National Interstate CORP
Form DEFM14A
October 11, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material under Rule 14a-12

NATIONAL INTERSTATE CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

Title of each class of securities to which transaction applies:

(1) Common shares, $0.01 par value per share

Aggregate number of securities to which transaction applies:

(2) 19,991,694 common shares; 180,000 common shares issuable pursuant to the exercise of outstanding options with exercise prices below $32.00; and 64,503 restricted common shares outstanding under National Interstate Corporation's Long Term Incentive Plan.

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(3) The maximum aggregate value was determined based upon the sum of: (1) 9,727,191 common shares multiplied by $32.00 per share (excluding common shares owned by subsidiaries of AFG); (2) stock options to purchase 180,000 common shares with an exercise price per share below $32.00 multiplied by $7.78 per share (the difference between $32.00 and the weighted average exercise price of $24.22 per share); and (3) 64,503 restricted common shares multiplied by $32.00 per share. In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying the sum calculated in the preceding sentence by 0.0001007.

Proposed maximum aggregate value of transaction: $314,734,608

(4)

Total fee paid: $31,694

(5)

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

4059 Kinross Lakes Parkway
Richfield, Ohio 44286

Notice of Special Meeting of Shareholders

and Proxy Statement
To Be Held On November 10, 2016

Dear Shareholder:

You are cordially invited to attend a special meeting of the shareholders of National Interstate Corporation, an Ohio corporation (the "Company"), which we will hold at 4059 Kinross Lakes Parkway, Richfield, Ohio 44286, on November 10, 2016, at 10:00 a.m., Eastern time.

At the special meeting, holders of our common shares, par value $0.01 per share, will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated July 25, 2016, by and among Great American Insurance Company, an Ohio corporation ("Parent"), GAIC Alloy, Inc., an Ohio corporation and wholly-owned subsidiary of Parent ("Merger Sub," and together with Parent, "Purchasers"), and the Company, as amended by Amendment No. 1, dated as of August 15, 2016 (the "Merger Agreement"). Pursuant to the Merger Agreement, Merger Sub will be merged with and into the Company, the separate corporate existence of Merger Sub will cease and the Company will continue its corporate existence under Ohio law as the surviving corporation in the merger. Parent, which currently owns approximately 51% of the total number of outstanding shares of common stock of the Company, will own 100% of the equity interests of the Company following the transactions contemplated by the Merger Agreement.

Upon completion of the merger, each common share issued and outstanding at the effective time of the merger (other than common shares (a) held by Parent or Merger Sub, (b) held by the Company in treasury or any wholly-owned subsidiary of the Company, or (c) held by holders of common shares who have properly demanded dissenters' rights, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63, will be cancelled and converted into the right to receive $32.00, in cash, without interest and less any required withholding taxes. In addition, the Merger Agreement provides that the Company will declare a special cash dividend of $0.50 per common share payable immediately prior to the effective time of the merger to all shareholders of record as of such time (including Parent).

The proposed merger is a "going private transaction" under the rules of the Securities and Exchange Commission. If the merger is completed, the Company will become a privately held company, wholly-owned by Parent, an Ohio corporation and a direct wholly-owned subsidiary of American Financial Group, Inc.

