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EXECUTIVE DIRECTOR



MATTHEW J. NEUBERT  
DIRECTOR

SECURITIES DIVISION  
1300 West Washington, Third Floor  
Phoenix, AZ 85007  
TELEPHONE: (602) 542-4242  
FAX: (602) 594-7470  
E-MAIL: securitiesdiv@azcc.gov

ARIZONA CORPORATION COMMISSION

October 20, 2005

Margaret A. Johnston, Esq.  
Mitchell, Williams, Selig, Gates & Woodyard, P.L.L.C.  
425 West Capitol Avenue, Suite 1800  
Little Rock, Arkansas 72201-3525

RE: Farmers Home Holding Company, Inc.  
A.R.S. § 44-1844(A)(6)

Dear Ms. Johnston:

On the basis of the facts set forth in your letters of October 10 and October 17, 2005, and in reliance upon your opinion as counsel, the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona should the transaction take place as set forth in your letter.

As this position is premised upon the facts set forth in your letter, it should not be relied on for any other set of facts or by any other person. Please also note that this position applies only to the registration requirements of the Act; the antifraud provisions of the Act continue to be applicable.

We have attached a photocopy of your letter containing the facts upon which this position is based.

Very truly yours,

A handwritten signature in black ink, appearing to read "M. Neubert", with a horizontal line extending to the right.

MATTHEW J. NEUBERT  
Director of Securities

MJN:cf  
Attachment

JOHN K. BAKER  
W. CHRISTOPHER BARRIER  
SHERRY P. BARTLEY  
STEVE BAUMAN  
R. T. BEARD, III  
C. DOUGLAS BUFORD, JR.  
FREDERICK K. CAMPBELL<sup>1</sup>  
CHARLES B. CLIETT, JR.<sup>2</sup>  
KEN COOK  
DOAK FOSTER<sup>1</sup>  
BYRON FREELAND  
ALLAN GATES<sup>1</sup>  
JOSEPH W. GELZINE  
KATHLYN GRAVES  
JACK D. GRUNDFEST<sup>2</sup>  
HAROLD W. HAMLIN  
JEFFREY W. HATFIELD  
L. KYLE HEFFLEY  
DONALD H. HENRY  
HERMANN IVESTER<sup>2</sup>  
M. SAMUEL JONES III  
WALTER E. MAY  
LANCE R. MILLER  
STUART P. MILLER  
T. ARK MONROE, III<sup>1</sup>  
ANNE S. PARKER  
LYN P. PRUITT  
CHRISTOPHER T. ROGERS  
JOHN S. SELIG  
LEIGH ANNE SHULTS  
STAN D. SMITH  
MARCELLA J. TAYLOR  
JEFFREY THOMAS<sup>1</sup>  
NICHOLAS THOMPSON<sup>1</sup>  
WILLIAM H.L. WOODYARD, III, P.A.  
WALTER G. WRIGHT, JR.  
KYNDA ALMEFTY-HERNANDEZ<sup>2</sup>  
MICHELLE H. CAULEY

