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March 18, 2003

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CLIENT/MATTER NUMBER
055045-0117

Mr. Daniel R. Doucette
Milwaukee Mutual Insurance Company
250 North Sunny Slope Road, #250
Brookfield, WI 53005

Re: Federal Income Tax Consequences of the Second
Amended and Restated Mutual Holding Company Plan

Est. #	10
Date	19 Mar. 2003
Case	01-C27045
Ins. Comm.	

Dear Mr. Doucette:

You have asked our opinion of the Federal income tax consequences to Milwaukee Mutual Insurance Company ("MMIC") and its policyholders ("Policyholders") of the transactions contemplated in the Second Amended and Restated Mutual Holding Company Plan (the "Plan") adopted by MMIC on February 13, 2003.¹ Specifically, you have asked our opinion with respect to whether any of MMIC, Policyholders, or the mutual holding company formed as part of the Plan will recognize gain or loss in connection with any of the transactions that comprise the Plan.

FACTS AND ASSUMPTIONS

Our opinion is based on the following facts and assumptions:

Background. MMIC is a mutual property and casualty insurance company organized under Chapter 611 of the Wisconsin Insurance Code and taxable under section 831 of the Internal Revenue Code of 1986, as amended (the "Code"). As a mutual insurance company, MMIC is an incorporated non-stock company controlled by Policyholders. Specifically, Policyholders own all of the proprietary interests and rights in MMIC ("Equity Rights"). These Equity Rights include (i) the right to vote on significant corporate actions, (ii) the right to elect directors, (iii) the right to receive all assets of MMIC in excess of its liabilities upon the liquidation or dissolution of MMIC subject to Wis. Stat. § 645.72(4)(b), (iv) right to receive the value of the Equity Rights under Wisconsin law upon the conversion of MMIC from a mutual insurer to a stock insurer, and (v) certain other proprietary rights conferred under Wisconsin law, MMIC's Articles of Incorporation, MMIC's Bylaws and MMIC's historical practices. These Equity Rights are inseparable from the policies owned by the Policyholders.

¹ Unless otherwise indicated, this Opinion incorporates all of the terms of the Plan as underlying facts and assumptions.

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After extensive evaluation, MMIC management has concluded that MMIC can achieve significant advantages by converting to a mutual holding company structure. Specifically, among other things, MMIC management believes that adoption of a mutual holding company structure will:

1. allow MMIC to merge with other mutual organizations while preserving the separate insurance operations and "brands" of each organization as stock subsidiaries of the mutual holding company;
2. maximize MMIC's ability to merge, acquire or affiliate with non-insurers without formal regulatory approval;
3. maximize MMIC's options and flexibility to merge, acquire or affiliate with other mutual, mutual holding or stock companies, thereby achieving efficiencies of scale and diversification of assets; and
4. allow MMIC to obtain the foregoing benefits while retaining its "mutuality" through the creation of a mutual holding company, thereby preserving MMIC's historical focus on the interests and benefits of its current and future Policyholders.

The Restructuring. Consequently, on February 13, 2003, MMIC adopted the Plan. The Plan provides for the adoption of a mutual holding company structure through the following steps (the "Restructuring"): (i) MMIC will form Mutual Insurers Holding Company, a Wisconsin mutual holding company organized under Chapter 644 of the Wisconsin Insurance Code ("MIHC"); (ii) MMIC will convert to Milwaukee Insurance Company, a Wisconsin stock property and casualty insurance corporation ("Converted MMIC"); (iii) Converted MMIC will issue 100% of its initial shares of voting stock to MIHC; (iv) Policyholders who are members of MMIC on the effective date of the Restructuring will become members of MIHC; (v) all Equity Rights in MMIC on the effective date of the Restructuring will be extinguished and replaced with substantially identical Equity Rights in MIHC; and (vi) every MMIC policy in force on the effective date of the Restructuring will become a policy of Converted MMIC containing the same terms and conditions as those contained in the Policy immediately prior to the effective date of the Restructuring, except for the Equity Rights in MMIC extinguished as a result of the Restructuring. No other consideration will be exchanged in the Restructuring.

Following the Restructuring, Converted MMIC will continue in the same business that MMIC conducted prior to the Restructuring, and under Wisconsin law, will be treated as the same corporation that existed as MMIC prior to the Restructuring. Immediately after the Restructuring, MIHC and/or Converted MMIC will continue to own substantially all of the assets held by MMIC prior to the Restructuring.

OPINION

Based on the facts set forth above, under the Code, as amended through the date of this Opinion, and the Treasury regulations, case law and other relevant authorities in existence as of

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the date of this Opinion, it is our opinion that none of Policyholders, MIHC, MMIC, or Converted MMIC will recognize gain or loss in connection with the Restructuring.

ANALYSIS

Two steps in the Restructuring involve the transfer of property in to, or out of, a corporate entity: (i) the conversion of MMIC from a mutual insurance company to a stock insurance company (the "Demutualization") and (ii) the transfer by Policyholders of the stock of Converted MMIC to MIHC in exchange for all of the Equity Rights in MIHC. These transfers create the potential for taxation of Policyholders and/or MMIC, Converted MMIC or MIHC.

The Demutualization. For purposes of Code section 368(a)(1)(E), a "recapitalization" is generally described as a "reshuffling of a capital structure, within the framework of an existing corporation." *Helvering v. Southwest Consolidated Corp.*, 315 U.S. 194, 202 (1942). See also Reg. § 1.368-2(c). A transaction that constitutes a recapitalization will qualify for tax-free treatment under Code section 368(a)(1)(E) only if it is undertaken for valid non-Federal income tax business purposes and the recapitalized company continues to carry on its historic business. Reg. §§1.368-1(b) and (d); Reg. §1.368-2(g)².