The Board of Directors of the Company, with the exception of directors Joseph E. (Jeff) Consolino, Ronald J. Brichler, Gary J. Gruber and Donald D. Larson (to whom we sometimes refer in this proxy statement as the "Affiliated Directors"), who are senior executives of Parent or American Financial Group, Inc., the parent corporation of Parent ("AFG") and who recused themselves from such determinations, and based in part on the unanimous recommendation of a special committee of independent directors, for purposes of serving on the special committee, that was established to evaluate and negotiate a potential transaction (as described more fully in the enclosed proxy statement), has unanimously (a) determined that the Merger Agreement and the business combination and related transactions contemplated thereby are fair and in the best interest of the Company and its shareholders other than Purchasers and their affiliates (assuming for this purpose that the Company and its subsidiaries are not affiliates of Purchasers and that officers and directors of the Company are affiliates of the Company), to whom we sometimes refer in this proxy statement as the "Public Shareholders", (b) approved the Merger Agreement and the business combination and related transactions contemplated thereby, and (c) resolved to recommend that the Company's shareholders approve the adoption of the Merger Agreement and the business combination and related transactions contemplated thereby. The special committee made its determination after consultation with its independent legal and financial advisors and consideration of a number of factors, and the Board of Directors (with the Affiliated Directors recusing themselves) made its recommendation after consultation with its legal and financial advisors and consideration of a number of factors, including the recommendation of the special committee. ***The Board of Directors (other than the Affiliated Directors, who recused themselves from the determination related to such recommendation) recommends unanimously that you vote "FOR" the adoption of the Merger Agreement and the approval of the business combination and the related transactions contemplated thereby and "FOR" the adjournment of the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement.***

Approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of a majority of the votes cast at the special meeting, whether or not a quorum is present.

Pursuant to rules of the Securities and Exchange Commission, you also will be asked to vote at the special meeting on an advisory (non-binding) proposal to approve specified compensation that may become payable to the named executive officers of the Company in connection with the merger, as described in the proxy statement. ***The Board of Directors (other than the Affiliated Directors, who recused themselves from the determination related to such recommendation) also recommends unanimously that the shareholders of the Company vote "FOR" the advisory (non-binding) proposal to approve specified compensation that may become payable to the named executive officers of the Company in connection with the Merger.***

The enclosed proxy statement describes the Merger Agreement (a copy of which is attached to the enclosed proxy statement as Annex A-1), the merger and related agreements and provides specific information concerning the special meeting. In addition, you may obtain information about us from documents filed with the Securities and Exchange Commission. We urge you to read the entire proxy statement, including the annexes and the documents referred to or incorporated by reference in the proxy statement, carefully, as it sets forth the details of the Merger Agreement and other important information related to the merger.

Your vote is very important, regardless of the number of common shares you own. The merger cannot be completed without the approval of at least (i) the holders of common shares entitled to at least two-thirds of the voting power of the Company and (ii) a majority of the outstanding common shares owned by the Public Shareholders. Pursuant to our articles of incorporation, common shares are entitled to one vote per share. In addition, the Merger Agreement makes the approval by shareholders of the proposal to adopt the Merger Agreement a condition to the parties' obligations to consummate the merger. If you fail to vote on the proposal related to adoption of the Merger Agreement, the effect will be the same as a vote against the adoption of the Merger Agreement.

If you own common shares of record, you will find enclosed a proxy and voting instruction card or cards and an envelope in which to return the card(s). Whether or not you plan to attend this meeting, please sign, date and return your enclosed proxy and voting instruction card(s), or vote over the phone or Internet, as soon as possible so that your common shares can be voted at the meeting in accordance with your instructions. You can revoke your proxy before the special meeting and issue a new proxy as you deem appropriate. You will find the procedures to follow if you wish to revoke your proxy on page 61 of the enclosed proxy statement. Your vote is very important.

If you are a shareholder of record, submitting a proxy will not prevent you from voting your shares in person if you subsequently choose to attend the special meeting.

If you are a shareholder who holds your common shares in "street name" through a broker, bank or other nominee, please be aware that you will need to follow the directions provided by such broker, bank or nominee regarding how to instruct it to vote your common shares at the special meeting.

If you have any questions or need assistance voting your common shares, please call Innisfree M&A, Incorporated, the Company's proxy solicitor in connection with the special meeting, toll-free at (888) 750-5834.

