TESTIMONY OF DANIEL R. DOUCETTE

PRESIDENT AND CHIEF EXECUTIVE OFFICER

MILWAUKEE MUTUAL INSURANCE COMPANY

MARCH 19, 2003
MADISON, WISCONSIN
TESTIMONY OF DANIEL R. DOUCETTE
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I. Introductory Testimony

Q: What is your name?
A: Daniel R. Doucette.

Q: What positions do you currently hold with Milwaukee Mutual Insurance Company? And for convenience sake, why don’t we refer to the Company as “Milwaukee Mutual” for purposes of your testimony.
A: Okay. I am the President and Chief Executive Officer of Milwaukee Mutual, and I also sit on its board of directors.

Q: How long have you held those positions?
A: I have been the President and Chief Executive Officer since 1989. I became a director of the Company shortly thereafter.

Q: Do you hold positions with any other entities that might be viewed as affiliates of Milwaukee Mutual for any purpose?
A: Yes. I sit on the board of directors of First Nonprofit Insurance Company – which I will refer to as “First Nonprofit” – and on the board of its parent, First Nonprofit Mutual Holding Company – which I will refer to as “FNMC”. First Nonprofit and FNMC are considered affiliates of Milwaukee Mutual for holding company act purposes in Wisconsin because Milwaukee Mutual reinsures 80% of First Nonprofit’s net retained liability (after deducting all other third-party reinsurance) on its direct or assumed business. Unitrin Services Company and its parent, Unitrin, Inc. – which I will refer to collectively as “Unitrin” – are also considered affiliates of Milwaukee Mutual for holding company act purposes in Wisconsin because Trinity Universal Insurance Company – a subsidiary of Unitrin, Inc. that I will refer to as Trinity – reinsures 95% of Milwaukee Mutual’s insurance business, including the business ceded to Milwaukee Mutual by First Nonprofit. I note that my current salary is initially paid by Unitrin Services Company but is subsequently billed back to and paid by Milwaukee Mutual.

Q: Were you involved in the decision-making process associated with the proposed restructuring of Milwaukee Mutual into a mutual holding company structure?
A: Yes. I was directly and actively involved in that process, including all of the discussions held on the subject by Milwaukee Mutual’s board and countless discussions with Milwaukee Mutual’s outside counsel and Office of the Commissioner of Insurance for the State of Wisconsin.
Q: Mr. Doucette, I would like to discuss the proposed restructuring with you from several perspectives, in the following progression:

First, I will ask you to provide some background and historical information about Milwaukee Mutual.

Second, I will ask you to explain the challenges facing Milwaukee Mutual which led you and the other members of the board to consider the proposed restructuring.

Third, I will ask you to describe the mechanics of the proposed restructuring.

Fourth, I will ask you to explain how the proposed restructuring responds to the challenges facing the Company.

Fifth, I will ask you to discuss and analyze the alternatives to the proposed restructuring considered by the board.

Sixth, I will ask you to describe the steps taken by Milwaukee Mutual to comply with any legal or corporate requirements applicable to the proposed restructuring.

And finally, I will ask you to explain how the proposed restructuring satisfies the statutory criteria for approval of the restructuring by the Wisconsin Insurance Commissioner.

Do you believe you have sufficient personal knowledge of the foregoing matters to testify on the same during this public hearing?

A: Yes.

II. *Background of Milwaukee Mutual*

Q: Let’s begin then with some background information on Milwaukee Mutual. What is the current corporate structure and location of Milwaukee Mutual?

A: Milwaukee Mutual is a property and casualty mutual insurance company domiciled in Wisconsin. Its principal corporate offices are located in Brookfield, Wisconsin.

Q: What kinds of property and casualty insurance business is Milwaukee Mutual engaged in?

A: Milwaukee Mutual provides both personal and commercial lines coverages. Its personal lines products include auto, homeowners and umbrella insurance, and its commercial products include commercial package policies, workers’ compensation insurance, commercial auto and commercial umbrella.
Q: Where is Milwaukee Mutual authorized to sell insurance?

A: In the states of Arizona, Colorado, Illinois, Indiana, Iowa, Kentucky, Minnesota, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. Over 90% of Milwaukee Mutual’s insurance business is generated in five states – Wisconsin, Illinois, Minnesota, South Dakota and Indiana.

Q: What is Milwaukee Mutual’s current A.M. Best rating?

A: A, meaning “excellent.”

Q: How does Milwaukee Mutual market or distribute its products?

A: Through independent agencies.

Q: Has the Company’s name always been Milwaukee Mutual Insurance Company?

A: No. Milwaukee Mutual was organized in 1916 as Milwaukee Automobile Insurance Company Limited Mutual Exchange and commenced business in 1917. The name of the Company was changed to Milwaukee Automobile Mutual Insurance Company in 1955, and the name was changed to its current form in 1964.

Q: Has Milwaukee Mutual acquired other insurance companies over the course of its existence?


Q: Earlier in your testimony you mentioned a business affiliation with Unitrin. Can you provide additional details concerning the nature of that relationship?

A: Sure. As of January 1, 1997, Milwaukee Mutual reinsured all of its insurance business written on or after October 1, 1995 with Trinity, a subsidiary and affiliate of Unitrin, pursuant to a 95% quota share reinsurance agreement.

Q: Was that the first transaction involving Milwaukee Mutual and a Unitrin entity?

