. We are a commercial
20 auto insurance specialist. As such,
21 we cover a broad range of the
22 commercial auto market. From insuring
23 private passenger vehicles for
24 professional corporations to tractor
25 trailers by owner operators in the

1 transportation field to social service
2 vehicles for non-profits, and also a
3 large fleet of leasing and rental
4 vehicles.

5 We insure over 12,000
6 vehicles for over 2,500 policyholders.
7 Most of our insureds are small
8 business, and indeed ARI is a small
9 business. We have less than 35
10 employees, yet these 35 employees
11 through their dedication have provided
12 a level of service that has been
13 consistently recognized by the New
14 Jersey Professional Insurance Agency
15 Association as one of the best in the
16 industry. ARI is the eighth largest
17 writer of commercial automobile in the
18 State of New Jersey, and is in the top
19 hundred writers of commercial
20 automobile in the country. We are
21 represented by over 300 independent
22 agents and wholesalers in New Jersey,
23 Pennsylvania, Maryland, and just
24 recently Virginia.

25 The process that led us

1 here. ARI annually does a rather
2 rigorous, strategic planning process.
3 And as part of that process, we review
4 the economic conditions, we review the
5 conditions within the markets that we
6 serve, we do three year financial
7 forecasts, we do a detailed annual
8 budget, and we also spend time looking
9 at the strengths, weaknesses,
10 opportunities, and threats that
11 confront the organization.

12 One of the key
13 weaknesses that has been identified in
14 this process is that ARI does not
15 possess an A-minus or better A.M. Best
16 rating. This has limited the market
17 we could operate in, and agents as far
18 as we could do business with. Our
19 concentration in New Jersey was deemed
20 both a strength from our market
21 knowledge and our distribution, but
22 also as a weakness because of the
23 concentration from a geographical
24 standpoint and the volatility that has
25 made us more vulnerable in the New

1 Jersey commercial auto market.

2 When the New Jersey
3 commercial auto market went from
4 having experience comparable to its
5 neighboring communities to having a
6 loss and loss expense ratio 15 points
7 or better worse than the neighboring
8 areas, it had a profound affect on
9 ARI.

10 In mid-2014, we engaged
11 Griffin Financial to do a strategic
12 alternative study. And in this
13 process, we looked at a full range of
14 options from maintaining the status
15 quo to a full standalone conversion
16 for ARI. We had many meetings, and
17 quite a bit of analysis throughout
18 this process.

19 In the fall of 2014, the
20 ARI Board after reviewing the Griffin
21 study authorized us to move forward to
22 look at subscription rights conversion
23 and also affiliations. The driving
24 force in that decision was the A.M.
25 Best rating. In December of 2014,

1 after further review, the direction
2 was taken to begin pursuing a
3 standalone conversion, but also
4 looking simultaneously for an
5 effective partner for either a standby
6 or a sponsored conversion. Early in
7 2015, we had financial items come up
8 as part of our year-end 2014 closing
9 that had the impact of reducing our
10 capital and surplus by almost \$7
11 million. Those developments
12 accelerated our process, and then led
13 us to say that we would concentrate on
14 finding an effective partner for a
15 standby or a sponsored conversion.

16 We looked at multiple
17 opportunities and we reviewed and
18 evaluated those different
19 opportunities. And after this
20 process, we determined that the
21 sponsored conversion transaction with
22 AmTrust was in the best interest of
23 the ARI stakeholders.

24 Why we think it's the
25 best alternative? With this

1 transaction and the acquisition by
2 AmTrust, ARI will get an A.M. Best A
3 rating. It will give us access to a
4 size and scale and flexibility that we
5 do not have as a small company. It
6 will give us the access to capital,
7 and the opportunity to serve and
8 expand in the commercial auto sector
9 in Pennsylvania and throughout the
10 country.

11 From a stakeholder's
12 standpoint, we looked at three
13 different areas. For our
14 policyholders, our policyholders would
15 have no change in the terms and
16 conditions of their policy, but the
17 day after the plan is consummated,
18 they will be insured by a company with
19 an A rating. They will have a policy
20 from an insurance group with
21 significant financial size and capital
22 position dramatically better than ARI.
23 They will have the opportunity to
24 realize value through exercising their
25 subscription rights with the

1 protection of a 60 day price
2 protection. They will have continued
3 access to ARI commercial auto
4 expertise, and they will have the
5 potential of purchasing additional
6 products from AmTrust.

7 For our people, our
8 people will have expanding career
9 opportunities in a larger and growing
10 organization. They have been incented
11 to stay with ARI to continue to
12 deliver the high level of customer
13 service through the retention plan.
14 The office location will stay at
15 Newtown, Pennsylvania for a minimum of
16 five years. And they have the
17 possible participation in an employee
18 bonus plan.

19 From our agents'
20 standpoint, they will continue to
21 represent ARI, continue to have access
22 to ARI's commercial auto expertise,
23 and have the potential to offer other
24 AmTrust products.