Sincerely,

Anthony J. Mercurio
President and Chief Executive Officer

Richfield, Ohio
October 11, 2016

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated October 11, 2016 and is first being mailed to shareholders on or about October 13, 2016.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
OF NATIONAL INTERSTATE CORPORATION

Date: November 10, 2016

Time: 10:00 a.m. Eastern time

Place: 4059 Kinross Lakes Parkway
Richfield, Ohio 44286

Purpose:

1. To consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated July 25, 2016, by and among Great American Insurance Company, an Ohio corporation ("Parent"), GAIC Alloy, Inc., an Ohio corporation and wholly-owned subsidiary of Parent ("Merger Sub," and together with Parent, the "Purchasers"), and the Company, as amended by Amendment No. 1, dated as of August 15, 2016 (as so amended, the "Merger Agreement");

2. To approve, on an advisory (non-binding) basis, specified compensation that may become payable to the named executive officers of the Company in connection with the merger;

3. To approve the adjournment of the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement; and

4. To act upon other business that may properly come before the special meeting or any adjournment or postponement thereof.

Record Date: September 26, 2016 – Shareholders registered in our records or our agents' records on that date are entitled to receive notice of and to vote at the special meeting and at any adjournment thereof.

Mailing Date: The approximate mailing date of this proxy statement and accompanying proxy card is October 13, 2016.

All shareholders of record are invited to attend the special meeting in person. Your vote is important, regardless of the number of common shares you own. The merger cannot be completed without the affirmative vote of (i) the holders of common shares entitled to at least two-thirds of the voting power of the Company and (ii) at least a majority of the outstanding common shares owned by the shareholders other than Purchasers and their affiliates (assuming for this purpose that the Company and its subsidiaries are not affiliates of Purchasers and that officers and directors of the Company are affiliates of the Company), to whom we sometimes refer in this proxy statement as the "Public

Shareholders", in favor of the adoption of the Merger Agreement. Pursuant to our articles of incorporation, common shares are entitled to one vote per share. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement, and the presence of these shares assures a quorum at the special meeting. A failure to vote your common shares on the merger or an abstention from voting on the merger will have the same effect as a vote "against" the merger for purposes of each required shareholder vote.

The advisory (non-binding) proposal to approve specified compensation that may become payable to the named executive officers of the Company in connection with the merger and the proposal to adjourn the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the Merger Agreement require the affirmative vote of a majority of the votes cast at the special meeting. As quorum is assured by the presence of those common shares of Parent, as holder of approximately 51.2% of the outstanding common shares, a failure to vote your common shares on these proposals will not have an effect on the outcome of either of these proposals. A failure to vote your common shares on the advisory proposal or an abstention from voting on the advisory proposal will have the same effect as a vote "against" the advisory proposal.

Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend. You also may submit your proxy by using a toll-free telephone number or the Internet. We have provided instructions in the enclosed proxy statement and on the proxy and voting instruction card for using these convenient services.

If you sign, date and return your proxy and voting instruction card(s) without indicating how you wish to vote, your proxy will be voted in favor of the adoption of the Merger Agreement, in favor of the advisory (non-binding) vote on specified compensation that may become payable to the named executive officers of the Company in connection with the merger and in favor of the proposal to adjourn the special meeting, if necessary, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement. If you fail to attend the special meeting or submit your proxy, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote against the adoption of the Merger Agreement.

You may revoke your proxy at any time before the vote at the special meeting by following the procedures outlined in the enclosed proxy statement. If you are a shareholder of record, attend the special meeting and wish to vote in person, you may revoke your proxy and vote in person.

If you are a shareholder who holds your common shares in “street name” through a broker, bank or other nominee, please be aware that you will need to follow the directions provided by such broker, bank or nominee regarding how to instruct it to vote your common shares at the special meeting.

By order of the Board of Directors,

NATIONAL INTERSTATE CORPORATION

Dated: October 11, 2016

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NATIONAL INTERSTATE CORPORATION
SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD NOVEMBER 10, 2016

PROXY STATEMENT

This proxy statement contains information related to a special meeting of shareholders of National Interstate Corporation ("National Interstate," the "Company," "we," "us" or "our"), which will be held at 4059 Kinross Lakes Parkway, Richfield, Ohio 44286, on November 10, 2016, at 10:00 a.m., Eastern time, and any adjournments or postponements thereof. We are furnishing this proxy statement to shareholders of the Company as part of the solicitation of proxies by the Company's board of directors (the "Board of Directors" or the "Board") for use at the special meeting. This proxy statement is dated October 11, 2016 and is first being mailed to shareholders on or about October 13, 2016.