A: No. In October of 1995, Trinity acquired 100% of Milwaukee Insurance Group, Inc. (“MIG”), which was a publicly traded holding company that was 48% owned by Milwaukee Mutual.

I should also mention that since 1985 Milwaukee Mutual has participated in an intercompany reinsurance pooling arrangement with two affiliates, Milwaukee Casualty Insurance Co. – which used to be called Milwaukee Guardian Insurance, Inc. – and
Milwaukee Safeguard Insurance Company, both of which were acquired by Trinity as a result of the 1995 transaction. Under the pooling arrangement, the combined premiums, losses, and expenses of the three insurers are prorated among the insurers. Milwaukee Mutual’s participation in the pooling varied over time. As of January 1, 1997, the amendment to the pooling arrangement covering the period from October 1, 1995 to December 31, 1996 was terminated and the insurance business attributable to that period was commuted effective October 1, 1995. The commuted business is reinsured by Trinity under the 95% quota share agreement.

Q: You also mentioned a business affiliation with the First Nonprofit entities. Can you provide additional details concerning the nature of that relationship?

A: Yes. Effective July 1, 2001, Milwaukee Mutual entered into an 80% quota share reinsurance agreement with First Nonprofit. Pursuant to this agreement, MMIC assumed 80% of First Nonprofit’s net liability on its in-force and new business going forward in respect of all claims incurred (or claims reported under claims-made policies) after the effective date of the quota share.

I also note that, effective January 15, 2003, the quota share was amended to provide, among other things, for the election of directors selected by Milwaukee Mutual to a majority of the director positions on the board of First Nonprofit’s parent, FNMHC, for so long as the quota share remains in effect, and to further give Milwaukee Mutual the right to terminate the quota share agreement immediately in the event that individuals selected by Milwaukee Mutual no longer constitute a majority of the directors on FNMHC’s board.

Q: If you know, can you briefly describe First Nonprofit’s business, where it is licensed and its current A.M. Best rating?

A: First Nonprofit is a property and casualty stock insurance company domiciled in Illinois, based in Chicago, and is the leading insurer of nonprofit organizations in Illinois. First Nonprofit provides three principal products: commercial package policies, workers’ compensation and commercial automobile, exclusively to the nonprofit sector. Based on the last information I had, First Nonprofit is licensed in Illinois, Indiana, Maryland, Michigan, Minnesota, Pennsylvania, and the District of Columbia, and the company’s A.M. Best rating is A-, meaning “excellent.”

III. Motivations for Proposed Restructuring

Q: I’d like to move on now to the reasons Milwaukee Mutual is pursuing the proposed restructuring. First, what prompted Milwaukee Mutual to consider the possibility of restructuring the Company?

A: In a nutshell, the board of directors of Milwaukee Mutual believes that the most successful insurance companies in the future will be those that have the structural, financial and strategic flexibility to respond quickly and decisively to changes in the marketplace, both in terms of pursuing potential acquisition activity and growth, and in
terms of making changes or improvements in existing operations. The board also believes that, in its current structure, Milwaukee Mutual has limited flexibility for responding to such changes and to grow or solidify its business operations through acquisition activity or the investment of excess surplus.

Q: Your last answer raises two points. The first is that successful insurance companies will be those that have the most flexibility. I wonder if you could expand on that?

A: Sure. I believe maximizing Milwaukee Mutual’s structural, financial and strategic flexibility is important to the future success of Milwaukee Mutual because of the competitive environment that the Company is operating within.

Q: Describe that environment, please.

The U.S. property and casualty insurance industry is mature and highly competitive. During the mid-to-late 1990’s and up until the tragedy of September 11, 2001, property and casualty insurers in the U.S. operated in an environment of significant downward pricing pressures. These pressures led to significant industry consolidation and reduced profitability. Milwaukee Mutual was not immune to these pressures, as evidenced by the affiliation with Trinity and Unitrin and the fact that, over this same time period, neither Milwaukee Mutual nor Trinity experienced underwriting profits on a cumulative basis on Milwaukee Mutual’s book of business.

Q: Has September 11 changed the competitive environment?

A: Industry consolidation has slowed and the downward pricing pressures have eased somewhat, but the industry continues to experience profitability issues, due in part to adverse claims development in certain segments of the industry and investment losses that have impacted across the entire industry as a result of the downturn in equity markets.

Q: Are there other changes affecting the competitive environment for the industry?

Sure. Technological changes force many insurers to invest in new products and technologies to meet customer needs and expectations; that’s not new, but now it happens at much faster rates than had previously been the case. Strong financial and claims-paying ratings are critical to an insurer’s success and are increasingly dependent upon the insurer’s ability to achieve high levels of profitable growth. Also, due to the federal Gramm-Leach-Bliley Act and the deregulation of the financial services industries, insurers face increased competition from banks, mutual funds and retail brokerage firms.

Q: What do you mean by maximizing the Company’s structural, financial and strategic flexibility?

A: I’m talking primarily about maximizing Milwaukee Mutual’s ability to achieve profitable, long-term growth and the various options for doing that within a mature and
highly competitive industry. These options primarily include increasing the Company’s options for raising capital, engaging in acquisition activity, and investing excess surplus.

Q: Thank you. The second point you make is that Milwaukee Mutual’s current legal structure limits the Company’s flexibility. How so?

A: In several ways.

Q: Can you provide examples of how it limits Milwaukee Mutual’s ability to invest excess surplus or engage in acquisition activities?

