

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS**

**IN THE MATTER OF THE 1) REDOMESTICATION
OF UNITED HOME INSURANCE COMPANY
FROM THE STATE OF OKLAHOMA TO THE
STATE OF ARKANSAS; 2) ACQUISITION OF
CONTROL OF UNITED HOME INSURANCE
COMPANY BY FARMERS HOME HOLDING
COMPANY, ET AL; 3) MERGER OF FARMERS
HOME FIRE INSURANCE COMPANY WITH
AND INTO UNITED HOME INSURANCE
COMPANY; AND 4) PAYMENT OF
EXTRAORDINARY DIVIDEND BY UNITED
HOME INSURANCE COMPANY**

A.I.D. NO. 2007- 074

ORDER

On Wednesday, November 28, 2007, at 10:00 a.m., in the Hearing Room of the Arkansas Insurance Department (the "Department"), in accordance with the provisions of the Ark. Code Ann. §§ 23-63-510 and 23-69-142(c) and (g), and other applicable provisions of the Arkansas Insurance Code, a public hearing was held with respect to the filing dated September 26, 2007, as amended, (the "Filing") whereby the Department's approval is sought concerning the following transactions to be effected in the order listed, but essentially simultaneously, effective November 30, 2007: (1) the redomestication of United Home Insurance Company ("UHIC") from the State of Oklahoma to the State of Arkansas ; (2) the acquisition of control of UHIC by Farmers Home Holding Company ("FHHC"), Harris Holdings, Inc. ("HHI"), William Kyle Harris ("Harris"), Kelly L. Ford ("K. Ford") and Ross E. Ford Jr. ("R. Ford") (collectively the "Applicants"); (3) the merger of Farmers Home Fire Insurance Company ("FHFIC") with and into UHIC, with UHIC being the surviving insurer; and (4) the payment of a dividend by UHIC in the amount of \$5 million, consisting of an ordinary dividend of \$861,479 and an extraordinary dividend of \$4,138,521. In addition, Messrs. Harris, K. Ford, and R. Ford request the

Department's approval, as required by Order A.I.D. No. 2006-011, of a redistribution among themselves of the voting shares of FHHC they collectively hold.

The hearing officer was the Honorable Julie Benafield Bowman, Commissioner of Insurance for the State of Arkansas ("Commissioner"). The Department was represented by Mr. Booth Rand, Chief Counsel, and Mr. Mel Anderson, Deputy Commissioner for Financial Regulation & Audit. Representing FHHC and FHFIC were Mr. Doak Foster and Mr. Doug Buford of Mitchell, Williams, Selig, Gates and Woodyard, Little Rock, Arkansas, ("MWSGW"), its counsel. Also present on behalf of FHFIC, in addition to the individual Applicants, was Mr. Mike Ford, a member of FHFIC's Board of Directors. Present on behalf UHIC was Mr. Stephen Anderson, a member of UHIC's Board of Directors.

FINDINGS OF FACT

From the Filing, testimony of witnesses, and other evidence of record adduced at the public hearing (including exhibits filed in connection therewith), reports, correspondence, financial information, business plans, and statements on file with the Department, representations of counsel, and other matters and things considered, the Commissioner finds that:

1. UHIC is an Oklahoma domiciled property and casualty insurer located in Newkirk, Oklahoma, and originally founded in 1984. It is a wholly-owned subsidiary of Albright Title and Trust Company ("Albright"), whose majority stockholder is Ms. Carrie Tiner Johnson. UHIC's primary lines of business are fire and homeowners multiple peril. It also writes a small amount of surety business. UHIC is licensed in Oklahoma, Kansas and Arkansas although, as of this date, it has not written any business in Arkansas.

2. FHFIC is an Arkansas domiciled property and casualty insurer located in Paragould, Arkansas. It was originally formed as a mutual insurer in 1947 and was converted to a stock insurer pursuant to demutualization in 2006. It is a wholly-owned subsidiary of FHHC.

FHFIC's principal lines of business are fire and allied lines, homeowners, and liability insurance.