SUMMARY TERM SHEET

This Summary Term Sheet discusses certain material information contained in this proxy statement, including with respect to the Agreement and Plan of Merger, dated July 25, 2016, among Parent, Merger Sub and the Company, as amended by Amendment No. 1, dated as of August 15, 2016, to which we sometimes refer in this proxy statement as the "Merger Agreement." We encourage you to read carefully this entire proxy statement, including its annexes and the documents referred to or incorporated by reference in this proxy statement, as this Summary Term Sheet may not contain all of the information that may be important to you. Each item in this Summary Term Sheet includes page references directing you to a more complete description of that item in this proxy statement.

The proposed merger is a "going private transaction" under the rules of the U.S. Securities and Exchange Commission (the "SEC"). If the merger is completed, the Company will become a privately held company, wholly-owned by Great American Insurance Company, an Ohio corporation ("Parent" or "GAIC"). Parent is a direct wholly-owned subsidiary of American Financial Group, Inc., an Ohio corporation ("AFG"). AFG is currently publicly listed and traded on the New York Stock Exchange under the symbol "AFG."

The Parties to the Merger Agreement

National Interstate Corporation

National Interstate Corporation is an Ohio corporation. Founded in 1989, National Interstate is the holding company for a specialty property-casualty insurance group which differentiates itself by offering products and services designed to meet the unique needs of niche markets. Products include insurance for passenger, truck, and moving and storage transportation companies, alternative risk transfer, or captive programs for commercial risks, specialty personal lines products focused primarily on recreational vehicle owners, and transportation and general commercial insurance in Hawaii and Alaska. The Company's insurance subsidiaries, including the four insurers, National Interstate Insurance Company of Hawaii, Inc., National Interstate Insurance Company, Vanliner Insurance Company and Triumphe Casualty Company, are rated "A" (Excellent) by A.M. Best Company. Headquartered in Richfield, Ohio, National Interstate is an independently operated subsidiary of Great American Insurance Company, a property-casualty subsidiary of AFG. See "*Important Information Regarding National Interstate—Company Background*" beginning on page 76.

Additional information about National Interstate is contained in our public filings, certain of which are incorporated by reference into this proxy statement. See "*Where You Can Find Additional Information*" beginning on page 92.

Great American Insurance Company

Great American Insurance Company is an Ohio corporation and is a wholly-owned subsidiary of AFG. AFG is an insurance holding company based in Cincinnati, Ohio with assets of approximately $50 billion. Founded in 1872, Great American Insurance Company is the flagship company of Great American Insurance Group, through which AFG is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of fixed and fixed-indexed annuities in the retail, financial institutions and education markets. See "*The Parties to the Merger—Great American Insurance Company*" beginning on page 58.

GAIC Alloy, Inc.

GAIC Alloy, Inc. ("Merger Sub") is an Ohio corporation. Merger Sub is a wholly-owned subsidiary of Parent and was formed solely for the purpose of engaging in the merger and other related transactions. Merger Sub has not engaged in any business other than in connection with the merger and other related transactions. See "*The Parties to the Merger—GAIC Alloy, Inc.*" beginning on page 58.

The Merger Proposal

You are being asked to consider and vote upon a proposal to adopt the Merger Agreement.