A: Sure. For example, Milwaukee Mutual cannot merge with other mutual insurers without one of the two entities ceasing to exist as a separate insurer, as was the case with our prior mergers with Wisconsin Retailers, Midland Union and Heartland Mutual. This prevents Milwaukee Mutual from merging, acquiring or affiliating with other mutual organizations in ways that improve efficiencies and maintain each organization’s goodwill and the value of their respective “brands.” There are also limitations on Milwaukee Mutual’s ability to acquire or affiliate with non-insurers. These types of restrictions reduce Milwaukee Mutual’s ability to put its excess surplus to more efficient use and burden Milwaukee Mutual with less than optimal prospects for profitable, long-term growth.

Q: What about raising capital?

A: That’s another problem. As a mutual insurance company, Milwaukee Mutual has no stock to use as acquisition currency and limited ability to raise new capital. Milwaukee Mutual can increase its capital only by increasing premiums, retaining earnings, issuing surplus notes, engaging in financial reinsurance transactions or selling assets. These options are not very reliable or efficient sources of capital: premium increases are difficult to impose in times of increased competition, earnings vary from year-to-year, surplus notes and reinsurance are often costly, and assets available for sale are finite and, in some cases, critical to Milwaukee Mutual’s financial strength and its continuing operations.

Given that, as a mutual insurance company, any acquisitions Milwaukee Mutual might want to make typically require cash, the absence of more reliable and efficient sources of capital limits the extent to which the Company can engage in a long-term growth strategy through strategic acquisitions.

Q: Does Milwaukee Mutual have a current need to raise capital?

A: No, Milwaukee Mutual does not have a current need to raise new capital and has no immediate plans to do so following the restructuring. But there is always the possibility – particularly in the current competitive environment – that a need for new capital may arise in the future, and the board of directors believes that Milwaukee Mutual should take steps now to position itself for that possibility.
IV. Description of the Proposed Restructuring

Q: Thank you. Let's move on then to a description of the proposed restructuring. Are you familiar with the details of how the proposed restructuring will actually be implemented from a mechanical or technical, corporate perspective?

A: I am.

Q: Can you summarize those “mechanics” for us?

A: Sure. As I understand it, on or before the effective date of the restructuring, Milwaukee Mutual will duly incorporate Mutual Insurers Holding Company – which I will refer to as MIHC – as a Wisconsin mutual holding company. As of 12:01 a.m. on the effective date, and in accordance with the terms of the Plan and Chapter 644 of the Wisconsin Insurance Code, the following will occur:

- The policyholders with membership interests in Milwaukee Mutual will immediately become members of MIHC.

- Milwaukee Mutual will convert to, and continue its corporate existence as, a Wisconsin stock property and casualty insurance company named Milwaukee Insurance Company, and which I will refer to as Milwaukee Insurance.

- MIHC will be issued 100% of the shares of voting stock of Milwaukee Insurance.

- All equity rights previously belonging to policyholders with membership interests in Milwaukee Mutual will be extinguished and replaced with equity rights in MIHC.

Milwaukee Insurance will be considered to have been organized at the time that Milwaukee Mutual was organized, so that the corporate existence of Milwaukee Mutual before, on and after the effective date shall continue without interruption in all respects and shall remain unaffected by the restructuring.

On the effective date of the restructuring, the articles of incorporation and bylaws of Milwaukee Mutual shall, without further act or deed, be amended and restated as “Amended and Restated Articles of Incorporation of Milwaukee Insurance Company” and “Amended and Restated Bylaws of Milwaukee Insurance Company,” as set forth in documents attached to the Plan on file with the Wisconsin Commissioner as Exhibits A and B, respectively. These revised articles and bylaws shall supersede in their entirety the current articles and bylaws of Milwaukee Mutual. On the effective date, the articles of incorporation of MIHC shall be as set forth in the articles of incorporation attached to the Plan on file with the OCI as Exhibit C, and the bylaws of MIHC shall be as set forth in the bylaws attached to the Plan on file with the OCI as Exhibit D.
V. Advantages of Proposed Restructuring

Q: Thank you. I’d like to move on to my next general topic concerning the advantages of the proposed restructuring. How will converting to a mutual holding company structure favorably address the challenges or problems that you’ve just identified? Let’s start with raising capital.

A: If the restructuring is approved and completed, Milwaukee Mutual will become a stock insurance company named Milwaukee Insurance and will be controlled by MIHC, a mutual holding company.

As a stock insurance company, Milwaukee Insurance will be able to access the capital markets by selling up to 49% of its stock to the public or to other third parties, subject to need and market conditions. This is an option which Milwaukee Mutual currently does not have at its disposal.

Q: What are the advantages of being able to raise capital in this manner?

A: Well, first of all, it is often a more efficient means of raising capital than the current alternatives available to Milwaukee Mutual, which I discussed previously. Also, raising such capital could enhance Milwaukee Insurance’s capability and flexibility to do many positive things for the Company and its policyholders that will help the Company in its efforts to achieve profitable, long-term growth. Such things include maintaining or increasing the Company’s ratings from rating agencies, investing in infrastructure to increase operational efficiency and provide improved services, expanding distribution channels for current products and services, expanding into new markets or product lines, and taking advantage of opportunities to acquire other companies or books of business to increase economies of scale and diversify the Company’s risk and assets.

Q: What about acquisition activity and the investment of excess surplus?

