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 Insurance Commissioner of the State of California
 13 in his Capacity as Conservator of
 Majestic Insurance Company
 14

15 SUPERIOR COURT FOR THE STATE OF CALIFORNIA
 16 CITY AND COUNTY OF SAN FRANCISCO

FILED BY FAX

18 DAVE JONES, INSURANCE
 COMMISSIONER OF THE STATE OF
 19 CALIFORNIA,

20 Applicant,

21 v.

22 MAJESTIC INSURANCE COMPANY, and
 DOES 1-50, inclusive,

23 Respondents.
 24

Case No. CPF-11-511261

**DECLARATION OF STEPHEN UNGAR IN
 SUPPORT OF INSURANCE COMMISSIONER
 DAVE JONES' MOTION FOR ORDER
 APPROVING REHABILITATION PLAN FOR
 MAJESTIC INSURANCE COMPANY**

**Date: June 2, 2011
 Time: 9:30 a.m.
 Dept.: 301
 Judge: Hon. Peter J. Busch**

EXEMPT from filing fees per Govt. Code § 6103

DECLARATION OF STEPHEN UNGAR

I, Stephen Ungar, hereby declare and state as follows:

1. I am the General Counsel of AmTrust Financial Services, Inc. ("AmTrust"). I make this declaration in response to the Objections to the Proposed Rehabilitation Plan submitted by the New York Workers' Compensation Board (the "WCB") and in further support of the motion of Dave Jones, Insurance Commissioner of the State of California, in his capacity as Conservator (the "Conservator") of Majestic Insurance Company ("Majestic") for an order approving and adopting the Rehabilitation Plan.
2. Pursuant to the Rehabilitation Plan, AmTrust, through "A" rated subsidiaries, will assume (i) all of Majestic's workers' compensation policyholder liabilities, including its New York policyholder liabilities, (ii) certain significant office, furniture and equipment lease obligations, which, at present, exceed \$10 million, and (iii) offer employment to the majority of Majestic's current employees.
3. In exchange, AmTrust will receive (i) cash and invested assets equal to Majestic's reserves for its policyholder liabilities (which the California Department of Insurance has found are deficient by \$46 million) plus \$26 million and (ii) the renewal rights to Majestic's workers' compensation business. For the sake of clarity, AmTrust has agreed to assume Majestic's policyholder liabilities for \$20 million less than Majestic's total policyholder liabilities as determined by the California Department of Insurance.
4. AmTrust believes its participation in the Majestic Rehabilitation Plan provides it the opportunity to establish a presence in the California workers' compensation market that will both serve the public and be profitable.

5. However, AmTrust's participation in the Rehabilitation Plan has its risks, the most prominent of which is the potential adverse development on the business assumed from Majestic. The risk of adverse development is real. The California workers' compensation market, in general, and Majestic, in particular, have experienced adverse development in recent years.

6. The WCB objects to the Rehabilitation Plan, in part, because it does not require AmTrust to provide compensation to the WCB for claims it has made against Majestic arising out of the failure of New York group self-insured trusts managed by affiliates of Majestic. Regardless of the merits of these claims, they do not arise under insurance policies and, therefore, are general creditor claims. Pursuant to the Rehabilitation Plan, AmTrust is assuming only Majestic's policyholder liabilities and is not assuming any claims which would be general creditor claims in a liquidation proceeding. To the extent that the WCB, as successor to New York group self-insured trusts, has claims under excess policies issued to those trusts, the claims would be assumed by AmTrust.

7. This is not to say that the Rehabilitation Plan does not benefit general creditors. It clearly does. Because of AmTrust's assumption of the risk of adverse development and its assumption of certain Majestic leases, which will eliminate \$10 million in potential liabilities, it is much more likely that the Majestic estate will have assets to distribute to general creditors. In addition, AmTrust's assumption of Majestic's policyholder claims will significantly reduce the Conservator's administrative burden and expense.

8. The Rehabilitation Plan treats the WCB the same as any other creditor. However, the WCB appears to believe that AmTrust should be required to assume Majestic's alleged liability for the failure of the New York group self-insured trusts, or, at least, its alleged liability

for the value of the proposed settlement of the WCB's claims. While AmTrust is sympathetic to the challenges facing the WCB in addressing the failure of the New York group self-insured trusts, AmTrust has no responsibility for the failure of the trusts. It appears that the WCB is opposing the Rehabilitation Plan, which would improve its position both as a policyholder and general creditor, to compel AmTrust to contribute more to the solution of its group self-insured trust problem. It is a classic case of one cutting off his nose to spite his face.

9. In light of the foregoing, the WCB's contention that AmTrust and the Conservator "have conspired to reject any meaningful settlement compensation" has absolutely no merit. All that has happened is that the WCB has sought AmTrust's voluntary participation in its efforts to resolve its group self-insured trust problem and AmTrust has not agreed to do what the WCB would like it to do.

10. The WCB further contends, without demonstrating how, that the Rehabilitation Plan will unjustly enrich AmTrust. On the contrary, the Rehabilitation places the risk of adverse development of Majestic's policyholder liabilities on AmTrust and assures that there will be more assets available for general creditors.

11. Furthermore, if the Conservator's motion for approval and adoption of the Rehabilitation Plan is delayed or denied, the Conservator's, Majestic's and AmTrust's efforts to maintain the confidence of Majestic's broker and agent network, which have succeeded to date, will be for naught and liquidation will be Majestic's only option.

12. For the reasons set forth above and in the Conservator's response to the WCB's objection, AmTrust respectfully requests that the WCB's objection be denied and the Conservator's motion for an order approving and adopting the Rehabilitation Plan.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed on May 26, 2011 at New York, New York.



Stephen Ungar