3. FHHC is an Arkansas corporation incorporated on July 5, 2005, by Messrs. R. Ford, K. Ford, and Harris, for the purpose of acquiring the outstanding voting stock of FHFIC, the stock insurer resulting from the conversion of Farmers Home Mutual Fire Insurance Company from a mutual insurer to a stock insurer. Upon completion of the demutualization in 2006, Messrs. R. Ford, K. Ford, and Harris each owned approximately 31.2% of the voting stock of FHHC, with the remaining approximately 6.3% owned by 781 individuals who chose stock rather than cash in the demutualization. Messrs. Harris, K. Ford and R. Ford are also the sole members of FHHC's Board of Directors and are its only officers. FHHC is also located in Paragould, Arkansas.

4. HHI is an Arkansas corporation which acts as a personal holding company for Messrs. Harris and K. Ford, each of whom own 50% of its stock. Per the Department's previous approval issued pursuant to the conditions imposed by Order A.I.D. No. 2006-0011, Messrs. Harris and K. Ford contributed their shares of FHHC to HHI, so that their ownership of FHHC voting stock is presently indirect, through HHI, rather than direct.

5. By letter to the Department of November 27, 2007, and in supplement and amendment to the Filing, Messrs. Harris, K. Ford and R. Ford have requested the Department's approval, as required by Order AID 2006-011, to reallocate their ownership of FHHC voting shares among themselves, such that rather than each of them owning, directly or indirectly, approximately 31.2% of FHHC's voting shares, Mr. Harris would own, directly or indirectly, 44.7% , Mr. R. Ford 25.4%, and Mr. K. Ford 23.6% of FHHC's voting shares.

6. UHIC seeks approval of redomestication from the State of Oklahoma to the State of Arkansas pursuant to A.C.A. § 23-63-218 (a) and (c) and has duly filed all documents

required by the Department in connection with such a redomestication request. Upon redomestication, UHIC, presently a foreign admitted insurer in Arkansas, would become an Arkansas domestic insurer with its home office located in Paragould, Arkansas, and maintaining a Service Office for its Oklahoma and Kansas business in Newkirk, Oklahoma.

7. By letter of October 1, 2007, the Insurance Commissioner for the State of Oklahoma approved the redomestication of UHIC from the State of Oklahoma to the State of Arkansas.

8. The Applicants seek the Department's approval, pursuant to A.C.A. § 23-63-510 and 23-69-142, to acquire control of UHIC effective immediately after the redomestication of UHIC from Oklahoma to Arkansas. This is to be accomplished pursuant to a Stock Purchase Agreement dated June 21, 2007, as amended September 17, 2007, whereby FHHC will purchase from Albright, all 500 issued and outstanding voting shares of UHIC for a purchase price of \$7.2 million payable in cash at the closing.

9. The Applicants' intent in purchasing the voting stock of UHIC is to immediately thereafter merge FHFIC with and into UHIC, with UHIC being the surviving insurer. The Filing contains all information required to be filed pursuant to A.C.A. §§ 23-69-143 and 144, for the Department's consideration in determining whether to approve the proposed merger.

10. The Filing also requests the Department's approval of the ordinary and extraordinary dividend in the total amount of \$5 million to be paid in cash by UHIC immediately after effectuation of the merger of FHFIC into UHIC. This \$5 million will be combined with the borrowing of an additional \$2.2 million from a commercial bank by FHHC to facilitate the payment of the \$7.2 million purchase price.

11. The Pro-Forma balance sheet for the merged entities, based on June 30, 2007 statutory statements of FHFIC and UHIC and after payment of the \$5 million dividend, as prepared by Jones & Company, Ltd., an independent accounting firm in Jonesboro, Arkansas retained by the Applicants, reflects that statutory admitted assets of the surviving company, UHIC would be \$13,237,638, liabilities would be \$7,009,423, statutory capital would be \$900,000 and statutory surplus would be \$5,328,215. The accompanying pro-forma Statement of Operations reflects net income would be \$449,460 for the first six months of 2007. Projected financial statements for UHIC, as the surviving company of the merger, for 2008-2010, as prepared by Jones & Company, Ltd., reflect continued premium growth on an orderly basis, with increasing net income and increasing statutory surplus in each year.