A: The restructuring would help in a number of ways. First, Milwaukee Insurance would have the ability to merge with or acquire other mutual organizations while preserving the separate insurance operations and “brands” of Milwaukee Insurance and the target entity.

Q: How would the restructuring enable Milwaukee Insurance to do that?

A: Unlike stock companies, ownership of a mutual insurance company cannot be transferred by a simple purchase or exchange of stock. Two mutual insurance companies cannot merge without one of the companies ceasing to exist and being subsumed within the other. As a result, the goodwill and market recognition of the subsumed insurer’s “brand” or product name – typically an important asset in the insurance industry – is lost forever.

Under a mutual holding company structure, the insurance operations and products of the enterprise will be conducted and issued by Milwaukee Insurance, a stock company that is owned by MIHC, a mutual holding company. MIHC can merge with another mutual
holding company, and while that merger will result in one of the two holding companies ceasing to exist, the surviving holding company will own stock in the two underlying stock insurance subsidiaries. Each of the stock subsidiaries may continue to operate under the same management and name as they did prior to the merger, thereby preserving the separate operations and “brands” of each entity.

Also, MIHC can be the vehicle through which another mutual insurance company may convert to a stock entity and “merge” with MIHC without sacrificing its brand or its mutuality, and without incurring the extra cost and expense of first establishing its own separate mutual holding company and then merging with MIHC.

Q: How else would the restructuring facilitate acquisition activity?

A: Well, as I stated earlier, a mutual insurance company like Milwaukee Mutual typically must fund any acquisition activity with cash. However, under a mutual holding company structure, Milwaukee Insurance or MIHC would be able to use up to 49% of the stock of Milwaukee Insurance as acquisition currency in lieu of cash. In addition, as a mutual holding company, MIHC may have a greater ability to acquire or affiliate with non-insurers, which could bring about additional efficiencies of scale and help diversify MIHC’s assets. These benefits potentially create additional acquisition opportunities that do not presently exist for Milwaukee Mutual and provide additional avenues for the Company to pursue profitable growth.

Q: Are there other benefits associated with restructuring to a mutual holding company structure?

A: There is at least one other very important benefit that we should talk about.

Q: What is that?

A: A mutual holding company structure preserves the mutuality of the enterprise.

Q: Why is preserving mutuality important?

A: Because Milwaukee Mutual is and always has been a mutual organization. Over time it has adopted a corporate culture and reputation as an entity that focuses on the interests and benefits of its policyholders, who are the owners of the Company. Moreover, Milwaukee Mutual believes a good portion of its historical success stems from this inherent structural tendency to view its business operations and objectives from the perspective of the policyholder.

Q: So Milwaukee Mutual wants to obtain additional corporate flexibility without sacrificing its mutuality?

A: Yes, and that is exactly what a mutual holding company structure achieves.
Q: How?

A: Well, as I described earlier, upon approval of the restructuring, the insurance policies and contract rights of Milwaukee Mutual’s policyholders will be transferred to Milwaukee Insurance. Milwaukee Insurance will be the insuring entity and will carry on the corporate existence of Milwaukee Mutual, but it will do so as a stock entity.

100% of the stock of Milwaukee Insurance will initially be owned by MIHC, a mutual holding company. While some of that stock could someday be sold to the public or other third parties, there are no current plans to do so, and in any event Wisconsin law requires that MIHC own at least 51% of the stock of Milwaukee Insurance at all times.

At the same time, the equity rights that Milwaukee Mutual’s policyholders previously held in Milwaukee Mutual will be extinguished and replaced with identical equity rights in MIHC, and those rights will continue in force for as long as the policyholders own insurance policies with Milwaukee Insurance.

So, MIHC will be owned by the policyholders of Milwaukee Insurance, and MIHC will in turn own a controlling interest in Milwaukee Insurance. In this way the organization retains its policyholder focus because the converted stock company is always under the control of a mutual holding company owned by the policyholders, but it also obtains the corporate and operational flexibility available to a stock enterprise.

Q: You say the insurance policies of Milwaukee Mutual’s policyholders will be transferred to Milwaukee Insurance. Will those policies and the contract rights they confer be altered in any way?

A: No. All policy benefits and other contractual obligations stemming from those policies will remain as obligations of Milwaukee Insurance and will not be changed in any way. The restructuring will not increase premiums, diminish policy benefits, or alter any other policy rights or obligations. The only difference will be that the policy benefits and contractual rights are provided by a stock company rather than a mutual company.

Q: Will the existing insurance operations or the services Milwaukee Mutual currently provides to its policyholders change in any way?

A: No. The restructuring will not result in any material changes in the existing insurance operations or in the services provided to policyholders. Again, the only change is that such operations and services will in the future be conducted or provided by a stock company rather than a mutual company.

Q: Will the officers or directors of Milwaukee Mutual change as a result of the proposed restructuring?

A: No. The current officers and directors of Milwaukee Mutual will continue to serve in those positions for Milwaukee Insurance following the restructuring.
Q: Will Milwaukee Insurance be licensed to do business in the same jurisdictions as Milwaukee Mutual?
A: Yes, Milwaukee Mutual’s current licenses will be reissued by the relevant state insurance departments in the name of Milwaukee Insurance, subject to whatever applicable rules and procedures exist in each of the states at issue.