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The Merger Agreement provides that, at the closing of the merger, Merger Sub will be merged with and into the Company, the separate corporate existence of Merger Sub will cease, and the Company will continue its corporate existence under Ohio law as the surviving corporation in the merger and a wholly-owned subsidiary of Parent. Upon completion of the merger, each outstanding common share of the Company, par value $0.01 per share (other than common shares (a) held by Parent or Merger Sub, (b) held by the Company in treasury or any wholly-owned subsidiary of the Company, or (c) held by holders of common shares who have properly demanded dissenters' rights, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) will be converted into the right to receive $32.00 per common share, in cash, without interest and less any required withholding taxes. In addition, the Merger Agreement provides that the Company will declare a special cash dividend of $0.50 per common share payable immediately prior to the effective time of the merger to all shareholders of record as of such time (including Parent). Upon completion of the merger, the common shares will no longer be publicly traded, and shareholders (other than Parent) will cease to have any ownership interest in the Company.

The Special Meeting (Page 59)

The special meeting will be held at 4059 Kinross Lakes Parkway, Richfield, Ohio 44286, on November 10, 2016, at 10:00 a.m., Eastern time.

Record Date and Quorum (Page 59)

The holders of record of the common shares as of the close of business on September 26, 2016 (the record date for determination of shareholders entitled to notice of and to vote at the special meeting) are entitled to receive notice of and to vote at the special meeting.

The presence at the special meeting, in person or by proxy, of the holders of common shares entitled to exercise at least a majority of the outstanding voting power of the Company on the record date will constitute a quorum, permitting the Company to conduct its business at the special meeting. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement and the presence of these shares assures a quorum at the special meeting.

Required Shareholder Votes for the Merger (Page 59)

The merger cannot be completed without the affirmative vote of (i) the holders of common shares entitled to at least two-thirds of the voting power of the Company and (ii) at least a majority of the outstanding common shares owned by the shareholders other than Purchasers and their affiliates (assuming for this purpose that the Company and its subsidiaries are not affiliates of Purchasers and that officers and directors of the Company are affiliates of the Company), to whom we sometimes refer in this proxy statement as the "Public Shareholders". Pursuant to our articles of incorporation, common shares are entitled to one vote per share. The approval of the proposal to adopt the Merger Agreement is a condition to the parties' obligations to consummate the merger. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement and the presence of these shares assures a quorum at the special meeting.

A failure to vote common shares or an abstention from voting will have the same effect as a vote against adoption of the Merger Agreement.

As of the record date, there were 19,991,694 common shares outstanding. Parent has voting power with respect to 10,200,000 common shares, representing approximately 51.2% of the outstanding voting power as of the record date. Under the Merger Agreement, Parent, as holder of approximately 51.2% of the outstanding common shares, agreed to vote all common shares it owns in favor of adoption of the Merger Agreement.

As a condition to Parent's willingness to permit the Company to pay a special dividend of $0.50 per share to all shareholders in connection with the merger, Alan R. Spachman, along with The Hudson Investment Trust, Alan R. Spachman Revocable Trust Under Deed Dated 5/23/2007 and Florence McDermott Spachman Revocable Trust, entered into a Voting Agreement with Parent and Company, pursuant to which each shareholder party to the Voting Agreement (other than Parent) has agreed from July 25, 2016 through the termination of the Voting Agreement to, among other things, vote all common shares held by such shareholder (an aggregate of 1,937,230 common shares as of such date), whether owned on July 25, 2016 or acquired thereafter, in favor of the proposal to adopt the Merger Agreement. See "*Voting Agreement Involving Common Shares*" beginning on page 74.

Except in their capacities as members of the Board or as members of the special committee that was established to evaluate and negotiate a potential transaction and consider other alternatives available to the Company (as described more fully under "*Special Factors—Background of the Merger*" on page 17), and except as contemplated by the Voting Agreement, no executive officer or director of the Company has made any recommendation either in support of or in opposition to the merger or the Merger Agreement. Joseph E. (Jeff) Consolino, Ronald J. Brichler, Gary J. Gruber and Donald D. Larson (to whom we sometimes refer in this proxy statement as the "Affiliated Directors"), who are senior executives of Parent or American Financial Group, Inc., the parent corporation

of Parent ("AFG"), recused themselves from the determination of the Board to approve and recommend the Merger Agreement and the merger.

