

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and
: 1403 of the Insurance Holding
Application of Mercer Mutual : Companies Act, Article XIV of the
Insurance Company in Support of the : Insurance Company Law of 1921,
Request for Approval to Acquire a : Act of May 17, 1921, P.L. 682,
Controlling Interest of the Capital : as amended, 40 P.S. §§991.1401,
Stock of Franklin Holdings Company, : 991.1402, and 991.1403
the Corporate Parent of Franklin :
Insurance Company :
:
:
:
Order No. ID-RC-01-21

DECISION AND ORDER

AND NOW, on this 29th day of May, 2001, M. Diane Koken,
Insurance Commissioner of the Commonwealth of Pennsylvania
("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance
Holding Company Act and in consideration of the documents, presentations and
reports received, as well as other inquiries and studies as permitted by law, the
Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. Franklin Insurance Company ("Franklin") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Lock Haven, Pennsylvania.
2. Franklin Holdings Company ("Parent") is a stock insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Lock Haven, Pennsylvania. Parent holds 100% of the issued and outstanding voting

stock of Franklin.

3. H. Thomas Davis ("Mr. Davis") is an individual with his principal place of business located in Lock Haven, Pennsylvania. Immediately prior to consummation of the proposed acquisition Mr. Davis will hold 210,000 of Parent's Class A Voting Common Stock (the "Class A Stock") and options to acquire 590,000 shares of Parent's Class B Non-Voting Stock (the "Class B Stock").
4. Six individuals (together with Mr. Davis, the "Selling Shareholders") currently hold 10,000 shares of Parent's Series A Convertible Redeemable Preferred Stock (the "Series A Preferred Stock").
5. Mercer Mutual Insurance Company ("Mercer Mutual") is a mutual casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Pennington, New Jersey.

Acquisition Filing

6. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. ("Insurance Holding Companies Act"), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
7. On April 9, 2001, the Insurance Department of the Commonwealth of Pennsylvania ("Department") received an initial application (which together with all material received subsequently is collectively referenced as "Application") from Mercer Mutual for approval to acquire stock of Parent that would result in holding a controlling interest of Franklin, a domestic insurance company.
8. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

9. On April 27, 2001, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by Mercer Mutual and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty (30) day period, ending May 28,

2001.

10. The Department received no comments regarding the Application during the thirty (30) day comment period.

Description of the Proposed Acquisition

11. As described in the Application, on April 6, 2001, Mr. Davis, Parent and Mercer Mutual signed a Stock Purchase Agreement relating to the capital stock of Parent ("Agreement").
12. As described in the Application and pursuant to the Agreement, Mercer Mutual will acquire from the Selling Shareholders:
 - a) 102,900 shares of Class A Stock, which would be 49% of Parent's issued and outstanding voting common stock;
 - b) options to acquire up to 295,000 shares of the Class B Stock, which would be 50% of Parent's outstanding stock options; and
 - c) 5,000 shares of Series A Preferred Stock, which would be 50% of Parent's issued and outstanding preferred stock; and
13. As described in the Application, Mercer Mutual anticipates deriving the cash to be used in the transaction from its internal corporate funds.

Standards for Review

14. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.
15. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

16. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.

17. The lines of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
18. The minimum paid up capital stock and paid in surplus required of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
19. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Franklin is required to maintain a minimum paid up capital stock of \$750,000 to write the lines of insurance for which it is presently licensed.
20. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Franklin is required to maintain a minimum paid in surplus of \$375,000 to write the lines of insurance for which it is presently licensed.
21. Upon completion of the transaction, Franklin will have paid up capital in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the lines of authority currently held by Franklin.
22. Upon completion of the transaction, Franklin will have paid in surplus in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the lines of authority currently held by Franklin.

Competitive Impact

23. The acquisition of control of Franklin is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
24. The acquisition of control of the Franklin will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of Mercer Mutual and the market share of Franklin, as stated in the Application, do not exceed the market share levels established in Section 1403 of the Insurance Holding Companies Act.

Financial Condition of Mercer Mutual

25. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews

the financial condition of the acquiring persons.

26. Mercer Mutual reported statutory surplus as regards policyholders of \$29,045,892, as of December 31, 2000.
27. The financial condition of Mercer Mutual would not pose any impediments to the change in control nor jeopardize the financial condition of Franklin.

Plans for the Acquired Insurer

28. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.
29. As provided in the Application, Mercer Mutual has disclosed that it intends to make no significant changes to the business plan of Franklin.

Management

30. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.
31. Biographical affidavits for all directors and executive officers of Mercer Mutual were provided as part of the Application and the Department reviewed all affidavits that were submitted.
32. The Department is satisfied that the persons who would control the operations of Franklin have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
33. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has jurisdiction to review and approve the change in control of Franklin.
2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of Franklin.

4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