Q: Will the insurance company still be regulated by the Wisconsin Commissioner of Insurance?
A: Yes. After the restructuring, Milwaukee Insurance will continue to be subject to the Wisconsin Insurance Code and to regulation and examination by the Wisconsin Commissioner, as well as by the commissioners in those states and foreign jurisdictions in which it is authorized to transact business.

Q: You also said the equity rights which the policyholders currently have in Milwaukee Mutual will be extinguished and replaced by identical equity rights in MIHC. What are those equity rights?
A: The right to elect directors, the right to approve or disapprove proposed changes in the articles of incorporation, the right to vote on any plan of conversion, voluntary dissolution, or other matters that come before the members of the mutual entity at an annual or special meeting of the members, the right to share in any distribution of remaining surplus in the event of a dissolution or liquidation of the mutual entity, and the right to receive cash, stock or some other form of consideration in the event that the mutual entity demutualizes.

Q: Will MIHC also be subject to regulation by the Wisconsin Commissioner?
A: Yes. As a Wisconsin mutual holding company, MIHC will be subject to certain provisions of the Wisconsin Insurance Code and to regulation by the Wisconsin Commissioner. Generally, the Commissioner will have the power over MIHC to assure that the interests of policyholders are protected.

Q: Can you give some examples of how the Wisconsin Insurance Code or the Wisconsin Commissioner will regulate MIHC?
A: I can give you several. For example, under the Wisconsin Insurance Code, MIHC must at all times maintain direct or indirect ownership and control of at least 51% of the outstanding shares of Milwaukee Insurance. MIHC cannot amend its articles of incorporation except with the prior approval of the requisite number of its members. MIHC must file with the Wisconsin Commissioner, within sixty (60) days after adoption, a copy of its bylaws and any amendments thereto. MIHC is prohibited from engaging in the business of insurance other than through subsidiaries like Milwaukee Insurance. MIHC is prohibited from entering into any contract delegating to a person the authority to exercise management control of MIHC or any of its major corporate functions to the exclusion of its board of directors. Finally, MIHC is prohibited from dissolving or
liquidating without the prior approval of the Wisconsin Commissioner or a Wisconsin court having jurisdiction over such matters.

Q: Will there be any federal income tax consequences for Milwaukee Insurance, MIHC, or the policyholders as a result of the proposed restructuring?

A: No. Milwaukee Mutual received a legal opinion from its outside legal counsel to the effect that neither the policyholders, nor Milwaukee Mutual, Milwaukee Insurance or MIHC, will recognize gain or loss as a result of the proposed restructuring for federal income tax purposes.

Q: Does the proposed restructuring trigger any obligation for the Company to register the membership interests created in MIHC under federal securities laws?

A: No. Milwaukee Mutual obtained a no-action letter from the federal Securities and Exchange Commission essentially concurring with the opinion of our outside legal counsel that registration is not required under the federal securities laws.

VI. Alternatives to Proposed Restructuring

Q: Thank you. Let’s move on now to a discussion of the alternatives to the proposed restructuring. First, can you summarize the process and time frame of deliberation that was undertaken by Milwaukee Mutual’s management and board of directors in arriving at the current restructuring plan?

A: Sure. As for timeframe, I think the board had been exploring options for restructuring the Company, including potential merger and acquisition opportunities, since mid-1998 or early 1999 and continuing through May, 2001. When Wisconsin’s mutual holding company law passed in 1998, the options expanded to include the possibility of converting to a mutual holding company structure.

As for process, I would say that a variety of discussions occurred on a variety of different levels. For example, there were formal and informal discussions between Milwaukee Mutual’s board and management regarding potential merger and acquisition opportunities and various restructuring options, including a possible conversion under the mutual holding company law. There were discussions between management and the staff of the Wisconsin Commissioner regarding the mutual holding company law generally. There were discussions between management and the Company’s outside legal counsel regarding various restructuring options, including a possible conversion under the mutual holding company law. Finally, management has periodically identified and evaluated potential acquisition targets and has on occasion held informal discussions with representatives of some of those identified targets concerning potential transactions.

Ultimately, in my role as President of the Company, I recommended to the board that Milwaukee Mutual convert to a mutual holding company structure, and the board agreed.
Q: Did the board consider any alternatives to the proposed restructuring?
A: Certainly.

Q: What were they?
A: Well, for starters, we considered preserving the status quo and keeping our current legal structure as a mutual insurance company.

Q: Why did the board ultimately decide against that option?
A: Well, in short, because it determined that the limitations that structure imposes on the Company’s opportunities for long-term growth and profitability – which I’ve already discussed in detail – were unacceptable. Again, the Board concluded that if Milwaukee Mutual remains in its current structure as a mutual insurance company, it will have limited means available to it for responding to competitive changes in the marketplace and to grow or solidify its business operations through acquisition activity or the investment of excess surplus.

Q: What other options are there?
A: The other major option is demutualization.

Q: How would that differ from the proposed restructuring?
A: A demutualization would convert Milwaukee Mutual from a mutual insurance company to a stock insurance company without simultaneously creating a mutual holding company as a parent.

Q: Are there benefits to the Company and its members under that option?
A: Sure. For example, Milwaukee Mutual’s policyholders would receive cash, stock or some other form of consideration in exchange for their equity rights in Milwaukee Mutual. Also, the stock of the demutualized company could be used as acquisition currency, and often the stock of a demutualized entity is worth more than the stock of a similar company within a mutual holding company structure.