Conditions to the Merger (Page 71)

The obligations of the Company, Parent and Merger Sub to effect the merger are subject to the fulfillment or waiver, at or before the effective time, of the following conditions:

- that no court or other governmental entity of competent jurisdiction has enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the merger or the payment of the $0.50 per share special dividend;

- that the Merger Agreement has been adopted by the requisite majorities of all shareholders and the Public Shareholders; and

- that the Company has irrevocably transferred aggregate cash sufficient to pay the $0.50 per share special dividend to the paying agent for the benefit of holders of common shares as of immediately prior to the effective time.

The obligation of the Company to effect the merger is subject to the satisfaction or waiver of each of the following conditions at or prior to the date of the closing of the merger:

- that the representations and warranties of Purchasers set forth in the Merger Agreement are true and correct as of the date of the Merger Agreement and as of the closing date of the merger as though made on and as of the closing date (disregarding all qualifications and exceptions regarding materiality or any similar standard or qualification), except where the failure of any such representations and warranties to be true and correct would not prevent the consummation of the merger and except that representations and warranties that are made only as of a specified date need be true and correct only as of that specified date; and except that the representations and warranties of each of the Parent and Merger Sub pertaining to the requisite corporate power and authority are true and correct in all material respects;

- that each Purchaser has performed and complied in all material respects with all its agreements and covenants required by the Merger Agreement to be performed or complied with by it at or prior to the closing date of the merger; and

- that Parent has delivered to the Company a certificate of a senior executive officer of each Purchaser, dated as of the closing date of the merger, certifying that the conditions set forth in the two items described above have been satisfied.

The obligation of Purchasers to effect the merger is subject to the satisfaction or waiver of each of the following conditions at or prior to the closing date of the merger:

- that the representations and warranties of the Company set forth in the Merger Agreement are true and correct at and as of the date of the Merger Agreement and at and as of the closing date of the merger as though made as of the closing date (disregarding all qualifications and exceptions regarding materiality or a "material adverse effect" or any similar standard or qualification), except where the failure of any such representations and warranties to be true and correct would not, individually or in the aggregate, have or be reasonably expected to have a "material adverse effect", and except that representations and warranties that are made only as of a specified date need be true and correct only as of that specified date; however, (i) the representations and warranties pertaining to the Company's capitalization and the absence of a "material adverse effect" on the Company since December 31, 2015 must be true and correct in all respects (other than in *de minimis* and immaterial respects in the case of the representations regarding capitalization and permitted exercises of existing outstanding equity awards); and (ii) the representations and warranties pertaining to the requisite corporate power and authority of the Company, the Board's recommendation of the adoption of the Merger Agreement to shareholders and the special committee's receipt of an opinion from its financial advisor, brokers and finders and anti-takeover statutes or regulations must be true and correct in all material respects;

- that the Company has performed and complied in all material respects with all of its agreements and covenants required by the Merger Agreement to be performed or complied with by it at or prior to the closing date of the merger;

- that the Company has delivered to Parent and Merger Sub a certificate of a senior executive officer of the Company, dated as of the closing date of the merger, certifying that the conditions set forth in the two items described immediately above have been fulfilled;

- that since the date of the Merger Agreement, there has not been any "material adverse effect"; and

- that Parent has received approval from the Ohio Department of Insurance under Section 3925.08(D)(2) of the Ohio Revised Code for Parent's investment in the Company resulting from Parent's direct or indirect acquisition of one hundred percent (100%) of the outstanding common shares of the Company.

When the Merger Becomes Effective (Page 62)

We anticipate completing the merger in the fourth quarter of 2016, subject to adoption of the Merger Agreement by the Company's shareholders as specified herein and the satisfaction or waiver of the other conditions to closing.

Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger (Page 28)

Based in part on the unanimous recommendation of the special committee, the Board of Directors (other than the Affiliated Directors, who recused themselves from the determination related to such recommendation) recommends unanimously that the shareholders of the Company vote "FOR" the adoption of the Merger Agreement and the approval of the business combination and the related transactions contemplated thereby. For a description of the reasons considered by the special committee and the Board for their recommendations, see "*Special Factors—Reasons for the Merger; Recommendation of the Special Committee; Recommendation of the Board of Directors; Fairness of the Merger*" beginning on page 28.

As a result of the consummation of the merger, each of the common shares (other than common shares (a) held by Parent or Merger Sub, (b) held by the Company in treasury or any wholly-owned subsidiary of the Company, or (c) held by holders of common shares who have properly demanded dissenters' rights, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) will be converted into the right to receive the $32.00 per share cash merger consideration, without interest and less any required withholding taxes. In addition, all shareholders of record as of immediately prior to the effective time of the merger (including Parent) will have the right to receive the $0.50 per share special dividend.

In evaluating the fairness and advisability of the Merger Agreement, the special committee considered information with respect to the Company's financial condition, results of operations, businesses, competitive position and business strategy, on both a historical and prospective basis, as well as current industry, economic and market conditions and trends. The special committee considered the following factors, each of which the special committee believes supports its determination as to fairness:

- the current and historical market prices of the common shares, including the fact that the per share merger consideration of $32.00 in cash, and $0.50 in cash in the form of a special dividend to the shareholders payable in connection with the merger (the "Merger Consideration") represents (i) a premium of approximately 44% over the closing price of the common shares of $22.61 on March 4, 2016 (the last trading day prior to the public announcement of the initial AFG proposal), 30% over the volume weighted average price (VWAP) of the common shares for the three-month period prior to the public announcement of the initial AFG proposal, and 12% over the highest per share trading price of the common shares in the 52-week period prior to the public announcement of the initial AFG proposal and (ii) a book value per share multiple equal to 1.76x;

- that the special committee was able to negotiate an effective increase in the Merger Consideration of $2.00 from the per share consideration offered in the initial AFG proposal plus the payment of $0.50 cash per share in the form of a special dividend, an overall increase of greater than eight percent (8%);

- the special committee's consideration of the risk and potential likelihood of achieving greater value for the Public Shareholders by pursuing strategic alternatives to the merger, including continuing as an independent public company and pursuing the Company's strategic plan, relative to the benefits of the merger;

- the special committee's consideration that the merger was reasonably likely to deliver greater value to the Public Shareholders than other strategic alternatives considered, including continuing as an independent public company and pursuing the Company's strategic plan, which could include the implementation of capital management strategies and/or the divestiture or acquisition of certain businesses, including a potential acquisition of another company by the Company that the Company was considering (the "Potential Acquisition"), or pursuing a potential sale of the Company to a third party financial or strategic buyer (not affiliated with AFG), which strategic alternatives were ultimately not pursued for the reasons discussed in the section entitled "*Special Factors—Background of the Merger*" on page 17;

- the special committee's consideration that the timing of the merger is in the best interest of the Public Shareholders given the substantial risk that the present value achievable for shareholders (i) in a potential alternative transaction effected at a later date or (ii) on a standalone basis, in each case assuming that the Company performs in line with the Company's financial plan and the projections described in the section entitled "*Special Factors—Projected Financial Information*" on page 46, would not exceed the present value of the Merger Consideration;

- the belief by the special committee that the Merger Consideration was the most favorable price that could be obtained from AFG and that further negotiations would run the risk of causing AFG to abandon the transaction altogether, in which event the Public Shareholders would lose the opportunity to accept the premium being offered;

- communications directed to representatives of the special committee from certain significant shareholders, indicating that they would be supportive of a transaction at a lower price than the Merger Consideration;

- the fact that the Public Shareholders will receive cash for their shares and will therefore have immediate liquidity and receive certain value for their shares of $32.00 per share and the payment of the $0.50 per share special dividend;