25 In conclusion, ARI

1 through the processes engaged the
2 experts who helped guide us through
3 the process; Griffin Financial,
4 Feldman, and Stevens and Lee as
5 counsel. We went through a detailed,
6 deliberative, and thoughtful process.
7 The plan and the acquisition by
8 AmTrust provides positive outcomes for
9 all of our stakeholders, and is
10 strongly supported by the management
11 and Board of ARI. And we are excited
12 for the opportunity for ARI as part of
13 AmTrust to expand its policyholder
14 service and commercial auto through
15 Pennsylvania and the country. Thank
16 you.

17 COMMISSIONER:

18 Thank you. Jeffrey
19 Waldron next?

20 MR. WALDRON:

21 Good morning. My name
22 is Jeffrey Waldron. I'm a Senior
23 Managing Director of Griffin Financial
24 Group. Griffin has provided financial
25 advisory services to ARI Mutual

1 Insurance Company since March 14th of
2 2014. Griffin also provided a
3 fairness opinion to the Board
4 Directors of ARI in connection with
5 the contemplated transaction between
6 ARI and AmTrust.

7 In my testimony, I will
8 address three topics: Griffin's
9 qualifications, a description of the
10 financial services provided by Griffin
11 to ARI, and a description of the
12 fairness opinion.

13 First, is the
14 qualifications. Griffin is a broker
15 dealer licensed by the Financial
16 Industry Regulatory Authority and
17 regulated both by FINRA and the
18 Securities Exchange Commission. We
19 have 33 registered representatives and
20 additional support personnel. We are
21 part of a larger professional services
22 firm, which includes Stevens and Lee,
23 a law firm. And as Karen mentioned,
24 Stevens and Lee is also acting as
25 counsel to ARI in connection with the

1 AmTrust transaction.

2 Principals of Griffin
3 were authors of the Pennsylvania
4 Mutual-to-Stock Conversion Act,
5 pursuant to which ARI seeks to convert
6 from mutual-to-stock form and
7 simultaneously be acquired by AmTrust.
8 Since the Act's passage in 1995,
9 principals of Griffin or Stevens and
10 Lee have been involved in every
11 mutual-to- stock conversion in
12 Pennsylvania that included a public
13 offering of stock.

14 These transactions
15 included Old Guard Mutual, Mercer
16 Mutual, Educator's Mutual Life
17 Insurance Company and its simultaneous
18 acquisition of Eastern Insurance, and
19 Penn Millers Holding Company. We've
20 also represented Harleysville Mutual
21 in connection with their acquisition
22 by Nationwide. And principals of
23 Griffin acted as advisors to the
24 Pennsylvania Department in connection
25 with the acquisition of Provident

1 Mutual Life.

2 As for the financial
3 advisory services we provided to ARI,
4 we signed an initial engagement letter
5 with ARI on March 14th, 2014 to
6 perform a strategic alternatives
7 study. We conducted extensive due
8 diligence with respect to ARI,
9 including document review, industry
10 research and interviews with Board and
11 management. Griffin delivered its
12 strategic alternatives study on August
13 11th, 2014. In this study, Griffin
14 reviewed ARI's market position, its
15 strength, weaknesses, opportunities,
16 and threats and operational and
17 strategic options for the company.

18 Strategic options
19 included a number of alternatives, but
20 principally focused on the following
21 four: a mutual merger or affiliation,
22 a standalone mutual-to-stock
23 conversion, a mutual-to-stock
24 conversion in which an investor
25 acquires a material, and probably

1 controlling interest, in ARI, and a
2 sponsored mutual-to-stock conversion
3 in which a sponsor offers its stock to
4 policyholders at a discount to the
5 market price, and uses the proceeds
6 together with the sponsor's own funds
7 to purchase all of the stock of ARI, a
8 so called sponsor conversion.

9 After we completed the
10 strategic alternatives study, we
11 entered into a separate engagement
12 with ARI on September 18th, 2014, to
13 assist in a possible transaction. At
14 that date, the possible transactions
15 included each of the four structures
16 identified above. As the process
17 moved forward, ARI narrowed its focus
18 such that by year end 2014, ARI's
19 Board had decided to primarily pursue
20 a standalone mutual-to-stock
21 conversion to raise capital while
22 simultaneously entertaining potential
23 standby investors or possible
24 sponsors.

25 As Karen noted, a major

1 impetus for the capital raising
2 transaction was adverse development in
3 ARI's loss reserves with respect to
4 accident years 2013 and prior. By
5 February 2015, it became apparent that
6 these adverse development trends were
7 continuing, and coupled with some
8 other changes resulted in an
9 additional reserve charge for the
10 yearend of December 31st, 2015.
11 Concurrently, ARI recognized a large
12 loss with respect to a 1985 Workers'
13 Comp claim, and concluded that its
14 deferred tax asset was no longer
15 recoverable.