LAW OFFICES

**MITCHELL, WILLIAMS,  
SELIG, GATES & WOODYARD, P.L.L.C.**

425 WEST CAPITOL AVENUE, SUITE 1800  
LITTLE ROCK, ARKANSAS 72201-3525  
TELEPHONE 501-688-8800  
FAX 501-688-8807

5414 PINNACLE POINT DRIVE, SUITE 500  
ROGERS, ARKANSAS 72758-8131  
TELEPHONE 479-273-9561  
FAX 479-273-0527

WRITER'S DIRECT DIAL  
501-688-8800

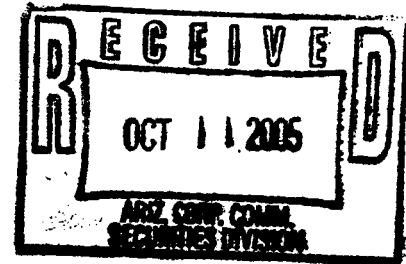
October 10, 2005

P. BENJAMIN COX  
COURTNEY C. CROUCH, III  
DAVID P. GLOVER  
AMMIE E. HARRIS  
LINDSEY K. HOWARD  
BRIAN HYNEMAN  
SHAWN J. JOHNSON  
MARGARET A. JOHNSTON  
DAVID L. JONES  
TONY JUNEAU  
TAMLA J. LEWIS  
<sup>4</sup>MARY MICHELLE MAHONY  
LANEY GOSSETT MCCONNELL  
P. DELANNA PADILLA  
JENNIFER E. PELPHREY  
JENNIFER R. PIERCE  
<sup>1</sup>CHERYL L. REINHART  
<sup>1</sup>JENNIFER A. RONNEL  
JEFFREY L. SINGLETON  
DERRICK W. SMITH  
SHANNON SHORT SMITH  
JEFFREY L. SPILLYARDS

COUNSEL  
<sup>1</sup>DAVID BOLING  
JEFFREY H. DIXON  
<sup>1</sup>H. MAURICE MITCHELL  
MARSHALL S. NEY  
JEAN D. STOCKBURGER  
RICHARD A. WILLIAMS, P.A.

<sup>1</sup> ALSO ADMITTED IN DISTRICT OF COLUMBIA  
<sup>2</sup> ALSO ADMITTED IN COLORADO  
<sup>3</sup> ALSO ADMITTED IN THE U.S. PATENT  
AND TRADEMARK OFFICE  
<sup>4</sup> ALSO ADMITTED IN TEXAS  
<sup>5</sup> ALSO ADMITTED IN ARIZONA AND TEXAS  
<sup>6</sup> ALSO ADMITTED IN NEW YORK  
ALL ADMITTED IN ARKANSAS

Mr. Matthew J. Newbert  
Director of Securities  
Arizona Corporation Commission, Securities Division  
1300 West Washington St., Third Floor  
Phoenix, AZ 85007



RE: Farmers Home Holding Company, Inc., Demutualization

Dear Director Newbert:

We are counsel to Farmers Home Mutual Fire insurance company, a mutual insurance company organized under the laws of the State of Arkansas ("Farmers Home"), in connection with Farmers Home's proposed conversion from a mutual insurance company to a stock insurance company. This process, described in greater detail below, is referred to as the "Demutualization."

We are writing on behalf of Farmers Home to request that (a) the Arizona Corporation Commission ("ACC") concur that an exemption exists or adopt a "no action" position regarding the issuance of shares of stock in Farmers Home Holding Company, Inc. ("Holding Company") as a part of the Demutualization and (b) based on such position or other exemptions, dealer or salesman registration will not be required of Farmers Home or Holding Company or their officers or employees in connection with the issuance of such shares.

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Director of Securities, Arizona Corporation Commission  
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## **BACKGROUND**

### **A. FARMERS HOME**

Farmers Home is a mutual insurance company whose business is concentrated in property and casualty insurance products. Currently, Farmers Home has approximately 10,645 in-force policyholders ("Policyholders"), the majority of which are located in Arkansas. As a mutual insurance company, Farmers Home has no authorized, issued or outstanding stock. Through the purchase of Farmers Home insurance policies, Farmers Home's Policyholders acquire insurance coverage from Farmers Home and ownership interests ("Equity Rights") in Farmers Home pursuant to the Arkansas Insurance Code and Farmers Home's Articles of Incorporation and Bylaws. Those Equity Rights include the right to vote on matters submitted to a vote of the members and the right to a distribution of cash, stock or other consideration in the event of a dissolution or a demutualization of Farmers Home.

### **B. HOLDING COMPANY**

The Holding Company is an Arkansas corporation incorporated by Ross E. Ford, Jr., Kelly L. Ford and W. Kyle Harris (collectively, the "Sponsors") for the sole purpose of proposing this Demutualization to the Board of Farmers Home. At the appropriate time, the Sponsors will contribute assets to the Holding Company sufficient to fulfill its obligations under a certain Agreement and Plan of Conversion (the "Plan").

### **C. THE PROPOSED DEMUTUALIZATION**

The Demutualization is the process by which Farmers Home will convert from a mutual insurance company to a stock insurance company in accordance with Ark. Code Ann. §23-69-141 *et seq.* (the "Arkansas Demutualization Law"). At the time Farmers Home converts from a mutual property and casualty insurance company to a stock property and casualty insurance company, it will become a wholly-owned subsidiary of the Holding Company.