Q: Why might the stock of a demutualized entity be worth more than that of a similar entity within a mutual holding company structure?
A: Because in a mutual holding company structure, only 49% of the stock of the insurance entity can be sold to the public, and investors may place a lower value on such stock because of the inability to obtain a controlling interest in the underlying entity.
Q: So why not demutualize?

A: Well, I think it ultimately it goes back to our corporate history and culture. Again, Milwaukee Mutual is and always has been a mutual entity. I think the board of Milwaukee Mutual concluded that maintaining the “mutuality” of the Company in some form was important in order to preserve our historical focus on the interests and benefits of our policyholders.

I also think the Board concluded it was important that the Company enhance its ability to merge or acquire other mutual entities seeking the same level of corporate flexibility we seek, and that – as I discussed earlier – it was particularly important that the Company do so in ways that preserve the separate insurance operations and “brands” of these organizations, including our own.

Demutualization is inconsistent with both of these goals. First, it terminates the Company’s existence as a “mutual” organization ultimately owned by its current and future policyholders. Second, it eliminates our practical ability to merge with other mutual insurers. In essence, we could only do so through a through a sponsored demutualization of the other entity, which is costly.

Q: Are there any other problems with demutualization?

A: It can be a less efficient way for a mutual company to raise capital, precisely because it requires the company to distribute its policyholder surplus to the policyholders in exchange for their equity rights in the company. A mutual holding company structure does not impose this cost on the company.

Q: Does the proposed restructuring preclude the possibility of a demutualization down the road?

A: No. If the board of MIHC concluded that it was in the best interests of the Company and its members to demutualize, the board could propose and recommend that the members of MIHC approve a transaction doing just that. I should note, though, that there are no current plans to demutualize the holding company.

Q: Have we exhausted the question of the board’s deliberations and the considerations of alternatives to the proposed restructuring?

A: I think so.
VII. Compliance with Legal and Corporate Requirements

Q: Let's move on to my next area of questioning. I want to explore the procedures Milwaukee Mutual has followed and will follow to complete the restructuring. What was the first formal step required in this regard?

A: The first step was for the board of directors of Milwaukee Mutual to adopt a mutual holding company plan.

Q: When was this accomplished?

A: The board adopted the initial mutual holding company on May 17, 2001. We adopted an amended and restated version of the plan on October 18, 2002, and we adopted a second amended and restated version of the plan on February 13, 2003.

Q: Is the version of the Plan adopted on February 13, 2003 the version which is the subject of this public hearing?

A: Yes.

Q: What was the next required step?

A: We had to file the Plan with the Wisconsin Commissioner for his review and approval.

Q: When did you do that?

A: We filed the current version of the mutual holding company plan with the Wisconsin Commissioner – along with various other documents required under the mutual holding company law – on February 13, 2003, the same day it was adopted by the board of directors.

Q: What was or is the next step?

A: The next step is for the Wisconsin Commissioner to hold a public hearing on the mutual holding company plan.

Q: That's what we're doing today?

A: That's correct.

Q: Did Milwaukee Mutual have any statutory obligations with respect to this public hearing?

A: We had to mail notice of the public hearing to each person who was a policyholder of Milwaukee Mutual on the date of our board resolution approving the mutual holding company plan, which was February 13, 2003. We also had to mail notice of the public hearing to the insurance commissioner of every jurisdiction in which Milwaukee Mutual is authorized to do business.
Q: When did the notices have to be mailed?
A: Not more than 60 days and not less than 10 days before the public hearing.

Q: When did Milwaukee Mutual mail its notices?
A: I understand our mailing and tabulation agent – Fifth Third Bank – mailed notices to most of our policyholders on February 28, 2003 and to the remaining policyholders on March 1, 2003. I understand our outside legal counsel mailed notices to the insurance commissioners – with the exception of the Wisconsin Commissioner – on February 28, 2003. The notice to the Wisconsin Commissioner was mailed by our outside legal counsel on March 4, 2003.

Q: What had to be included in the mailings?
A: The notice of the public hearing prepared by the Wisconsin Commissioner, a letter to policyholders from the Wisconsin Commissioner concerning the restructuring, and a copy of the mutual holding company plan.

Q: Were those items included in Milwaukee Mutual’s mailing?
A: Yes.

Q: Assuming the Wisconsin Commissioner approves the mutual holding company plan after this public hearing, what has to happen next?
A: The mutual holding company plan must be approved by a majority of the eligible policyholders of Milwaukee Mutual voting at an annual or special meeting held for that purpose.

Q: Has such a meeting been set?
A: Yes, by a Written Consent Action effective February 5, 2003, the board called for a special meeting of policyholders to take place at 10:00 a.m. on March 31, 2003 for purposes of voting on the Plan.

Q: Is the mutual holding company plan the only item which must be approved by the policyholders?
A: No. As a result of the restructuring, Milwaukee Mutual’s articles of incorporation will be amended. The current articles of incorporation provide that they cannot be amended absent the approval of two-thirds of the policyholders voting on such an amendment at a meeting of policyholders.

Q: Isn’t the two-thirds voting requirement overridden by the statutory requirement of a simple majority for purposes of approving the mutual holding company plan? After all, the Amended Articles are an exhibit to that Plan.
A: That might be the case, but we decided to play it safe and ask the policyholders to vote separately on the mutual holding company plan and the Amended Articles, and to enforce the separate and different voting thresholds applicable to each.

