

STATE OF IDAHO
DEPARTMENT OF INSURANCE
FILED

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BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:)	
)	ORDER APPROVING
)	FORM A
AMERICAN FARMERS AND RANCHERS)	
MUTUAL INSURANCE COMPANY;)	
Certificate of Authority No. 3608)	
NAIC Co. Code No. 41475; and)	DOCKET NO. 18-2416-07
GENERAL FIRE & CASUALTY COMPANY)	
Certificate of Authority No. 2609,)	
NAIC Co. Code No. 37931)	
_____)	

On October 23, 2007, AMERICAN FARMERS AND RANCHERS
MUTUAL INSURANCE COMPANY (AFR) filed its Form A Statement Regarding the
Acquisition of Control of or Merger With a Domestic Insurer (Form A Statement) and
supporting documents with the Director concerning the acquisition of control of
GENERAL FIRE & CASUALTY COMPANY (GENERAL FIRE) pursuant to Idaho
Code § 41-3802 and IDAPA 18.01.23.

Introduction and Overview

AFR is an Oklahoma domiciled mutual insurer also holding a certificate of
authority in Idaho. The October 23, 2007 Form A Statement seeks approval of the

proposed transaction whereby AFR (located at 800 N. Harvey Avenue, Oklahoma City, Oklahoma 73102) will acquire control and become the sole owner of General Fire (located at 2710 Sunrise Rim Road, Boise, Idaho 83705) by purchasing stock from General Fire's sole owner, GF&C Holding Company (GF&C), while other stock held by GF&C will be redeemed by General Fire. The proposed transaction is detailed in the Stock Sale and Redemption Agreement (Stock Sale Agreement) entered into between General Fire, GF&C, and AFR on October 9, 2007, which, in addition to related exhibits, was submitted as Exhibit 1 to the Form A Statement. The transaction is within the scope of Idaho Code § 41-3802.

While Idaho Code § 41-3802(1) requires the filing of a form A statement prior to the offer to buy or entry into an agreement to acquire an Idaho domiciled insurance company, the director finds that AFR by virtue of the communication by it and General Fire with the DOI leading up to the Form A Statement filing, and as expressly discussed with the DOI well before the filing of the Form A Statement, substantially complied with this requirement.

Stock Sale Agreement & Related Transactions, Findings, & Conclusions

In conjunction with the Stock Sale Agreement transaction, there are a number of ancillary agreements and transactions detailed within the Form A Statement that the DOI considers as part of the Form A Statement application. They include the following:

- Termination of General Fire employees, effective August 31, 2007, and the transfer / hiring by GF&C of many of those employees, except for the non-compensated officers of General Fire, commencing September 1, 2007 through the date of closing of the Stock Sale Agreement; AFR has agreed to reimburse GF&C for payroll expenses related to certain of the former General Fire employees that AFR (and/or the newly owned General Fire) intends to hire upon the closing of the transaction;

- Effective September 1, 2007, General Fire and GF&C terminated all outstanding management services agreements between the parties, including the Tax Allocation Agreement between the parties, the latter of which will be effective as of closing of AFR's acquisition of General Fire;
- Effective September 1, 2007, General Fire and GF&C entered into an interim Management and Administrative Services Agreement under which GF&C has agreed to manage the day-to-day business operations of General Fire from September 1, 2007 through the date of closing of the transaction, all for the express benefit and subject to the review and approval of AFR;
- On October 24, 2007, General Fire submitted Amendment No. 1 to Form B for 2007 dated October 18, 2007 to the Department apprising the DOI of these changes;
- The AFR Board of Directors approved AFR's acquisition of General Fire on August 10, 2007.

The Stock Sale Agreement set forth within the Form A Statement as Exhibit 1 can be summarized as follows.

- At closing AFR will purchase from GF& C for a sum certain set forth in the Stock Sale Agreement a portion of the issued and outstanding capital stock of General Fire, in conjunction with General Fire's simultaneous redemption from GF&C of the remainder of the issued and outstanding shares of General Fire stock; such that after the closing, AFR will be the sole owner of all outstanding shares of General Fire stock; AFR has also indicated its intent to infuse \$6.5 million of additional capital / surplus into General Fire upon the closing;
- The effective date of the Stock Sale Agreement is to be August 31, 2007;
- The proposed sale is conditioned upon the required approval of the Form A Statement by the Director;
- As part of the transaction, the two Pets Best Insurance Services LLC promissory notes (in the aggregate principal amount of \$2,500,000 – the admissibility of which is at issue and currently pending before the Director in DOI Docket Case No. 18-2376-06) will be assigned by General Fire to GF&C as part of the consideration for General Fire's redemption of the amount of General Fire stock being redeemed prior to closing;
- General Fire and the DOI must stipulate to the dismissal, with prejudice, of the administrative proceeding pending before the Department in Docket No. 18-2376-06;
- At closing and simultaneously with General Fire's redemption of the remainder of the issued and outstanding shares of General Fire stock owned by GF&C, and in consideration of the redemption of such stock, General Fire will transfer to GF&C certain excluded assets that will not be purchased by AFR, including but not limited to the following: (a) General Fire's home office building located at 2710 Sunrise Rim Road, Boise, ID 83705, and adjacent parking lot, related tenant leases, and all maintenance, network services and other contracts related to the real property; (b) the two Pets Best Notes payable to General Fire in the aggregate

principal amount of \$2,500,000; (c) the equipment lease, equipment lease receivables and other operating receivables from Pets Best Insurance Services LLC; (d) all personal property owned by General Fire, including equipment, furniture and fixtures; (e) Federal income tax recoverable including the deferred tax asset; (f) certain cash and cash equivalents as of the Closing Date; (g) Intellectual Property relating to General Fire's property and casualty insurance products; (g) certain accounting and software licenses; and (h) certain leases and membership agreements.