If the Demutualization becomes effective, Members (defined below) will no longer own Farmers Home, but, in exchange for their Equity Rights in Farmers Home, Members will elect to receive consideration in the form of cash and/or shares of the Holding Company's Common Stock.

"Members" are members of Farmers Home who were Policyholders of policies that were in force at any time during the three (3) year period ending on August 31, 2005 (the "Record Date") (the date the Plan was submitted to the Arkansas Insurance Commissioner (the "Commissioner") pursuant to the Arkansas Demutualization Law), and who are in existence on the Record Date. (Currently the number of Members is approximately 14,620, ten (10) of whom reside in the state of Arizona.)

Although these transactions are described below as a series of separate steps, effectively they all will occur at the same time and none of these steps will be taken without the others.

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- (1) In accordance with the Arkansas Demutualization Law, Farmers Home will convert from a mutual property and casualty insurance company to a stock property and casualty insurance company, organized and existing under the Arkansas Insurance Code.
- (2) 221,400 shares of Farmers Home common stock shall be issued to the Holding Company in exchange for \$2,214,000, which shall be all of the issued and outstanding stock of Farmers Home.
- (3) Members will receive consideration, either cash, shares of the common stock of the Holding Company ("Holding Company Common Stock") or a combination, in exchange for their Equity Rights in Farmers Home.

As a result of these transactions, the Holding Company will become the parent company of Farmers Home.

The Demutualization is conditioned upon the occurrence of certain events, including:

- (1) Public fairness hearing before the Commissioner on the Demutualization;
- (2) Obtaining all necessary approvals of the Commissioner;
- (3) Obtaining approval of the Plan by three-fourths (3/4) of the Members voting at a special meeting of the Policyholders (in person or by proxy);
- (4) Not more than 20% of the total consideration for the extinguishment of Equity Rights is in the form of the Holding Company Common Stock; and
- (5) The satisfaction of all other conditions set forth in the Plan and the applicable conditions imposed by the Commissioner.

Additionally, the Demutualization will not take place if the Holding Company would be required to register its stock under Section 12 of the Securities Exchange Act of 1934 because the number of stockholders of the Company exceeds 500.

The Farmers Home Board of Directors adopted resolutions proposing the Plan on August 29, 2005. On August 31, 2005, Farmers Home submitted the Plan to the Commissioner in accordance with the Arkansas Demutualization Law. The Commissioner has designated October 21, 2005, for a public hearing (the "Hearing") to receive comments and information to aid the Commissioner in approving or disapproving the Plan. Ark. Code Ann. § 23-69-141. Among other things, pursuant to the requirements of the Commissioner, the notice of the Hearing to the Members must be accompanied by a copy of a preliminary Policyholder Information Statement (the "Statement") which (a) describes certain aspects of the Plan; (b) contains information about Farmers Home and its business, including financial statements; (c) contains information about the Holding Company, including financial statements; (d) contains information relevant to the

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ownership of the Holding Company Common Stock issued to Members who elect to receive stock under the Plan; and (e) other matters. However, the Statement does not include offering materials or voting materials and is not intended to constitute an offer to sell securities to any Member in its preliminary form. Farmers Home is providing over three (3) weeks prior notice of the Hearing to its Members and prior notice of the Hearing will be published pursuant to the notice requirements of the Arkansas Demutualization Law. Members and the general public will be invited to appear and will have a right to be heard at the Hearing.