16 The combination of these
17 events led the ARI Board of Director
18 to direct Griffin to abandon the
19 standalone mutual-to-stock conversion
20 process, and instead focus on
21 identifying a sponsor or a standby
22 investor. Griffin did so, and this
23 resulted in the pending sponsored
24 conversion transaction with AmTrust.
25 On March 17th, the Board of Directors

1 of ARI met to consider an agreement
2 for a sponsored conversion with
3 AmTrust.

4 At that meeting, Griffin
5 reviewed with the Board of Directors a
6 presentation regarding the financial
7 aspects of the transaction, and
8 delivered an oral fairness opinion
9 that was confirmed by a written
10 opinion dated the same date. The
11 written opinion and detailed summary
12 of Griffin's presentation are part of
13 the public record maintained by the
14 Pennsylvania Insurance Department with
15 respect to the transactions. In
16 addition, the opinion and a detailed
17 summary form a part of the
18 registration statement on Form S-4
19 that's filed by AmTrust with the SEC.

20 Since all of these
21 materials are part of the public
22 record, we will not repeat a
23 discussion of all of the analyses
24 Griffin performed. In summary,
25 Griffin reviewed the consideration

1 paid by AmTrust, and reviewed and
2 performed the following analyses to
3 assess the fairness of such
4 consideration; the independent
5 appraisal required by the Act, the
6 sole comparable sponsored conversion
7 transaction of Mutual Insurers Holding
8 Company completed in 2013 and to our
9 knowledge, there have been no other
10 sponsored demutualization since that
11 date, comparable company analysis, a
12 comparable sale transaction analysis,
13 and a discounted cash flow analysis.

14 We also considered the
15 impact on stakeholders, including
16 policyholders, employees, and agents.
17 On the basis of, and subject to the
18 foregoing, Griffin delivered its
19 opinion that as of the date thereof,
20 the transaction was fair from a
21 financial point of view to ARI.
22 That's the end of my testimony.

23 COMMISSIONER:

24 Thank you. Mr. Feldman?

25 MR. FELDMAN:

1 Thank you very much,
2 Deputy Commissioner. My name is Trent
3 Feldman. I am the President of
4 Feldman Financial Advisors, and we're
5 located in Washington, DC. I have
6 been providing financial services for
7 over 35 years on a consulting basis,
8 and a major part of our business has
9 been in valuing mutual companies going
10 to the stock form. And in that
11 capacity, we have done over 500
12 conversions nationwide, several of
13 which have been insurance companies.

14 We were retained by ARI
15 in late December 2014 for the purpose
16 of providing an independent valuation
17 to be used in conjunction with a
18 filing with the State of Pennsylvania
19 to go from mutual to the stock form.
20 In that capacity, we took several
21 steps to make sure we understood the
22 company that we are valuing. We
23 visited the company, we held onsite
24 due diligence, asked questions of
25 management, we had access to a great

1 deal of information, internal
2 information, about the company so we
3 could handle any situation that may
4 arise with respect to meaningful
5 valuation aspects.

6 When doing a valuation
7 of our converting company, we not only
8 rely on what the company is doing, but
9 we also use a comparable market
10 approach where we put together a
11 comparable list of publicly traded
12 companies, in this case insurance
13 companies, to do comparative
14 analytics. When we put together the
15 final valuation, we establish a mid-
16 point for that valuation with a range
17 of value of 15 percent up or down from
18 that mid-point, the purpose being to
19 give some flexibility to the final
20 value in a stock market that's
21 constantly changing.

22 Our initial valuation
23 was dated March 31st using December
24 31st financials and established a mid-
25 point valuation of \$28 million.

1 Subsequent to the passage of time, we
2 reviewed the valuation once again
3 using March financials, and we noted
4 that the equity of the company had
5 declined by \$2 million, approximately
6 \$2 million. We made an adjustment to
7 our value down from \$28 million to \$26
8 million at the mid-point of the range
9 of value. But in both instances, we
10 used what was called a price to book
11 method to value the company, because a
12 PE equation was simply N/A. And at
13 the mid-point it's 54 percent price to
14 book, which is a common gauge of
15 valuing a mutual company, meaning the
16 price to the resulting equity, on a
17 pro forma basis.

18 We stand ready to
19 revalue the company as appropriate
20 going forward. At least at one other
21 time when the sales effort has
22 concluded, we will typically do a
23 final valuation. I welcome any
24 questions that may arise.

25 COMMISSIONER:

1 Thank you. We'll go to
2 Mr. Ungar.

3 MR. UNGAR:

4 Thank you, Deputy
5 Commissioner Johnson. My name is
6 Stephen Ungar. I am the Senior Vice
7 President, Secretary, and General
8 Counsel of AmTrust Financial Services.
9 And before I go further, I also want
10 to echo Karen's comments. We thank
11 the Department, Deputy Commissioner
12 Johnson and the staff, particularly
13 Cris Bybee for the guidance and
14 cooperation that we've received
15 throughout this application process.

