

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

**PROPOSED ACQUISITION OF
CONTROLLING INTEREST OF THE
VOTING STOCK OF 1st FINANCIAL
ASSURANCE COMPANY, A WHOLLY-
OWNED SUBSIDIARY OF 1st FINANCIAL
ASSURANCE HOLDING COMPANY,
BY DON LEE KELLEY**

A.I.D. NO. 2009- 024

ORDER

On February 26, 2009 at 2:00 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 an Acquisition Statement filed pursuant to Ark. Code Ann. §23-69-142(g) (the "Acquisition Statement") dated March 12, 2008, as amended and supplemented, by Mr. Don Lee Kelley (the "Applicant"), seeking approval of the acquisition of control of 1st Financial Assurance Company ("1st Financial" or "Company"), as detailed in the Acquisition Statement. The hearing was held before Mr. Jay Morgan, Deputy Commissioner and General Counsel for the Department, acting as the Hearing Officer ("Hearing Officer") so designated by Jay Bradford, Arkansas Insurance Commissioner ("Commissioner"). The Department was represented by Ms. Amanda Capps Rose, Associate Counsel, and Ms. Brenda Haggard, Manager of Financial Analysis. The Applicant participated and testified via telephone, and his counsel, Mr. Doak Foster, of Mitchell, Williams, Selig, Gates and Woodyard, was present at the hearing. Participating and testifying via telephone on behalf of 1st Financial was Mr. Robert P. Christiansen, majority shareholder of 1st Financial Assurance Holding Company ("FFAHC"), of which 1st Financial is a wholly-owned subsidiary.

FINDINGS OF FACT

From the Acquisition Statement, testimony of witnesses, and other evidence adduced at the

hearing, including exhibits admitted in connection therewith, reports, correspondence, financial information, business plans, statements on file with the Department, representations of counsel, and other matters and things considered, the Hearing Officer finds as follows:

1. 1st Financial, NAIC No. 83976, is an Arkansas domiciled insurer licensed only in Arkansas and is a wholly-owned subsidiary of FFAHC. 1st Financial is licensed to conduct life and accident and health insurance in the State of Arkansas.
2. The Applicant is an individual residing in Loon Lake, Washington.
3. The testimony presented by the Applicant at the hearing, and the biographical affidavits filed as part of the Acquisition Statement, provided evidence that the Applicant has extensive prior experience in the insurance industry.
4. The Applicant testified that control of 1st Financial is to be acquired through a Settlement Agreement, dated August 26, 2004, between Ms. Marla Prentice, the Applicant, and Mr. Eugene Stewart and Mr. Christiansen, Christiansen & Shipley PLC, FFAHC, 1st Financial, and 1st Financial Assurance Administration Company (“Settlement Agreement”), and through Purchase Agreements dated February 3, 2008 between Mr. Stewart and the Applicant and February 1, 2008 between Ms. Prentice and the Applicant (together, the “Purchase Agreements”). The Applicant testified that he will fund the acquisition with personal funds.
5. The Applicant and Mr. Christiansen testified that there is no business presently being written by 1st Financial and that it is a shell company with no business on its books. The Applicant testified that he does not intend to write policies in the immediate future. The Applicant plans to identify investors and other sources of funding in order to support a more detailed business plan to be developed in connection with the capital raising efforts. If the Applicant’s efforts to secure

additional capital for 1st Financial prove to be unsuccessful within a reasonable period of time of approximately one year, the Applicant stated that he will either sell 1st Financial or dissolve it.

6. The Applicant testified that as a condition of the Department's approval of his Acquisition Statement, the Applicant agrees not to issue any insurance policies or engage in any reinsurance transactions unless and until he files a specific, detailed business plan with the Department and such plan has received prior approval by the Department in writing. In the interim, the Applicant will continue to maintain the Company's license in good standing by making all necessary filings and paying all required fees.
7. The Applicant testified that, because there is currently no business written by 1st Financial, there is no immediate need for the books and records of the Company to be maintained in Arkansas. Due to the Applicant's distance from Arkansas, he requested that the books and records of 1st Financial be removed to his office at 41968 Theo Road, Loon Lake, Washington 99148. The Applicant testified that he will make the books and records available upon request of the Department.
8. The Applicant and Mr. Christiansen each testified that, in their respective opinions, the terms of the acquisition are fair and reasonable to 1st Financial. The Applicant testified that 1st Financial does not currently have any policyholders who will be affected by this change in control.
9. The Applicant and Mr. Christiansen each testified regarding the projected financial statements of 1st Financial prepared by Ervin & Company and admitted as Exhibit 7 to the hearing, stating that the projections were reasonable.
10. The Applicant testified that he has no plans at this time to merge, consolidate, or

dissolve 1st Financial, nor to re-domesticate 1st Financial to any other state.

11. Testimony indicated that the anticipated closing date for the acquisition of 1st Financial is prior to the end of the current financial quarter, March 31, 2009.
12. The Applicant and Mr. Christiansen each testified that the proposed transaction is not contrary to law, in each of their respective opinions.
13. The Applicant testified that he currently owns fifteen percent (15%) of the voting stock of FFAHC and that there are currently three other shareholders. Mr. Christiansen owns sixty percent (60%) of the voting stock; Marla Prentice owns twelve and one half percent (12.5%) of the voting stock; and Eugene Stewart owns twelve and one half percent (12.5%) of the voting stock. The Applicant testified that he will pay Mr. Stewart and Ms. Prentice twenty-five thousand dollars (\$25,000) each pursuant to the terms of the Purchase Agreements as consideration for their present ownership interest in 1st Financial and any rights to additional ownership they might have under the Settlement Agreement. The Applicant testified that the consideration for Mr. Christiansen's shares will be the settlement and dismissal of a civil action filed in Washington County Circuit Court in 2001, pursuant to the terms of the Settlement Agreement. After the closing, the Applicant will own one hundred percent (100%) of the voting stock of FFAHC, 1st Financial's parent company. The Applicant and Mr. Christiansen testified that the proposed transaction is equitable to the shareholders of 1st Financial and FFAHC.
14. The Applicant and Mr. Christiansen each testified that there are currently no policyholders of 1st Financial, and as such, the proposed transaction would not substantially reduce the security of and service to be rendered to policyholders of 1st Financial in this state or elsewhere.

