

REPORT OF QUALIFYING EXAMINATION
OF THE
AMT HOME PROTECTION COMPANY
AS OF
AUGUST 28, 2013

Filed September 4, 2013

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San Francisco, California
August 28, 2013

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, a qualifying examination was made of

AMT HOME PROTECTION COMPANY

(hereinafter also referred to as the Company). The Company's statutory home office is located at 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833. Its executive office is located at 2200 Highway 121, Suite 100, Bedford, Texas 76021.

SCOPE OF EXAMINATION

This examination was conducted to determine if the Company's financial condition meets the minimum statutory requirements prescribed by California Insurance Code Section 12750 to transact business as a home protection company in the State of California.

The qualifying examination included a review of the Company's financial statements and capital structure as of August 28, 2013.

COMPANY HISTORY

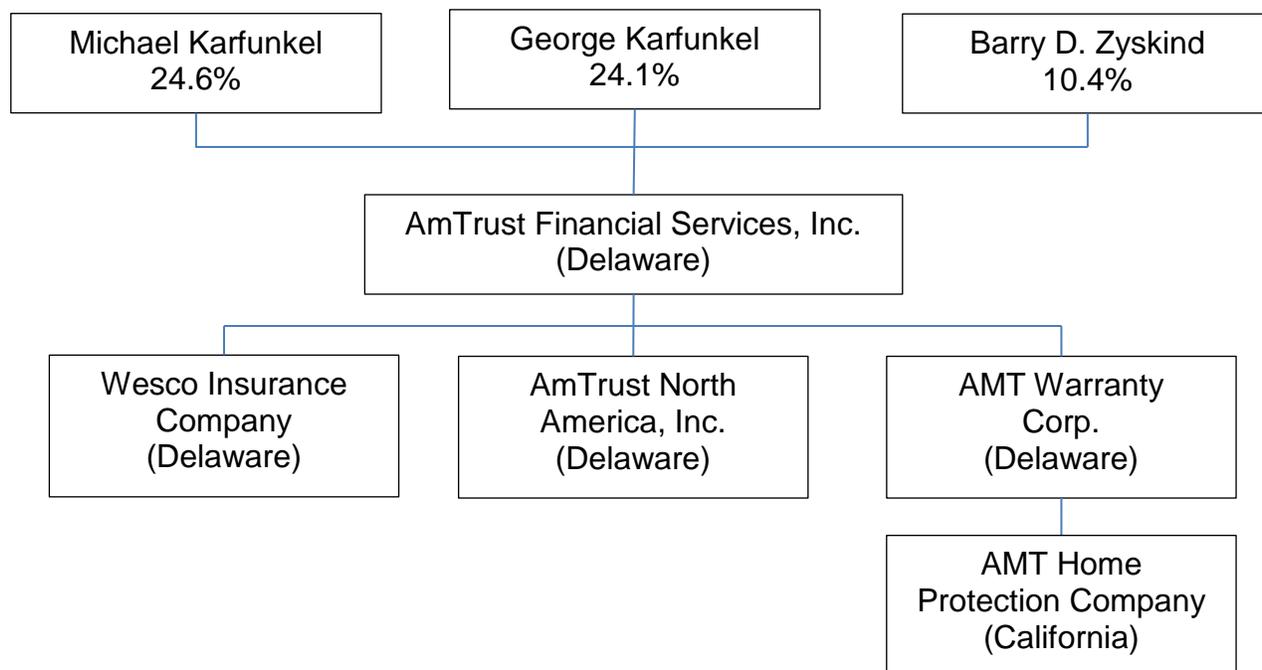
The Company was incorporated in the State of California on March 12, 2012. The Company filed with the Insurance Commissioner of the State of California its application for a permit authorizing it to sell and issue an aggregate amount not to exceed one

thousand (1,000) shares of its \$2 par value capital stock to its parent, AMT Warranty Corp., a Delaware corporation, at a purchase price of eight hundred dollars (\$800) per share for an aggregate cash consideration of eight hundred thousand dollars (\$800,000). The purpose of the sale and issuance is to capitalize the Company in order to receive a Certificate of Authority authorizing it to transact business as a home protection company.

On June 21, 2012, the Company filed its Application for an Organizational Securities Permit, which was subsequently amended on January 14, 2013, to the California Department of Insurance (CDI). On February 28, 2013, the CDI issued Organizational Securities Permit Number 2012-00827 authorizing the Company to sell and issue its shares of stock to AMT Warranty Corp. in accordance with the above application. The stock permit contains a number of conditions that the Company must comply with for the issuance and the maintenance of a Certificate of Authority.

MANAGEMENT AND CONTROL

The Company is part of a holding company group and a direct subsidiary of AMT Warranty Corp. which is ultimately controlled by the beneficial owners of the common stock of the parent company, AmTrust Financial Services Inc., a Delaware corporation. Individuals that own more than 10% of the common stock are Michael Karfunkel, Chairman of the Board of AmTrust Financial Services, Inc. (24.6%), George Karfunkel, Director of AmTrust Financial Services, Inc. (24.1%), and Barry D. Zyskind, President and Chief Executive Officer of AmTrust Financial Services, Inc. (10.4%). The following is an abridged organizational chart depicting the relationship of the Company within the holding company system as of August 28, 2013:



The directors and officers duly elected and serving as of August 28, 2013, are shown as follows:

Directors

Name and Residence

Principal Business Affiliation

Stuart Hollander
Monsey, New York

Executive Vice President
AmTrust Financial Services, Inc.