16 I am providing my
17 testimony in support of the Form A
18 application that AmTrust filed.
19 AmTrust seeks the Department's
20 approval for its acquisition and
21 control of ARI Insurance Company,
22 which is now known as ARI Mutual
23 Insurance Company, following the
24 conversion from mutual to stock. Upon
25 completion of the conversion which

1 AmTrust is sponsoring, which was
2 submitted to the Department
3 contemporaneously with our Form A,
4 AmTrust will acquire control of ARI.

5 I am familiar with the
6 Form A filing and all the exhibits
7 thereto, the Stock Purchase Agreement
8 dated March 17th, 2015 between ARI and
9 AmTrust, as well as the plan of
10 conversion. Upon the conversion of
11 ARI from a mutual insurer to a stock
12 insurer, which will be owned by ARI
13 Holdco, a company that's been formed
14 in connection with this transaction,
15 AmTrust will be a direct parent of ARI
16 Insurance Company. Well, the indirect
17 parent of ARI Insurance Company and
18 the direct parent of ARI Holdco. And
19 as a result of this transaction, ARI
20 Mutual will become ARI Insurance
21 Company.

22 My testimony is going to
23 focus on three things. I'll give you
24 a brief introduction into AmTrust, and
25 I'll explain the reasons for the

1 transaction, and our plans for the
2 company.

3 AmTrust is a publicly-
4 traded multinational insurance holding
5 company headquartered in New York and
6 listed on NASDAQ under the symbol
7 AFSI. AmTrust focuses on niche
8 customer groups which AmTrust believes
9 to be underserved in the insurance
10 market. Our product mix includes
11 Workers' Comp and other commercial
12 property and casualty products, as
13 well as the extended warranty
14 products. Our Workers' Compensation
15 and commercial, property, and casualty
16 policyholders in the U.S. are
17 generally small and middle market
18 business enterprises.

19 At present, I believe
20 that we are the fifth largest Workers'
21 Comp writer in the United States, and
22 we also are a significant writer of
23 commercial auto. I believe that our
24 annualized commercial auto premium is
25 about \$400 million in the trailing 12

1 months. And we also, as I said, do an
2 extended warranty. And our extended
3 warranty customers are generally
4 manufactures, distributors, and
5 retailers of commercial and consumer
6 products.

7 AmTrust conducts
8 business through its insurance company
9 subsidiaries in the United States and
10 Europe, and as of June 30th, 2015, has
11 approximately \$16 billion in assets,
12 stockholders equity in excess of \$2.6
13 billion, gross written premiums for
14 the trailing 12 months ending June
15 30th in the approximate amount of \$6.4
16 billion, and net income for that
17 period of approximately \$430 million.
18 AmTrust's insurance subsidiaries are
19 rated A Excellent by A.M. Best and
20 Company.

21 AmTrust is seeking to
22 acquire ARI in furtherance of
23 AmTrust's strategy of achieving growth
24 through the acquisition of strategic
25 partners in underserved niche markets.

1 ARI's policyholders, like AmTrust's
2 policyholders, typically are small to
3 medium sized businesses. And
4 AmTrust's acquisition of ARI will
5 enable ARI to utilize AmTrust's
6 technology, and marketing resources,
7 an "A" rating, and support ARI's
8 mission of serving small commercial
9 enterprises and broadening its
10 customer base. AmTrust believes that
11 ARI's management team, which is
12 experienced and proven in its niche
13 market, is the right partner to help
14 AmTrust expand its business in the
15 commercial auto space.

16 Other than the approval
17 of the plan and the Form A by the
18 Department, the completion by AmTrust
19 of the acquisition of ARI is not
20 subject to any other State or Federal
21 regulatory approvals. It is, however,
22 subject to the approval of the members
23 of ARI at a special meeting of the
24 eligible members of ARI, which we
25 schedule after we get Department

1 approval. Actually, add that we are
2 also subject to the approval of the
3 New Jersey Department of Banking and
4 Insurance.

5 Upon completion of the
6 acquisition of ARI, the Board of
7 Directors of ARI will consist of Barry
8 Zyskind who is President and CEO of
9 AmTrust, Donald DeCarlo who is a
10 Director of AmTrust and the
11 subsidiaries of AmTrust, myself, Harry
12 Schlachter, AmTrust Vice President and
13 Treasurer, Jay Jerome Miller who is a
14 Director of AmTrust and subsidiaries
15 of AmTrust, and Susan Fisch, a
16 Director of AmTrust, and finally Karen
17 Fulton will also serve on the Board.
18 Mr. Zyskind, Mr. DeCarlo, myself, Mr.
19 Schlachter, and Mr. Miller serve as
20 Directors of other insurance
21 subsidiaries of AmTrust.

22 Ms. Fulton, the current
23 President of ARI, will remain as
24 President after the conversion and
25 closing. David Gerth, the current

1 Chief Financial Officer of ARI, will
2 serve as Treasurer, and I will serve
3 as Secretary. On a combined basis,
4 the people I have mentioned have more
5 than 100 years of experience in the
6 insurance industry.