Under the Arkansas Demutualization Law, the Plan may not take effect unless and until, after the Hearing, the Commissioner makes the findings required to approve the Plan, including:

- (1) it is equitable to the Members;
- (2) it is subject to approval by vote of not less than three-fourths (3/4) of the Members voting thereon in person, by proxy or by mail at a meeting called for that purpose (the "Special Meeting"), pursuant to such reasonable notice and procedure as approved by the Commissioner;
- (3) the equity of each Member in Farmers Home is determinable under a fair formula approved by the Commissioner;
- (4) the Members entitled to participate in the purchase of stock or distribution of assets includes all current Policyholders and all living persons who had been Policyholders within three (3) years prior to the date the Plan was submitted to the Commissioner;
- (5) the Plan gives each Member preemptive rights to acquire his or her proportionate part of all of the proposed capital stock within a designated reasonable time and to apply the amount of his or her equity in Farmers Home to the purchase;
- (6) no shares offered to Members are priced higher than shares thereafter offered to others and the price of shares offered to Members is not more than double the par value of the shares.
- (7) the Plan allows Members who elect cash consideration an amount not less than fifty percent (50%) of the amount of his or her equity; and
- (8) the Plan requires Farmers Home to maintain applicable capital and surplus requirements.

Further, in connection with the Plan, the Board Directors of Farmers Home requested the opinion of its accountants, Jones & Company, as to the fairness of the Plan to the Members.

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Based on certain assumptions on the review undertaken by Jones & Company, Jones & Company opined that as of the date of its opinion with respect to the requirements prescribed by the Arkansas Demutualization Law, the Demutualization is fair, in all material respects to the Members.

If Approved by the Commissioner, a final version of the Statement (the "Final Statement"), a copy of the Plan accompanied by voting materials and an offering of the Holding Company Common Stock to the Members shall be mailed to the Members with the notice of the Special Meeting.

If the Plan is approved by the Members, Members will receive consideration in the form of cash or Holding Company Common Stock (the "Consideration"). If a Member elects to receive stock, that Member will receive one share of stock for each \$10 of such Members Equity Rights. If a Member elects to receive cash, that Member will receive cash equal to 54.869% of the value of such Members Equity Rights. The total value of the Equity Rights, if approved by the Commissioner as fair, is \$4,036,063.00.

The Demutualization has been structured as a tax free reorganization, with no recognition of income, gain or loss for the Holding Company or Farmers Home under U.S. tax laws. Members will not be taxed on the receipt of Holding Company Common Stock under the Plan. Members may however be taxed on the gain from later sales of such stock. Members receiving cash under the plan will generally be liable for a capital gains tax on the full amount of the tax in the year it is received.

#### **D. INFORMATIONAL ACTIVITIES**

Members will be advised in the Statement and the Final Statement to call Farmers Home at (870) 236-2208 with any additional questions. Certain employees, officers or directors of Farmers Home and/or the Holding Company (the "Associates") will answer any Member questions regarding the Demutualization. None of these persons will be compensated, directly or indirectly, for their efforts in connection with activities described herein. Further, all of these persons have not or will not be hired for the purpose of answering questions regarding the Demutualization, but rather have or will have other regular duties as employees, officers or directors with Farmers Home or the Holding Company.

Prior to the approval of the Plan by the Commissioner and distribution of the Final Statement, the Associates will answer any questions regarding the Plan but will not discuss the mechanics of the offering (i.e., details of the Special Meeting, voting information or proxy materials) and will be instructed to inform all Members calling or writing with questions that no vote will take place and no offering will be made unless and until the Plan is approved by the Commissioner.

After the distribution of the Final Statement, the Associates will answer certain questions Members may have about the Demutualization and discuss the conversion of Farmers Home

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when necessary. Associates will be educated about the Demutualization and instructed to: (1) answer questions Members may have in connection with the notice of the Hearing, the notice of the Special Meeting, the Statement or the Final Statement (as applicable), or the mechanics of the Plan or the Special Meeting, and (2) discuss the Demutualization with Members, and confirm, in response to appropriate inquiries from voting Members, that the Board of Directors has approved the Plan, and that the Statement or Final Statement contains the recommendation of the Board of Directors that Members vote to approve the Plan. Associates will not initiate contact with Members about the Demutualization, will not contact Members to ask if they received notice of the Special Meeting, and will not actively seek to solicit proxies for the Special Meeting, other than by distribution of the Final Statement, as described above. In addition, the Associates' activities will be subject to additional limitations (stated below) and will be supervised.