It is well settled that the proprietary interest of a policyholder of a mutual insurer will be treated as an equity interest in the insurer for purposes of the reorganization provisions of the Code. See Rev. Rul. 2003-19, 2003-7 I.R.B. 1; Rev. Rul. 69-3, 1969-1 C.B. 103 and Rev. Rul. 71-233, 1971-1 C. B. 113. Converted MMIC is treated as the same corporation under state law following the Demutualization, and it will continue to operate MMIC's historic business. Based upon the facts outlined above, MMIC's management adopted the Plan for specific, legitimate non-Federal income tax business purposes. See, e.g. Rev. Rul. 77-22, 1977-1 C. B. 91; Rev. Rul. 83-114, 1983-2 C. B. 66; Rev. Rul. 85-122, 1985-2 C. B. 118; Rev. Rul. 76-527, 1976-2 C. B. 103 (all involving restructurings to provide expansion of access to credit or equity funds including through merger). Consequently, the exchange of Equity Rights in MMIC for stock of new MMIC will constitute a recapitalization. Code Section 368(a)(1)(E); Reg. § 1.368-1(e)(1); Rev. Rul. 2003-19. See also, e.g., PLR 200224026 (June 14, 2002), PLR 200213003 (March 29, 2002), PLR 200213002 (March 29, 2002), PLR 200112014 (Dec. 14, 2000), PLR 200111013 (March 19, 2000), PLR 199926044 (July 7, 1999), PLR 9835039 (June 2, 1998), PLR 9834019 (May 22, 1998), PLR 9828021 (June 26, 1998), PLR 9745013 (August 7, 1997) (collectively, the "Private Rulings").³

² Note that the "continuity of interest" requirement, which is a requirement for other types of tax-free reorganizations, does not apply to section 368(a)(1)(E) recapitalizations. See, e.g. *Hickock v. Commissioner*, 32 T. C. 80 (1959), acq.; Rev. Rul. 77-415, 1977-2 C. B. 311; Rev. Rul. 77-479, 1977-2 C. B. 119.

³ While private letter rulings can only be relied upon by the parties requesting the ruling and cannot generally be cited as authority in court proceedings (See Code section 6110(j)), they provide valuable evidence of the Internal Revenue Service's (the "Service's") position with respect to the issues addressed in the rulings. This point is especially true where the Service has issued a series of consistent rulings over time on the same issue.

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Since the Demutualization will be treated as Code section 368(a)(1)(E) recapitalization, no gain or loss will be recognized by MMIC⁴ or Policyholders on the exchange of the Policyholders' Equity Rights in MMIC for the stock of new MMIC. Code sections 354(a)(1) and 1032(a); Private Rulings.

A Policyholder's basis in the stock of new MMIC will be the same as the Policyholder's basis in its Equity Rights in MMIC (*i.e.*, zero). Code section 358 (a); Rev. Rul. 71-233, *supra*; Rev. Rul. 74-277, 1974-1 C.B. 88; Private Rulings. The holding period of the MMIC stock received by a Policyholder will include the period during which the Policyholder held the Equity Rights in MMIC. Code section 1223(1); Private Rulings.

Similarly, the Demutualization will have no effect on MMIC's tax attributes (with the exception of its characterization as a mutual insurance company). More specifically, MMIC's asset basis and holding periods, net operating loss carryovers (if any), earnings and profits, and accounting periods and methods will not be changed as a result of the Demutualization. Code section 381; Private Rulings.

Exchange of Converted MMIC Stock for MIHC Equity Rights. A transfer of property to a corporation qualifies for tax-free treatment under Code section 351 if the transferors own 80 percent or more of the vote and value of the stock of the transferee immediately following the transfer, and the exchange is motivated by a valid business purpose. *See also* Reg. § 1.351-1. Here, the Equity Rights in MIHC received by Policyholders in exchange for the stock of Converted MMIC represent all of the voting rights and rights to the equity value of MIHC. Accordingly, since there is a legitimate business purpose for the transfer, the transfer will qualify as a valid Code section 351 contribution. Consequently, no gain or loss will be recognized by Policyholders or MIHC on the exchange of the MMIC stock for the MIHC Equity Rights. Code sections 351(a) and 1032(a)⁵. *See also* Rev. Rul. 2003-19 (holding that transaction qualifies for Code section 351 treatment as well as treatment as a reorganization under Code section 368(a)(1)(B)) and Private Rulings.

A Policyholder's basis in the Equity Rights in MIHC received in exchange for the MMIC stock will be the same as the Policyholder's basis in the MMIC stock transferred in the Code section 351 exchange. Code section 358(a); Rev. Rul. 71-233; Rev. Rul. 74-277; Private Rulings. A Policyholder's holding period for the Equity Rights in MIHC will include the Policyholder's holding period for the MMIC stock which, in turn, encompasses the Policyholder's holding period for the equity rights in MMIC transferred as part of the Demutualization. Code section 1223(1); Private Rulings.

⁴ Note that Reg. § 1.368-3 imposes certain income tax filing and record keeping requirements on MMIC.

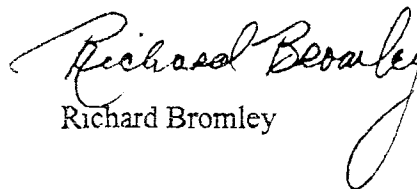
⁵ Note that Reg. § 1.351-3(a) imposes certain income tax filing and record keeping requirements on policyholders who exchange stock of Converted MMIC for MIHC Equity Rights.

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MIHC will take a carryover (zero) basis in the stock of MMIC. Code section 362(a); Private Rulings. MIHC's holding period for the MMIC stock will include the Policyholders' holding period for the stock discussed above. Code section 1223(2); Private Rulings.

Sincerely,



Richard Bromley

RB:JB