Harry Schlachter
Brooklyn, New York

Senior Vice President Finance/Treasurer
AmTrust Financial Services, Inc.

Stephen Ungar
Great Neck, New York

General Counsel and Secretary
AmTrust Financial Services, Inc.

Principal Officers

| <u>Name</u> | <u>Title</u> |
|------------------|--------------------------|
| Sean Stapleton | President |
| Steve Knapp | Chief Financial Officer |
| Stuart Hollander | Executive Vice President |
| Stephen Ungar | Secretary |
| Harry Schlachter | Treasurer |
| Jeffrey Johnson | Vice President |
| Barry Moses | Vice President |
| Susan Linder | Assistant Secretary |

Management Agreements

Intercompany Management Agreement: The Company plans to enter into an intercompany management agreement with the ultimate parent of the Company, AmTrust Financial Services, Inc. Under the terms of the proposed agreement, AmTrust Financial Services, Inc. will provide services that include legal, financial and other professional services necessary to establish the Company's internal office procedures, as well as its accounting and financial reporting operations. The services will be provided by employees of AmTrust Financial Services, Inc. as the Company does not currently have employees.

Administrative Services Agreement: The Company plans to enter into an administrative services agreement with an affiliate, AmTrust North America, Inc. Under the terms of the proposed Administrative Services Agreement, AmTrust North America, Inc. will perform certain processing functions pertaining to the administration of certain warranty contracts. Services provided in the agreement include regulatory, claims review and underwriting. The Company will have the ultimate and final authority regarding underwriting and determining whether to pay or reject claims payments.

CORPORATE RECORDS

The Articles of Incorporation as filed with the Secretary of State and the Bylaws submitted to the California Department of Insurance were reviewed. No discrepancies were noted with respect to these items.

TERRITORY AND PLAN OF OPERATION

The Company has applied for a Certificate of Authority to transact business as a home protection company in the State of California. The Company intends to operate as a direct writer, and plans to introduce its home protection products to California homeowners through utility partners, affinity groups and through other strategic relationships with managing general agencies. The proposed home protection service contracts will cover cooling systems; electrical emergency and breakdown; heating system repairs; heating and cooling system repairs; interior gas lines; interior plumbing and drainage; sewer/septic lines; and water service lines. The Company's claims obligations are insured under a service contract reimbursement insurance policy issued by its affiliate, Wesco Insurance Company. Claims adjusting, enrollment, customer support and payment administration will be delegated to qualified third party administrators or managing general agencies.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of August 28, 2013

Statement of Statutory Net Worth as of August 28, 2013

Statement of Financial Condition
as of August 28, 2013

| <u>Assets</u> | <u>Net Admitted Assets</u> | <u>Notes</u> |
|---|------------------------------------|--------------|
| Current assets: | | |
| Cash in bank and on-hand | \$ 800,000 | (1) |
| Total current assets | <u>\$ 800,000</u> | |
| Total assets | <u>\$ 800,000</u> | |
| <u>Liabilities, Capital and Surplus</u> | | |
| Liabilities: | | |
| Current liabilities | \$ 0 | |
| Noncurrent liabilities | <u>0</u> | |
| Total liabilities | 0 | |
| Stockholders' Equity: | | |
| Common capital stock | \$ 2,000 | |
| Additional paid-in and contributed surplus | <u>798,000</u> | |
| Total capital and surplus | <u>\$ 800,000</u> | |
| Total liabilities, capital and surplus | <u>\$ 800,000</u> | |

Statement of Statutory Net Worth
as of August 28, 2013

| <u>Statutory Net Worth</u> | | <u>Notes</u> |
|--------------------------------|---------------|--------------|
| Statutory Net Worth | \$ 800,000 | |
| Required Statutory Net Worth | <u>40,000</u> | |
| Statutory Net Worth Deficiency | 0 | (2) |

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash in Banks and On-Hand

As of August 28, 2013, \$800,000 in cash was confirmed at Wells Fargo Bank, N.A. 600 California Street, San Francisco, California, account number 25687900. The funds are held in the name of the Company and are free, clear and unencumbered.

(2) Statutory Net Worth

Pursuant to California Insurance Code (CIC) Section 12750, the Company is required to maintain a net worth of \$40,000, of which \$20,000 shall be consisted of paid-in capital. Paid-in capital was \$798,000. CIC Section 12750(b)(i) defines net worth as the excess of admitted assets over all liabilities and required reserves. As of August 28, 2013, the Company reported a net worth of \$800,000 and meets the minimum net worth and paid-in capital requirements of CIC Section 12750.

AFFIDAVIT

Attached as Exhibit A is the Affidavit executed by Barry W. Moses, Vice President, attesting to the assets, liabilities and capital of the Company as of the examination date.

CONCLUSION

The undersigned has verified the financial position of the Company as of August 28, 2013, and has reviewed its application for a Certificate of Authority.

The Company has now complied with the financial condition of its Organizational Permit, and if all other requirements have been met, there is no objection to the issuance of a Certificate of Authority.

Respectfully submitted,

Jason Ng, CFE
Examiner-In-Charge
Insurance Examiner
Department of Insurance
State of California

EXHIBIT A