7 Because AmTrust's
8 acquisition of ARI is part of its
9 strategy for achieving growth through
10 strategic partners in niche market
11 segments, AmTrust plans to support
12 ARI's business and its mission of
13 serving the commercial transportation
14 industry. Therefore, AmTrust has no
15 current plans or proposals to
16 liquidate or sell the assets of ARI,
17 or consolidate or merge ARI with any
18 other AmTrust affiliates. As an
19 AmTrust subsidiary, ARI will have the
20 support of AmTrust's strong balance
21 sheet. AmTrust's acquisition of ARI
22 will not jeopardize its financial
23 stability or prejudice the interest of
24 policyholders.

25 After the change of

1 control, ARI will continue to be able
2 to satisfy the requirements for the
3 issuance of a license to write the
4 lines of business for which it is
5 presently licensed. Based on the
6 comparatively small amount of premiums
7 written by each of AmTrust and ARI in
8 the Commonwealth of Pennsylvania,
9 AmTrust's acquisition of ARI will not
10 substantially lessen competition in
11 the insurance market or tend to create
12 a monopoly in the Commonwealth of
13 Pennsylvania.

14 The competence,
15 experience, and integrity of AmTrust's
16 directors and officers are
17 exceptional. The proposed ARI
18 management team will include both the
19 experienced AmTrust team and the
20 experienced ARI team. The proposed
21 management team for ARI will not
22 negatively impact the interest of
23 policyholders or the public.

24 We believe, we being
25 AmTrust as management, believes that

1 the AmTrust acquisition of ARI will
2 provide the financial and operational
3 support to allow ARI to continue to
4 serve its current policyholders and
5 expand its customer base. We believe
6 it's in the best interest of ARI, its
7 policyholders, and the public. We
8 will not be hazardous or prejudicial
9 to the insurance buying public in any
10 way.

11 Based on this testimony
12 and the information provided in the
13 Form A which we filed with the
14 Department, including the exhibits
15 thereto, AmTrust's acquisition of ARI
16 satisfies the applicable standards of
17 review for approval by the Department
18 set forth in Section 991.1402 of title
19 40 of the Pennsylvania Statutes, and
20 we respectfully submit that it should
21 be approved.

22 COMMISSIONER:

23 Question, what do you
24 need out of New Jersey Department for
25 approval?

1 MR. UNGAR:

2 There's a subsidiary to
3 ARI Mutual for ARI ---.

4 COMMISSIONER:

5 Oh, that's right.
6 That's right.

7 MR. UNGAR:

8 Yeah.

9 COMMISSIONER:

10 We'll call the Jersey.
11 We have not had contact with the
12 Jersey Department on this.

13 MR. UNGAR:

14 Yeah, they were waiting,
15 I think, to hear from us on what
16 happens here. And then I think they
17 were just going to follow suit.

18 COMMISSIONER:

19 Yeah, I would generally
20 think, but I think we'll want to
21 confirm that. We'll give them a call.
22 Do you generally --- with your
23 acquisitions in this case, do you try
24 to so to speak cross sell and look at
25 some of their agent force, and see

1 whether or not their agent force is a
2 good fit for you as AmTrust to bring
3 them on and try to get them to sell
4 some of the Workers' Comp products
5 that you're in? I mean, do you do any
6 of that or do you basically buy and
7 kind of let them go as is?

8 MR. UNGAR:

9 Well, I think that we
10 will over time establish relationships
11 with their agents, and if there's an
12 opportunity to sell other AmTrust
13 products, the AmTrust people
14 responsible for selling Workers' Comp
15 or other products will partner with
16 the people of ARI to meet the agents
17 and get to know them.

18 COMMISSIONER:

19 Any other questions?
20 Thank you. You can take a seat out
21 back, and we'll bring Boenning and
22 Scattergood up. If you want to begin,
23 Mr. Latini?

24 MR. LATINI:

25 Sure. Good morning. My

1 name is Tony Latini, and I'm a
2 Managing Director in Boenning and
3 Scattergood's Investment Banking
4 Group. James Adducci, Director in the
5 investment bank, accompanies me today.
6 Boenning and Scattergood was retained
7 by the Insurance Department of the
8 Commonwealth of Pennsylvania to act as
9 financial advisor to assist in the
10 Department's review of the plan of
11 conversion presented by ARI Mutual
12 Insurance Company, which I will refer
13 to as ARI or the Company in my
14 comments.

15 Our testimony will
16 include three topics. First,
17 experience and background. Second,
18 details regarding the financial
19 advisory work Boenning provided to the
20 Department relating to the potential
21 ARI transaction. And third, we will
22 provide a summary explanation of
23 Boenning's review of the independent
24 appraisal of the pro forma market
25 value of ARI, and associated update

1 prepared by its independent appraiser.

2 There is information
3 relating to Boenning and Scattergood
4 as well as my professional background
5 in the written testimony that I have
6 submitted. In summary, Boenning is a
7 Pennsylvania based full service
8 investment firm with over 100 years of
9 history. I have been in the corporate
10 finance deals for approximately 30
11 years, and have participated in nearly
12 every mutual-to-stock conversion in
13 Pennsylvania. I reference the full
14 written testimony now, and we'll move
15 forward with the financial advisory
16 services that Boenning provided to the
17 Department.

