

BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS

IN THE MATTER OF THE
APPLICATION FOR APPROVAL OF
ACQUISITION OF CONTROL OF
OZARK NATIONAL LIFE INSURANCE
COMPANY BY APPLICANT, CITIZENS, INC.

A.I.D. No. 2008- 077

ORDER

On Tuesday, October 21, 2008, at 1:00 p.m., in the Hearing Room of the Arkansas Insurance Department (the "Department"), in accordance with the provisions of Ark. Code Ann. §§ 23-61-109, 23-61-303, 23-69-142(g), and other pertinent provisions of the Arkansas Insurance Code, a public hearing was held pursuant to a Form A Acquisition Statement (the "Form A") dated September 4, 2008, as amended and supplemented, filed by Citizens, Inc. ("Citizens"), seeking approval of the acquisition of control of Ozark National Life Insurance Company ("Ozark"), as detailed in the Form A. The hearing was held before Julie Benafield Bowman, Insurance Commissioner for the State of Arkansas ("Commissioner"). The Department was represented by Mr. Robert Alexander, Associate Counsel, and Mr. Mel Anderson, Deputy Commissioner for Financial Regulation & Audit/Finance. Present on behalf of Ozark was Mr. John Paul Jones, Director and President of Ozark. Representing Citizens was Mr. Rick D. Riley, Director, Vice Chairman of the Board, President and Chief Corporate Officer for Citizens and Mr. Geoffrey M. Kolander, Director, Vice President, General Counsel and Corporate Secretary for Citizens, and Mr. Doak Foster, of Mitchell, Williams, Selig, Gates and Woodyard, its counsel. Mr. Jones and Mr. Riley testified at the hearing.

FINDINGS OF FACT

From the Form A, testimony of witnesses and other evidence adduced at the 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. Ozark is an Arkansas domiciled insurer.
2. Citizens is a Colorado domiciled holding company. The Executive Office for Citizens is located in Austin, Texas.
3. The testimony presented by Mr. Riley at the hearing, and the biographical affidavits filed as part of the Form A, provide evidence that each of the proposed directors and officers has prior extensive experience in the insurance industry, including experience managing insurance companies.
4. Mr. Riley testified that control of Ozark is to be acquired through a Plan and Agreement of Exchange, dated July 23, 2008, between Citizens and Ozark ("Plan"), whereby Citizens agrees to pay \$58.06 for each share of stock held by Ozark shareholders, or in aggregate \$8 million. Citizens will fund the acquisition with cash; no funds shall be borrowed.
5. Mr. Riley testified that Citizens intends to continue the type of business already being underwritten by Ozark and to use it to compliment other insurance company holdings of Citizens. Specifically, Ozark's business will have synergy with Citizens home service business in Louisiana, Security Plan Life Insurance Company.
6. Mr. Riley further testified that following the acquisition, Citizens will enter into

three year consulting agreements with John Paul Jones, Gregory Jones and Kimberly Jones to provide Ozark ongoing historical and operational insights as well as marketing advice. Mr. Riley testified that Citizens does not have plans to modify Ozark's business plan except to seek overhead reductions by combining the processing operations of Ozark with those performed by Citizens in Austin. For this reason, Citizens requested that books and records of Ozark be removed to 400 East Anderson Lane, Sixth Floor, Austin, Texas.

7. Mr. Riley testified as to a Service Agreement ("Service Agreement") between Citizens and Ozark. Citizens requested that this Service Agreement be approved to allow Citizens to provide administrative and data processing functions for Ozark.
8. Mr. Riley testified that in his opinion the terms of the acquisition are fair and reasonable to Citizens. Mr. Riley testified that Citizens has no plans to make any material changes in Ozark's business or corporate structure that would be unfair or unreasonable to any policyholders of Ozark.
9. Mr. Riley testified as to the pro-forma and projected financial statements of Ozark submitted as a part of the Form A, stating that the projections were reasonable, and represent a continuation of Ozark's current business plan.
10. Mr. Riley testified that Citizens has no plans at this time to merge, consolidate, or dissolve Ozark, nor to re-domesticate Ozark to any other state.
11. Mr. Jones testified that in his opinion the terms of the acquisition are fair and reasonable to Ozark's shareholders, that the projected financial statements for Ozark contained in the Form A are reasonable, and that nothing in the Form A

filing reflects any plans to make any material changes in Ozark's business or corporate structure that would be unfair or unreasonable to any policyholder of Ozark or against the public interest.