- the oral opinion delivered by Morgan Stanley & Co. LLC ("Morgan Stanley") to the special committee, which was subsequently confirmed by a written opinion dated July 24, 2016, that, as of such date and based upon and subject to the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley as set forth in its written opinion, the Merger Consideration to be received by the holders of the Company's common shares (other than common shares (a) held by Parent or Merger Sub, (b) held by the Company in treasury or any wholly-owned subsidiary of the Company, or (c) held by holders of common shares who have properly demanded dissenters' rights, as described more fully under "*The Merger Agreement—Effect of the Merger on the Common Shares of the Company and Merger Sub*" on page 63) pursuant to the Merger Agreement was fair from a financial point of view to such holders of common shares, as more fully described in the section entitled "*Special Factors—Opinion of Morgan Stanley & Co. LLC*" beginning on page 33;

- the terms of the Merger Agreement, including:

the requirement that the Merger Agreement be approved by a majority of the outstanding common shares other than shares held by AFG and its affiliates;

the termination fee and expense reimbursement available to AFG under certain circumstances, including as described above, in connection with the termination of the Merger Agreement, which the special committee concluded were reasonable in the context of termination fees and expense reimbursements payable in comparable transactions and in light of the overall terms of the Merger Agreement;

the limited representations and warranties given by the Company; and

the other terms and conditions of the Merger Agreement, as discussed in the section entitled "*The Merger Agreement*" beginning on page 62, which the special committee, after consulting with Willkie Farr & Gallagher LLP ("Willkie Farr"), considered to be reasonable and consistent with relevant precedent transactions;

- the likelihood that the merger would be completed, and that it would be completed in a reasonably prompt time frame, based on the limited conditions precedent to each party's obligation to effect the merger;

- the absence of any material risk that any governmental authority would prevent or materially delay the merger under any insurance law;

- the fact that the termination date under the Merger Agreement allows for sufficient time to complete the merger;

- the fact that none of the obligations of any of the parties to complete the merger are conditioned upon receipt of financing; and

- the rights of Public Shareholders to elect to dissent from the merger, vote their shares against the merger and demand payment of the fair cash value of their common shares.

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The special committee also considered a number of factors discussed below, relating to the procedural safeguards that it believes were and are present to ensure the fairness of the merger. The special committee believes these factors support its determinations and recommendations and provide assurance of the procedural fairness of the merger to the Public Shareholders:

- the Merger Agreement must be approved by the affirmative vote of (i) the holders of common shares entitled to at least two-thirds of the voting power of the Company and (ii) at least a majority of all outstanding common shares that are not held by AFG or its affiliates, as discussed in the section entitled "*The Special Meeting—Required Vote*" on page 59;

- the authority granted to the special committee by the Board to negotiate the terms of the definitive agreement with respect to the initial AFG proposal, or to determine not to pursue any agreement with AFG;

- the fact that the special committee consists solely of independent, for purposes of serving on the special committee, and disinterested directors without any member of the special committee (i) being an employee of the Company or any of its subsidiaries, (ii) being affiliated with AFG or its affiliates, or (iii) having any financial interest in the merger that is different from that of the Public Shareholders, other than as discussed in the section entitled "*Special Factors—Interests of the Company's Directors and Executive Officers in the Merger*" on page 48;

- the fact that the special committee (i) held numerous meetings and met regularly to discuss and evaluate the various proposals from AFG and (ii) was advised by independent financial and legal advisors and that each member of the special committee was actively engaged in the negotiation process on a regular basis;

- the fact that while, pursuant to the Voting Agreement, the parties to the Voting Agreement have committed to vote in favor of adopting the Merger Agreement and approving the merger and against any competing action, proposal, transaction or agreement or any action, proposal, transaction or agreement that could result in a breach of the Voting Agreement, materially interfere or delay the merger or change the voting rights of any class of shares of the Company, such commitments terminate automatically upon termination of the Merger Agreement or a change in the recommendation of the special committee or the Board with respect to the Merger Agreement;