15. Both the Applicant and Mr. Christiansen testified that no director, officer, agent or employee of 1st Financial will receive any fee, commission, compensation or other valuable consideration whatsoever for in any manner acting, promoting or assisting in the proposed acquisition except as set forth in the Settlement Agreement and Purchase Agreements.
16. The Applicant testified that he contributed four thousand dollars (\$4,000) to 1st Financial's surplus in February 2009 and, that prior to closing of this transaction, he will contribute an additional twenty-one thousand dollars (\$21,000), sixteen thousand dollars (\$16,000) of which will be reflected as a change in the characterization of the sixteen thousand dollar (\$16,000) non-admitted asset on 1st Financial's books to an admitted cash asset. The Applicant stated that these contributions should maintain 1st Financial's statutory surplus at a level above the statutory minimum of fifteen thousand dollars (\$15,000) based on the projected financial statements prepared by Erwin & Company, through December 31, 2009.

CONCLUSIONS OF LAW

Based upon the foregoing Findings of Fact, and other matters and facts before him, the Hearing Officer concludes as follows:

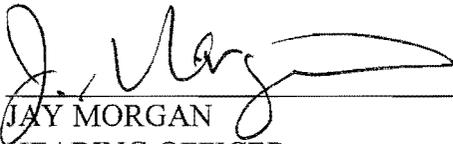
1. The Commissioner has jurisdiction over the parties and subject matter herein.
2. The Acquisition Statement submitted by the Applicant is properly supported by the required documents and meets all the requirements of law for its approval.
3. The requirements for approval of the proposed acquisition by the Applicant, as stated in Ark. Code Ann. § 23-69-142(c)(2), have been met.

4. Pursuant to Ark. Code Ann. § 23-69-134(c), the Applicant has properly requested permission to remove the books and records of 1st Financial to Loon Lake, Washington after the approval of the proposed acquisition.

RECOMMENDATIONS OF THE HEARING OFFICER

WHEREFORE, based upon the foregoing Findings of Fact, Conclusions of Law, and other matters before him, the Hearing Officer recommends:

1. That the proposed acquisition by the Applicant, pursuant to the Acquisition Statement dated March 12, 2008, as amended and supplemented, should be approved on the conditions that (a) the Applicant shall contribute additional twenty-one thousand dollars (\$21,000) to the admitted assets of 1st Financial at or prior to the closing of the transaction; and (b) the Applicant shall submit a detailed business plan to the Department, for its written approval, at least thirty (30) days prior to the Company resuming its insurance business in this state; and
2. That the request to remove the books and records of 1st Financial should be granted pursuant to the provisions of Ark. Code Ann. §§ 23-69-134(c)(1), which allows the Commissioner to approve such a request for a reasonable purpose and period of time.



JAY MORGAN
HEARING OFFICER

CERTIFICATION

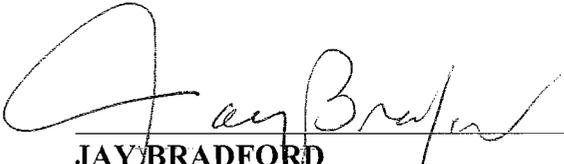
I, Jay Bradford, Insurance Commissioner for the State of Arkansas, do hereby certify that the above and foregoing matter was the subject of a hearing conducted by Jay Morgan, Deputy Commissioner and General Counsel for the Department, acting as the Hearing Officer, by and under my authority and supervision. I hereby adopt the Findings of Fact, Conclusions of Law, and Recommendations of the Hearing Officer set forth above as my official action.

NOW, THEREFORE, IT IS ORDERED AS FOLLOWS:

1. The acquisition of control of 1st Financial by the Applicant, Don Lee Kelley, as described in the Acquisition Statement and exhibits thereto, is hereby APPROVED, subject to the following conditions:
 - a. The Applicant shall provide evidence satisfactory to the Department of the contribution of an additional twenty-one thousand dollars (\$21,000) to the admitted assets of 1st Financial at or prior to the closing of the transaction; and
 - b. At least thirty (30) days prior to 1st Financial resuming its insurance operations or conducting any insurance business in this state, the Applicant shall submit a specific, detailed business plan to the Department. The business plan must be approved by the Department in writing prior to 1st Financial taking any action proposed under the business plan.
2. The Applicant's request to remove books and records from this state, pursuant to Ark. Code Ann. § 23-69-134(c), is hereby APPROVED, subject to the following condition:
 - a. At least thirty (30) days prior to 1st Financial resuming its insurance

operations or conducting any insurance business in this state, the Applicant shall submit a new request to maintain 1st Financial's books and records outside of this state and allow for the Department's reconsideration of said request.

IT IS THEREFORE ORDERED this 30th day of March, 2009.



**JAY BRADFORD
INSURANCE COMMISSIONER
STATE OF ARKANSAS**