12. Mr. Jones testified that a special meeting was held on October 15, 2008 pursuant to a notice to shareholders and an accompanying shareholders statement filed with the Department and sent to shareholders as required by law. Mr. Jones further testified that, at the special meeting of Ozark's shareholders held October 15, 2008, the proposed acquisition of Ozark by Citizens was approved by an affirmative vote of a majority of Ozark's outstanding voting shares and with no shares being voted in opposition to the acquisition.
13. Both Mr. Riley and Mr. Jones testified that no director, officer, agent or employee of Ozark will receive any fee, commission, compensation or other valuable consideration whatsoever for in any manner acting, promoting or assisting therein except as set forth in the Plan.
14. Testimony indicated that the anticipated closing date for the acquisition of Ozark is October 27, 2008.
15. Section 23-69-142(c) of the Arkansas Insurance Code provides that the Insurance Commissioner shall approve any acquisition of an Arkansas domestic insurer unless, after a public hearing, the Insurance Commissioner finds that one (1) or more of three (3) conditions exist as to the Plan: the proposed transaction is contrary to law, the proposed transaction is inequitable to the shareholders of Ozark, or the proposed transaction would substantially reduce the security of and service to be rendered to policyholders of Ozark in Arkansas or elsewhere.

Testimony as to these three conditions was provided as follows:

- a. Mr. Riley and Mr. Jones each testified that, in his opinion, the proposed transaction is not contrary to law.
- b. Mr. Riley testified that the purchase price of \$58.06/share was negotiated at arms length. Mr. Jones testified that the Plan was agreed to by the Ozark shareholders in a vote approving the Plan at a special shareholders' meeting held on October 15, 2008, that the terms of the Plan are fair and reasonable to Ozark, and that nothing in the Form A filing reflects any plans to make any material changes in Ozark's business or corporate structure that would be unfair or unreasonable to any policyholders of Ozark or against the public interest.
- c. Mr. Riley testified that as of June 30, 2008, on a consolidated basis, Citizens had assets of approximately \$800 million and total stockholders equity of approximately \$175 million, that Citizens has no plans or proposals to declare an extraordinary dividend, to liquidate, to sell the assets, to merge with any other person or persons or to make any material changes in the business operations or corporate structure of Ozark, and that Ozark policyholders would continue to be serviced through Ozark's office in Little Rock, Arkansas and through support of the Austin, Texas office of Citizens, pursuant to the Service Agreement beginning at such time as such services can be orderly implemented.

CONCLUSIONS OF LAW

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

1. The Commissioner has jurisdiction over the parties and subject matter herein.
2. None of the preclusions of Ark. Code Ann. § 23-63-142(c) exist as to the acquisition of control of Ozark by Citizens. Therefore, the acquisition should be approved.
3. Pursuant to Ark. Code Ann. § 23-69-134(c), the request to remove certain books and records of Citizens, after the acquisition, to Austin, Texas should be and is hereby approved.
4. Pursuant to Ark. Code Ann. § 23-63-515(a)(2)(D), the request to approve the proposed Service Agreement between Ozark and Citizens, Inc. should be and is hereby approved.

NOW, THEREFORE, IT IS ORDERED that the acquisition of control of Ozark by Citizens, as described in the Form A and exhibits thereto, is hereby APPROVED. It is also ORDERED that removal of certain of Ozark's books and records to Austin, Texas and the Service Agreement are hereby APPROVED.

It is also noted that the customary third party background checks of the individuals listed in the Form A filed with the Department who serve as Citizens' executive officers or directors (the "Individual or Individuals") have not yet been received by the Department as of the date of this Order. It is thus FURTHER ORDERED that these background checks will be delivered to the Department for review as soon as practicable. The Department may request additional information from any of the Individuals within 30 days after the receipt of the background

checks. Further, if the competence, experience, or integrity of any of the Individuals is found to be inconsistent with the interests of Ozark's policyholders and the public, the Department may, within 30 days after receipt of all additional biographical information requested by the Department, place conditions on such Individual's involvement with Ozark, subject to an opportunity for hearing and appeal of the Department's decision by Ozark or the Individual(s). The conditions upon the Individual's or Individuals' involvement with Ozark shall, at minimum, require that the Individual or Individuals refrain from participating in any decisions regarding the management of Ozark until any hearing of the Department's decision is finally resolved.

IT IS THEREFORE ORDERED this 22nd day of October, 2008.



JULIE BENAFIELD BOWMAN
INSURANCE COMMISSIONER