12. Upon completion of the transactions included in the Filing, UHIC will be an Arkansas domestic insurer, licensed and actively writing business in Arkansas, Oklahoma and Kansas. The Home Office will be located in Paragould, Arkansas and all Arkansas business will be administered from that office. A Service Office will be maintained at UHIC's former home office address in Newkirk, Oklahoma, from which all Oklahoma and Kansas business of UHIC will continue to be administered by the same staff members who presently administer such business. The officers and directors of UHIC will be identical to the present officers and directors of FHFIC.

13. Mr. Harris testified that, based upon his business experience with FHFIC, he believes the projected financial statements for UHIC after the acquisition, merger, and dividend payment, as prepared by Jones & Company, Ltd. are reasonable, and that it is reasonable to assume UHIC will achieve results consistent with those projections.

14. Mr. Hal White of Jones & Company, Ltd. testified that he had prepared the pro-forma and projected financial statements and the risk based capital calculations included in the Filing and other exhibits of record, and that in his professional opinion, those statements and calculations were reasonable and appropriate and support the conclusion that UHIC, after the proposed transactions, will produce net income sufficient to meet the contemplated dividend payments to FHHC as necessary to enable FHHC to service the bank loan debt it will carry, while at the same time UHIC will be able to maintain a risk based capital ratio not materially different from the 612% of authorized control level that he calculated for the combination of UHIC and FHFIC on a pro-forma basis as of June 30, 2007.

CONCLUSIONS OF LAW

Based upon the foregoing Findings of Fact and other matters, facts, and things before her, the Commissioner concludes as follows:

1. The Commissioner has jurisdiction over the parties and the subject matter.
2. The redomestication, as presented in the exhibits of record, meets all requirements of A.C.A. § 23-63-218 and should be approved.
3. As to the acquisition, as presented in the exhibits of record, none of the preclusions to approval, listed at A.C.A. § 23-63-510(a), exist, and the acquisition should therefore be approved.
4. As to the merger, as presented in the exhibits of record, none of the preclusions to approval, listed at A.C.A. § 23-69-142(c)(2) exist, and the merger should therefore be approved.
5. The dividend, as presented in the exhibits of record, meets all of the requirements of A.C.A. § 23-63-515(d) and (f) and should therefore be approved.

NOW THEREFORE, based on the foregoing Findings of Fact and Conclusions of Law, and being in all things duly advised, **IT IS THEREFORE ORDERED** that:

1. The redomestication of UHIC from the State of Oklahoma to the State of Arkansas is hereby approved.

2. The acquisition of control of UHIC by FHHC (directly) and HHI and Messrs. Harris, K Ford and R Ford (indirectly) is hereby approved.

3. The merger of FHFIC with and into UHIC, with UHIC being the surviving entity, is hereby approved.

4. The \$5 million dividend to be paid by UHIC to its direct parent, FHHC, is hereby approved.

5. The reallocation of voting shares of FHHC among Messrs. Harris, K. Ford, and R. Ford and HHI as reflected in the exhibits of record, is hereby approved, as required by Order A.I.D. No. 2006-011.

6. The maintenance of those books and records of UHIC pertaining to UHIC's Oklahoma and Kansas business, in the Service Office of UHIC in Newkirk, Oklahoma, is hereby approved pursuant to A.C.A. § 23-69-134(c).

7. The maintenance of certain assets of UHIC in Oklahoma in the form of an operational bank account in the Bank of Oklahoma, for use in connection with business administered through UHIC's Newkirk, Oklahoma Service Office, is hereby approved pursuant to A.C.A. § 23-69-134(c).

8. The conditions numbered 1. through 3. contained in the Ordered section of Order A.I.D. No. 2006-011 shall remain in effect, provided that UHIC, as the surviving corporation of

the merger of FHFIC with and into UHIC, shall be substituted for FHFIC with regard to such conditions.

IT IS SO ORDERED this 30th day of November, 2007.



JULIE BENAFIELD BOWMAN
INSURANCE COMMISSIONER