18 ARI is a Pennsylvania
19 domiciled insurance company converting
20 from mutual-to-stock form using a
21 subscription rights method of
22 conversion authorized under the Act.
23 In addition to serving as an advisor
24 to the Department when specific issues
25 require attention and analysis, our

1 engagement required us to complete a
2 report that addressed two specific
3 requests relating to the transaction.

4 The first, Boenning was
5 asked to render its opinion as to
6 whether the allocation of the
7 subscription rights in the plan of
8 conversion is fair and equitable to
9 the eligible members of ARI. For
10 purposes of this engagement, we
11 reviewed ARI's application, which
12 includes the plan of conversion. We
13 also reviewed the Appraisal and
14 Appraisal Update. We held discussions
15 with ARI and representatives of
16 Feldman, and requested information
17 from both of these parties. We
18 reviewed information provided under
19 these requests. We prepared a report
20 for the Department containing our
21 conclusions, and the date of our
22 report is September 29, 2015.

23 As part of our review,
24 we were not asked and did not make any
25 judgment regarding the advisability of

1 the subscription rights method.

2 As stated in the plan
3 and confirmed with management, ARI's
4 Board of Directors determined through
5 its strategic alternatives analysis
6 that the Company's future success and
7 its ability to continue to serve its
8 policyholders and other stakeholders
9 would be enhanced if it expands
10 geographically, augments its capital
11 position, and achieves an A-minus or
12 better rating from the A.M. Best
13 Company. But further, issues in the
14 fourth quarter of 2014, as referenced
15 earlier today by other speakers,
16 approximately \$7 million from adverse
17 development in Workers' Comp claims,
18 change to a more conservative
19 reserving position, and a 100 percent
20 valuation allowance against ARI's
21 deferred tax assets, reduced capital
22 and severely restricted the company's
23 alternatives beyond, and accelerated
24 their support for a sponsored
25 demutualization.

1 According to ARI, the
2 plan attempts to track the Act's
3 subscription rights method, and
4 provides for participants to purchase
5 shares of common stock of AmTrust, the
6 conversion's sponsor, in an offering
7 at a uniform price per share
8 distributed by AmTrust only to
9 eligible members and non-employee
10 directors as defined in greater detail
11 in our report.

12 The Act provides for
13 certain provisions that are required,
14 as well as optional provisions using
15 the subscription rights method. The
16 required elements include but are not
17 limited to a provision that the
18 allocation of subscription rights to
19 eligible members must be fair and
20 equitable, minimum and maximum
21 purchase limitations must be
22 designated, and the allocation of
23 subscriptions in the event of an over
24 subscription shall be by a fair and
25 equitable means.

1 The Act also includes
2 the requirement that the total price
3 of capital stock must be equal to the
4 estimated pro forma market value of
5 the converting company, and is based
6 upon an independent valuation by a
7 qualified expert. Other provisions of
8 the Act include the allocation of
9 subscription rights to officers,
10 directors and employees must also be
11 fair and equitable and subordinate to
12 the subscription rights afforded
13 eligible members.

14 We considered whether
15 the allocation of subscription rights
16 is fair and equitable in the ARI plan.
17 ARI is allocating subscription rights
18 to eligible members, whose definition
19 in the plan is consistent with the
20 Act, on an equal basis with no
21 preference given to any class of
22 policyholders. No preferences were
23 given to eligible members based on the
24 size of the policy, the longevity of
25 the policyholder, or premium volume.

1 Our discussions and opinion regarding
2 the allocation of subscription rights
3 is contained within Section II of our
4 report. As part of our analysis, we
5 reviewed the alternatives ARI
6 considered, the notification provided
7 to those eligible members regarding
8 the conversion, the allocation of
9 subscription rights, and the process
10 afforded to eligible members to
11 exercise their subscription rights.
12 The details surrounding these issues
13 are included in our report.

14 In reaching our
15 conclusion, we considered the impact
16 of alternative allocations of
17 subscription rights on eligible
18 members, and the minimum and maximum
19 purchase limitations. We also
20 considered the allocation in the event
21 of an oversubscription, and the
22 procedures that ARI and AmTrust will
23 undertake in the event of an under
24 subscription described in our report.

25 It is our opinion that

1 the allocation of the subscription
2 rights is fair and equitable. Also,
3 it is our opinion that the means for
4 allocation of shares of capital stock
5 in the event of an oversubscription is
6 fair and equitable. The question of
7 whether the allocation of subscription
8 rights is fair and equitable involves
9 consideration of complex matters and
10 judgment. For this reason, anyone
11 wishing to fully understand our
12 conclusions should obtain a copy of
13 our report from the Department's
14 website and read the report in its
15 entirety.