Q: **Who are the eligible policyholders entitled to vote at the special meeting of policyholders scheduled for March 31, 2003?**

A: For statutory purposes, anyone who was a policyholder on the date of the board resolution approving the Plan and who was still a policyholder on the record date established by the board for the vote is entitled to notice of, and to vote at, the special meeting. For purposes of Milwaukee Mutual’s current bylaws, anyone who was a policyholder on the record date is entitled to notice of, and to vote at, the special meeting.

Q: **Did the board set a record date for the special meeting?**

A: Yes, by the same Written Consent Action effective February 5, 2003, the board set February 13, 2003 as the record date.

Q: **So the record date and the resolution date are the same?**

A: That’s correct.

Q: **What are the timing requirements for the notice to eligible policyholders of the special meeting?**

A: For statutory purposes, notice must be mailed no later than 20 days before the special meeting. For purposes of Milwaukee Mutual’s current articles and bylaws, notice must be mailed no later than 30 days and no sooner than 50 days before the special meeting.

Q: **When did Milwaukee Mutual mail its notices?**

A: It was the same mailing that was sent for purposes of giving notice of the public hearing, so notices were sent to the vast majority of Milwaukee Mutual’s policyholders on February 28, 2003, and notices were sent to the remaining policyholders on March 1, 2003.

Q: **So you combined the two mailings into one?**

A: Yes. The mutual holding company statute expressly allows you to do that.

Q: **So what was mailed to the policyholders on February 28th and March 1st, 2003.**

A: Each packet contained the Wisconsin Commissioner’s letter to the policyholders regarding the restructuring, the notice of the public hearing, a letter to the policyholders from myself as President of Milwaukee Mutual regarding the restructuring, the notice of the special meeting, a Policyholder Information Statement – which included a copy of the current mutual holding company plan and its exhibits, including the proposed Amended Articles – and a proxy card for voting purposes with a prepaid return envelope.
Q: Was this packet and its enclosures reviewed and approved by the Wisconsin Commissioner before you mailed it?

A: Yes. Guenther Ruch of the Commissioner’s Office issued a letter on behalf of the Commissioner formally approving the package on February 21, 2003.

Q: If the eligible policyholders approve the mutual holding company plan and the Amended Articles at the meeting on March 31st, what is required next?

A: Immediately following the meeting, we will execute the necessary affidavits or certificates concerning the vote count and any other necessary matters, as well as complete and execute the articles and bylaws for Milwaukee Insurance and MIHC. That same day, we will file these documents with the Wisconsin Commissioner and ask for the new certificate of authority for Milwaukee Insurance and the certificate of incorporation for MIHC. Once those certificates are issued, the conversion is completed.

VIII. Satisfaction of Statutory Criteria

Q: Thank you. Moving on to my next line of questioning, I assume you are aware of the statutory requirement in Wisconsin that the proposed restructuring be approved by the Wisconsin Commissioner before it can go into effect?

A: Yes.

Q: And are you familiar with the statutory criteria which must be met before the Wisconsin Commissioner can approve the proposed restructuring?

A: Yes.

Q: The first statutory requirement is that the proposed restructuring not violate the law. Do you think that the proposed restructuring violates the law?

A: No. As I already explained, Milwaukee Mutual is carefully complying with all statutory and corporate procedures applicable to the proposed restructuring.

Q: Can you just reiterate the steps Milwaukee Mutual has taken to comply with the law in connection with the proposed restructuring?

A: Sure. First, the board of directors of Milwaukee Mutual adopted the current version of the mutual holding company plan on February 13, 2003 and filed that Plan with the Wisconsin Commissioner that same day, along with various other documents required under Chapter 644 of the Wisconsin Insurance Code.

Second, the board, through a unanimous written consent action, scheduled a special meeting of policyholders to take place on March 31, 2003 for purposes of voting on that Plan and established February 13, 2003 as the record date for purposes of determining which policyholders are entitled to receive notice of, and to vote at, that special meeting.
Third, there is language in Milwaukee Mutual’s current articles of incorporation requiring any amendments to those articles to be approved by a two-thirds majority of the policyholders voting at an annual or special meeting of policyholders concerning the same. One can argue that this corporate requirement is overridden by the statutory requirement that the Plan – which includes the amendments to the Company’s articles of incorporation proposed in connection with the Plan – be approved by a simple majority of the Company’s policyholders. But to avoid any argument to the contrary, the board of directors decided to ask the Company’s policyholders to vote separately on the mutual holding company plan and on the amendments to the Company’s articles of incorporation proposed in connection with the Plan, and also to enforce the different voting thresholds governing approval of each.

Fourth, acting through a mailing agent and its outside legal counsel, Milwaukee Mutual mailed the requisite notices of the public hearing and the special meeting of policyholders to all eligible policyholders of Milwaukee Mutual and to the insurance commissioners of every jurisdiction in which Milwaukee Mutual is licensed to do business. The substance of these notices was reviewed and approved by the OCI before they were mailed. As authorized under Section 644.07(8) of the Wisconsin Insurance Code, both notices were sent to the eligible policyholders in a joint mailing sent on February 28, 2003 and March 1, 2003. The notices were sent to the relevant insurance commissioners on February 28, 2003 and – in the case of the Wisconsin Commissioner – March 4, 2003. In each case, the notices complied with the minimum notice requirements of both the Wisconsin Insurance Code and the current articles of incorporation and bylaws of Milwaukee Mutual.