During the Demutualization process, the Associates will be specifically instructed, in writing, to refrain from:

- (1) using written materials other than the Statement or Final Statement or other materials prepared by Farmers Home for use in connection with the Demutualization, or making any revisions to such materials;
- (2) making any statements not derived from the Statement or Final Statement or other materials approved by Farmers Home for use in connection with the vote on the Demutualization;
- (3) offering advice to Members regarding whether or not to express a preference to receive Holding Company Common Stock rather than cash (or vice-versa) pursuant to the Plan;
- (4) advising Members on how to vote on the Demutualization, other than confirming that the Board of Directors has voted to approve the Demutualization and has recommended that it be approved by the Members;
- (5) discussing the potential market value of the Holding Company Common Stock;
- (6) providing financial advice about, or recommending or soliciting purchases of, the Holding Company Common Stock; and
- (7) discussing with Members their personal plans to invest or not invest in the Holding Company Common Stock.

After approval of the Commissioner and the mailing of the Offering and Voting Materials to the Members, Associates will receive and process all proxy materials, offer acceptances and other materials related to the stock issuance. Further, the Associates will issue securities to those Members who choose the Holding Company Common Stock as their consideration if all conditions of the Demutualization are met.

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### DISCUSSION

For the reasons set forth below, we believe that confirmation of exemption or a no action letter is appropriate because registration of the securities or exemption notice filing for the issuance of the Holding Company Common Stock and registration of Farmers Home, the Holding Company or the Associates as dealers or salesmen is not required in your jurisdiction with respect to the foregoing activities.

With respect to the stock issuance and dealer or salesman registration, we base this belief first on Section 306 of the Gramm-Leach-Bliley Act (15 U.S.C.A. § 6715) (the "GLB Act"). The GLB Act provides, in part, that "no state may, by law, regulation, order, interpretation, or otherwise . . . prevent, significantly interfere with, or have the authority to review, approve, or disapprove a plan of reorganization by which an insurer proposes to reorganize from mutual form to become a stock insurer (whether as a direct or indirect subsidiary of a mutual holding or otherwise) unless such state is the State of domicile of the insurer." If the Holding Company were required to register the stock or even file a notice of exemption, it would significantly interfere with and give Arizona the authority to "review, approve, or disapprove" the Demutualization and the Plan, which would violate the provisions of the GLB Act forbidding such interference. As to the dealer or salesman registration, a registration requirement, would significantly interfere with the ability of Farmers Home and the Holding Company to provide information regarding the Plan and the Demutualization to the Members. Further, because as a practical matter, it is not feasible to comply with a dealer or salesman registration requirement it would result in the Members located in your jurisdiction receiving only cash and no Holding Company Common Stock as a consideration for the extinguishment of their Equity Rights. The ACC should not require the Holding Company to register or file an exemption notice in relation to the issuance of the Holding Company Common Stock. Further, Farmers Home, the Holding Company or the Associates should not be required to register as a dealer or salesman in your jurisdiction because of Section 306 of the GLB Act.

Even if the GLB Act were not applicable to the issuance of Holding Company Common Stock, we believe that this transaction would be exempt under Section 44-1844 (A)(6) of the Securities Act of Arizona which exempts from registration "any transaction or series of transactions incident to a statutory or judicially approved reorganization, merger, triangular merger, consolidation or sale of assets incident to a vote of security holders pursuant to the article of incorporation, the applicable corporate statute or other controlling statute." Further, the issuance is exempt under § R14-4-137 which provides an exemption under § 44-1844 for "the issuance of Securities in exchange for bona fide claims or property interests." The Equity Rights of the Members are a "property interest" being exchanged for securities. Additionally, the Arkansas Demutualization Law expressly authorizes the Commission to hold a hearing and, after making an express finding of fairness, to make an order authorizing the transaction which "shall be final upon entry." Ark. Code Ann. § 23-69-141. Pursuant to the procedural requirements of R 14-4-137 this letter along with a copy of the notice of the fairness hearing is being filed with the ACC ten (10) calendar days prior to the hearing. All Members have been given over three



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(3) weeks notice of the public hearing, at which the members may be heard regarding the Demutualization.