16 In reaching the
17 conclusions noted above, Boenning did
18 take into consideration that the plan
19 introduces a formulaic mechanism to
20 determine the purchase price per share
21 at which eligible members and non-
22 employee directors may purchase
23 AmTrust's common stock. This
24 mechanism is described in significant
25 detail in Section 2.41 of the plan,

1 and is referenced in Boenning's
2 report. In summary, purchasers will
3 pay a discount to AmTrust's ten day
4 trading price in the range of roughly
5 10 to 20 percent. This sliding scale
6 mechanism results in a smaller
7 discount if significant amounts of
8 stock are subscribed for. This fact
9 creates a natural disincentive for
10 eligible members and non-employee
11 directors to participate, and in
12 effect disadvantages them by accepting
13 what is offered to them in exchange
14 for their interest.

15 Boenning notes that this
16 mechanism is complex and the
17 calculation could be difficult for
18 eligible members to understand,
19 thereby reducing their interest in
20 participating. Additionally, the
21 purchase price mechanism in
22 conjunction with the employee bonus
23 pool fund described in Section 10(f)
24 of the plan may potentially create a
25 conflict between the interest of

1 management and the interests of
2 eligible members, and thereby incent
3 employees to discourage participation
4 during their interactions with
5 eligible members in order to maximize
6 their economic benefit via the bonus
7 pool. This occurs because a lower
8 participation rate among eligible
9 members and non-employee directors
10 results in additional funds being
11 placed into the employee bonus pool.

12 Based on our discussions
13 with ARI management and their
14 financial advisor, there are several
15 mitigating factors which are spelled
16 out in our report related to the above
17 concerns, such that these concerns and
18 issues to not overwhelm Boenning's
19 conclusion noted previously. Further,
20 beyond those mitigating factors, ARI's
21 appraiser did not believe that these
22 concerns affected their Appraisal or
23 Appraisal Update based on their view
24 that they did not believe that
25 subscription interest would be

1 deterred by any components of the
2 purchase price and related employee
3 bonus pool fund mechanisms.

4 Now, James Adducci will
5 address Boenning's review of the
6 appraisal.

7 MR. ADDUCCI:

8 Good morning. My name
9 is James Adducci. I have been an
10 investment banker for roughly 15
11 years, 10 plus of which have been
12 spent with Boenning. I currently am a
13 Director of Boenning working with Mr.
14 Latini on all related insurance
15 matters.

16 Another significant
17 advisory role we performed for the
18 Department related to the review of
19 the independent appraisal of ARI's pro
20 forma market value, and in particular,
21 the reasonableness of the assumptions
22 made and the methodologies utilized in
23 light of Section 914-A, Subsection D
24 of the Act. Our review and
25 conclusions regarding the appraisal

1 are contained in Section III of our
2 report.

3 The date of the
4 appraisal completed by Feldman
5 Financial Advisors is March 31st,
6 2015, and the update is August 20th,
7 2015. The appraisal update utilized
8 financial information of ARI through
9 March 31st, 2015. In its initial
10 appraisal, Feldman considered ARI
11 financial performance through December
12 31st, 2014. In its update, Feldman
13 estimates that the pro forma market
14 value of ARI ranges from \$22.1 million
15 to \$29.9 million. As part of our
16 review, we discussed the appraisal and
17 update with Feldman in person, and on
18 occasion by telephone.

19 Our review of the
20 appraisal and update included an
21 analysis of the following six items:
22 the factors considered by Feldman, the
23 standard of value determined by
24 Feldman, Feldman's choice and
25 application of generally accepted

1 appraisal methodologies, Feldman's
2 selection of comparable companies
3 and/or transactions, various market
4 value adjustments applied by Feldman,
5 and Feldman's reconciliation of value
6 from the values indicated by the
7 various methodologies. My comments
8 will address the six parts of our
9 analysis described above.

10 First, there were
11 various factors that an appraiser,
12 such as Feldman, is expected to
13 consider in completing a corporate
14 valuation, and in particular in a
15 conversion appraisal. Feldman
16 undertook an appraisal of ARI,
17 including ARI's current business
18 operations, corporate history, product
19 lines, marketing and distribution,
20 income and expense trends, executive
21 management, reasons for the
22 conversion, and overall financial
23 conditions of the Company. Feldman
24 also considered the insurance industry
25 in general, and compared ARI to

1 selected publicly traded insurance
2 companies. We believe Feldman's
3 appraisal considered the appropriate
4 factors and was complete.

5 Second, Feldman
6 determined that the freely traded
7 standard of value is an appropriate
8 standard for Feldman's appraisal of
9 ARI. The freely traded standard
10 values the Company as if the common
11 shares are traded in an open and
12 liquid market, such as one of the
13 commonly recognized stock exchanges,
14 and represents a minority share, i.e.
15 not a majority control value. The Act
16 states that the pro forma market value
17 may be the value necessary to achieve
18 a full subscription of the shares. In
19 a conversion, the value of the
20 underlying securities that are being
21 offered is of paramount importance.
22 Boenning concurs with Feldman that
23 this is best represented by the freely
24 traded standard of value applied by
25 Feldman.