Finally, Milwaukee Mutual has retained the services of a tabulation agent, who will receive and tabulate all proxies and ballots submitted in connection with the Plan pursuant to voting protocols established by the Company and approved by the OCI. The tabulation agent will certify the results of the vote to the Company, and the Company will file an affidavit with the OCI attesting to the same.

**Q:** The second statutory requirement is that the Plan be fair and equitable to the policyholders. Do you think the proposed restructuring is fair and equitable to the policyholders of Milwaukee Mutual?

**A:** Yes I do.

**Q:** Can you summarize the basis for your opinion in this regard?

**A:** Sure. First, I would reiterate that the contractual rights and obligations of Milwaukee Mutual’s policyholders – and by this I mean the premiums, policy terms, insurance benefits and company services afforded to or required of the policyholders under their respective policies – will not change as a result of the Plan, except that in the future they will be provided or required by a stock company as opposed to a mutual company.
Second, I would point out that, while the current equity rights in Milwaukee Mutual enjoyed by the policyholders of Milwaukee Mutual will be extinguished as a result of the Plan, these equity rights will be replaced by identical equity rights in Mutual Insurers Holding Company, the mutual holding company created as a result of the Plan. Mutual Insurers Holding Company will in turn initially own 100% of the stock of Milwaukee Insurance Company, the successor to Milwaukee Mutual. In my opinion, this is a fair and equitable exchange of equity rights for the policyholders of Milwaukee Mutual.

Finally, I note the Plan cannot go into effect unless the Plan and the Amended Articles of incorporation proposed in connection with the Plan are approved by the requisite majorities of the Company’s eligible policyholders upon due notice of a special meeting of policyholders called for that purpose. The notice that was given to the policyholders in this regard included a detailed Policyholder Information Statement – reviewed and approved by the Wisconsin Commissioner – explaining the motivations for and the technical details of the proposed restructuring. This Policyholder Information Statement also set forth in detail the various voting considerations, risks, alternatives and other matters reasonably to be considered by the policyholders in deciding if and how to vote on the Plan.

**Q:** The third and final statutory requirement is that the proposed restructuring not be contrary to the interests of the policyholders or of the general public. In your opinion, is Milwaukee Mutual’s proposed restructuring contrary to the interests of the policyholders of Milwaukee Mutual or the general public?

**A:** No.

**Q:** Again, can you summarize the basis for your opinion in this regard?

**A:** Yes. There are several grounds for my opinion. The first couple that come to mind are very practical considerations, such as the Company fully expects that its A.M. Best rating will not change as a result of the restructuring, and the Company’s policyholder surplus will remain more than sufficient to cover its current and future liabilities.

The other grounds are more strategic in nature. For example, as I described earlier, there are many challenges facing Milwaukee Mutual in the U.S. property and casualty insurance industry. The board of directors of Milwaukee Mutual believes that the most successful insurance companies in the future will be those with the greatest structural, financial and strategic flexibility to respond to changes in the marketplace. I believe such flexibility is critical to achieving profitable, long-term growth, and in today’s competitive environment, profitable, long-term growth is the most reliable means of ensuring the future safety and soundness of Milwaukee Mutual as an insurance enterprise. Maximizing Milwaukee Mutual’s flexibility in this regard – which is what I believe the conversion to a mutual holding company structure will achieve – is the very essence of acting in the best interests of Milwaukee Mutual’s policyholders and the public in general.
I also believe the current situation is actually contrary to the interests of the policyholders and the public. Milwaukee Mutual’s current structure as a mutual insurance company – while desirable from the standpoint of maintaining the Company’s culture and reputation as a policyholder-focused organization – nonetheless hinders the Company’s prospects for profitable, long-term growth, particularly with respect to raising additional capital and growing through acquisitions of other insurance companies or non-insurance entities. Any impediment to growth and profitability – in today’s difficult and competitive environment – is cause for significant concern, viewed either from the perspective of the policyholders or of the public at large.

Finally, I believe the proposed restructuring is preferable to the other alternative of demutualizing the Company. Converting to a mutual holding company structure allows the Company to obtain the capital-raising and acquisitional flexibility of a stock company while maintaining the organization’s culture and history as a mutual entity dedicated to serving the interests of the policyholders first. Demutualizing the Company provides such flexibility at the price of the Company’s mutuality, an undesirable option in light of the board’s belief that mutuality played an important role in the historical success of the Company.

So to sum up, my view is that Milwaukee Mutual’s proposed restructuring is not only not contrary to the interests of the policyholders or the public, it is actually in the best interests of both, because it maximizes the Company’s ability to achieve profitable growth within the context of remaining a mutual enterprise.

IX. Closing Remarks

Q: Thank you, Mr. Doucette. I have no further questions, except to ask whether you have current proxy tabulations that you can share with us concerning policyholder approval of the Plan and the Amended Articles?

A: Yes I do. As of March 18, 2003, there are ___ votes in favor of the Mutual Holding Company Plan and ___ votes against. As of the same date, there are ___ votes in favor of the Amended Articles and ___ votes against.

Q: Thank you. Would you like to make any closing remarks?

A: I’d just like to take a moment to thank the Wisconsin Commissioner and his staff for their hard work throughout this lengthy and important process. Milwaukee Mutual as a company, and I personally, very much appreciate the dedication and professionalism which you exhibited throughout this process and which is characteristic of the manner in which you exercise your authority as regulators of the Wisconsin insurance industry. Thank you.