- Also prior to closing, GF&C must secure the approval of the transaction by its shareholders; GF&C has advised the DOI that shareholder approval was obtained at a special meeting duly noticed and held on November 14, 2007 in accordance with the Idaho Business Corporation Act.

General Fire and GF&C are also aware of AFR's filing of the Form A Statement on October 23, 2007, and the Director further finds that they all support the approval of such filing as parties to the Stock Sale Agreement. Because the staff of the DOI has not scheduled and given notice of a hearing, as would be required under Idaho Code § 41-3805(1) were they opposing the Form A Statement, and because none of the aforementioned persons have requested a hearing, no public hearing is required pursuant to Idaho Code § 41-3805(1) prior to the entry of this order.

Idaho Code § 41-3805(1) requires the Director to "approve any purchase . . . or other acquisition of control referred to in section 41-3802, Idaho Code . . . unless after a public hearing, the director finds that:" at least one of six enumerated bases exists to disapprove the purchase. If the Director were inclined to disapprove the Form A, a notice of hearing would have been issued as provided in Idaho Code § 41-3805(1). The failure to issue a notice of hearing was not an oversight. The Director affirmatively finds that none of the express bases that may serve to disapprove a Form A application to effect the change in control of a domestic insurer provided in Idaho Code § 41-3805(1) exists in this case, to wit:

It does not appear that AFR will be unable to cause General Fire to satisfy the requirements for a certificate of authority after the closing. To the contrary, AFR has indicated that it plans to infuse capital of approximately \$6.5 million into the company

and will ensure that it continues to meet the capital and surplus requirements of chapter 3, and all other requirements of title 41, Idaho Code. *See* Idaho Code § 41-3805(1)(a).

It does not appear that closing of the Stock Sale Agreement will have the effect of reducing competition in insurance business or create a monopoly in Idaho. *See* Idaho Code § 41-3805(1)(b).

It does not appear that the financial condition of AFR will jeopardize the financial condition of General Fire post closing. *See* Idaho Code § 41-3805(1)(c).

After closing, AFR intends to cause General Fire to continue its commercial lines business and expects to also offer additional commercial and/or personal lines in Idaho and the other states where General Fire is licensed; accordingly there are no planned material changes that are unfair and unreasonable to policyholders of the insurer and not in the public interest. *See* Idaho Code § 41-3805(1)(d).

AFR management intends to operate General Fire, accordingly, it does not appear that the competence, experience, and integrity of those persons who will control General Fire following closing of the Stock Sale Agreement, and circumstances generally, are such as to jeopardize policyholders, stockholders, or the public. *See* Idaho Code § 41-3805(1)(e).

It does not appear that the acquisition is likely to be hazardous or prejudicial to the insurance buying public. *See* Idaho Code § 41-3805(1)(f).

NOW, THEREFORE, based upon the foregoing and for good cause, IT IS HEREBY ORDERED, that the following are hereby approved:

1. AFR'S Form A Statement seeking permission to purchase GENERAL FIRE from GENERAL FIRE's sole shareholder, GF&C, pursuant to and consistent with the terms of the Stock Sale Agreement, except that the approval of the Form A Statement and the Stock Sale Agreement is personal and limited to AFR, and this approval does not extend to "its assign" (as noted in page 1 of that agreement) or any other purchaser; and

2. To the extent that the related transactions as described in General Fire's October 18, 2007 Amendment No. 1 to Form B for 2007 filed on October 24, 2007, amended filing require approval, including but not limited to, the transfer of the various assets by General Fire to GF&C as part of its redemption of stock pursuant to Idaho Code § 41-3809 and IDAPA 18.01.23.024.

The foregoing approval is conditioned upon and subject to the following conditions occurring prior to closing:

(a). GF&C shareholder approval of the Stock Sale Agreement;

(b). General Fire and the DOI staff stipulate to dismiss with prejudice the pending contested case in Docket No. 18-2376-06, provided that the order adopting and effecting the dismissal may be entered following closing;

(c). Nothing contained herein is intended to or shall have the effect of absolving General Fire, GF&C, or AFR from compliance with all applicable law.

IT IS FURTHER ORDERED that AFR shall notify the DOI immediately of the closing of the Stock Sale Agreement.

NOTIFICATION OF RIGHTS

This constitutes a final order of the agency. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The agency will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See* Idaho Code § 67-5246(4).

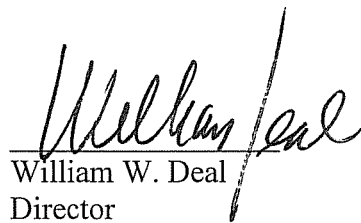
Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order may appeal it by filing a petition for judicial review in the district court of the county in which: (1) the hearing was held; or (2) the final agency action was taken; or (3)

the aggrieved party resides or operates its principal place of business in Idaho; or (4) the real property or personal property that was the subject of the agency decision is located.

An appeal must be filed within twenty-eight (28) days of: (a) the service date of this final order, or (b) an order denying a petition for reconsideration, or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is later. *See* Idaho Code § 67-5273.

The filing of a petition for judicial review to the district court does not itself stay the effectiveness or enforcement of the order under appeal.

DATED and EFFECTIVE this 16TH day of November 2007.


William W. Deal
Director

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have on this 16th day of November 2007, caused a true and correct copy of the foregoing document, to be served upon the following by the designated means:

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For 

Teresa Jones
Administrative Assistant to the Director