1 Third, Feldman
2 considered the three commonly utilized
3 methodologies in its appraisal. The
4 methodologies are referred to as the
5 market approach, the income approach,
6 and the cost approach. Feldman
7 utilized the market approach in its
8 appraisal of ARI. Feldman indicated
9 that it did not utilize the income
10 approach or the cost approach because
11 these methods are unlikely to produce
12 a valuation relevant to the future
13 trading patterns of the relevant
14 equity interests. We agree with
15 Feldman that in the context of valuing
16 a company for an equity offering in a
17 mutual-to-stock conversion, the market
18 approach provides the best indicator
19 of value because of the readily
20 available market and financial data
21 for comparable companies and
22 transactions. It is also the method
23 utilized in other demutualization
24 transaction appraisals, and
25 importantly, values ARI on a freely

1 traded basis, as previously discussed.

2 Fourth, in our review of
3 Feldman's selection of comparable
4 companies, we undertook a review of
5 the universe of publicly traded
6 insurance companies. Our review of
7 Feldman's comparable group was not
8 done in order to form a new comparable
9 group, but to ascertain whether
10 Feldman selected a reasonable
11 comparable group of publicly traded
12 insurance companies for appraisal
13 purposes. Although the results of
14 Boenning's comparable company analysis
15 differ slightly from that of Feldman's
16 we believe that the criteria Feldman
17 used to choose a comparable group
18 represents reasonable factors in the
19 selection of the comparable companies.
20 And therefore, Feldman selected a
21 reasonable comparable group for
22 appraisal purposes.

23 Additionally, we do not
24 believe that our slightly different
25 selective group would have resulted in

1 a material change in the conclusions
2 reached by Feldman's appraisal
3 because, as discussed in our report,
4 to develop an appropriate valuation
5 ratio for the subject companies, it is
6 necessary to make adjustments to the
7 ratios represented by the comparable
8 group. These adjustments or discounts
9 include specific company risks versus
10 the comparable companies, and market
11 related conditions that need to be
12 applied to determine the pro forma
13 market value. Because the factors
14 considered in determining the
15 appropriate discounts are subjective,
16 differences in discounts result in
17 financial conclusions that are the
18 same despite slight differences in
19 ratios or multiples derived from the
20 comparable group.

21 Fifth, as mentioned
22 above, a number of discounts or
23 adjustments are typically applied in
24 conversions, and Feldman considered
25 these adjustments. The factors

1 Feldman considered are adjustments or
2 discounts that a knowledgeable
3 investor would consider and are
4 typical of prior conversion
5 appraisals. The factors considered by
6 Feldman include earnings prospects,
7 management, liquidity of the issue,
8 subscription interest, stock market
9 conditions, and new issue discount.
10 The amount of the adjustment is not
11 easy to quantify, and is based upon
12 the subjective judgment of the
13 appraiser. Our analysis indicated that
14 these discounts were appropriate, and
15 we concur with the magnitude of the
16 discounts determined by Feldman.

17 Finally, Feldman
18 reconciled the value indicated by the
19 price-to-book value ratios to other
20 potential ratios. Insurance companies
21 are predominantly valued using the
22 price-to-book value ratio. We believe
23 the price-to-book ratio provides a
24 reasonable estimate of pro forma
25 market value when compared to the

1 price-to-book value ratio of
2 comparable companies, after
3 considering the discounts discussed
4 above.

5 We believe that
6 Feldman's conclusions are reasonable
7 and consistent with our findings. We
8 concluded in our report, based upon
9 analyses summarized above, the
10 assumptions made and methodologies
11 utilized by Feldman in its appraisal
12 of ARI were reasonable in light of the
13 Act. This concludes my comments
14 related to our review of the appraisal
15 evaluation.

16 MR. LATINI:

17 And it concludes
18 Boenning's prepared remarks. We'd be
19 happy to take questions from the
20 Department.

21 COMMISSIONER:

22 Any questions? No?
23 Thank you. This is the time for any
24 members of the public who wants to
25 make any comment. Let the record show

1 there are none. Does anybody else
2 want to make any final comments?

3 On behalf of the
4 Department, I'd like to thank
5 everybody for their participation here
6 today. As I noted earlier, a
7 transcript of this hearing will be
8 posted on the Department's website
9 when it becomes available.

10 Additionally, the Applicant will be
11 required to file written responses to
12 all questions posed today, of which we
13 had really none. You answered all
14 those questions. Such responses will
15 be posted on the Department's website.

16 Once the transcript is
17 made available and after all questions
18 and responses are compiled, the
19 Department will reopen the matter for
20 public comment for a ten day period of
21 time. Again, thank you everybody for
22 coming. We have concluded this public
23 informational hearing.

24 * * * * *

25 HEARING CONCLUDED AT 9:52 A.M.

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CERTIFICATE

I hereby certify, as the stenographic reporter, that the foregoing proceedings were taken stenographically by me, and thereafter reduced to typewriting by me or under my direction; and that this transcript is a true and accurate record to the best of my ability.

Bernadette M. Black

Bernadette M. Black,
Court Reporter