For your convenience, we refer you to your no-action letters in which you approved transactions with many features in common with this transaction: *In re: Farm Family Mutual Insurance Company*, No-Action Request, A.R.S. § 44-1844(A)(6), March 20, 1996 (exempting a transaction pursuant to demutualization) and *In re: Wired, Inc.*, No-Action Request, A.R.S. § R 14-4-137, May 23, 1996 (approving a transaction to be reviewed by a fairness hearing in California).

If the GLB Act did not exempt Farmers Home, the Holding Company or the Associates from registration as dealers or salesmen, they still would not be required to register because (a) they do not fall within the definition of either a "dealer" or "salesman" under the Securities Act of Arizona; or (b) they would be exempt because the transaction falls under § 44-1844 of the Arizona Securities Act.

Farmers Home and the Associates will not be "offering, buying, selling or otherwise dealing or trading in securities" for the purposes of Section 44-1801(9) of the Arizona Securities Act or "selling" for the purposes of § 44-1801(22). Farmers Home and the Associates only functions will be to help members understand the Plan and the effect of the Demutualization if needed. Neither Farmers Home nor the Associates will advise members on how to vote (other than stating that the Board has recommended the Plan). Also, neither party will receive compensation in connection with their informational activities. They will merely be conduits of public information about the Plan. Further, neither party nor the Holding Company will be engaged in the business of solicitation or effecting securities transactions within the meaning of 44-1801(9)(a). Finally, Section 44-1844 exempts from registration dealers and salesmen acting in transactions exempt under that section, which would exempt Farmers Home, the Holding Company and the Associates even if they fell under the definition of dealer or salesman.

Finally, as to both the stock issuance and dealer and salesman registrations, we believe that the public interest is adequately protected by the fairness hearing being held pursuant to the Arkansas Demutualization Law. In addition, we want to emphasize that the Commissioner is expressly required to make a finding of fairness before approving the Plan. A no-action position by the ACC with regard to the issuance and the dealer and salesman registration would not be adverse to the public interest.

Based on all of the foregoing, we respectfully request that the ACC concur in our position regarding the outlined exemptions or take a no-action position with regards to the issuance of the Holding Company Common Stock and the dealer or salesperson registration of the Associates. As required by Section 44-1861(M) of the Securities Act of Arizona, we have enclosed a check for the \$200.00 filing fee for this request. If additional fees are required, we ask that you please advise us so that we can forward the appropriate fees.

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Because of the importance of the Demutualization to Farmers Home, we would appreciate hearing from you at your earliest convenience. If you have any questions, please call me at (501) 688-8870 or, in my absence, Cheryl Reinhart of this office at (501) 688-8876. Thank you for your attention to this matter.

Sincerely,



MITCHELL, WILLIAMS, SELIG, GATES  
& WOODYARD, P.L.L.C.

LAW OFFICES  
**MITCHELL, WILLIAMS,  
SELIG, GATES & WOODYARD, P.L.L.C.**

425 WEST CAPITOL AVENUE, SUITE 1800  
LITTLE ROCK, ARKANSAS 72201-3525  
TELEPHONE 501-688-8800  
FAX 501-688-8807

MARGARET A. JOHNSTON  
DIRECT DIAL 501-688-8870  
E-MAIL MJOHNSTON@MWSGW.COM

5414 PINNACLE POINT DRIVE, SUITE 500  
ROGERS, ARKANSAS 72758-8131  
TELEPHONE 479-273-8661  
FAX 479-273-0827

October 17, 2005

VIA FACSIMILE (602) 594-7476

Ms. Cheryl Farson  
Arizona Corporations Commission  
Securities Division  
1300 West Washington St., Third Floor  
Phoenix, AZ 85007

Re: Demutualization of Farmers Home Mutual Fire Insurance Company

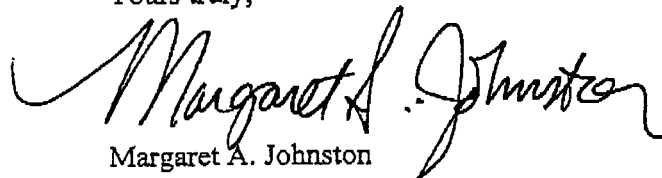
Dear Ms. Farson:

Please accept this as an addendum to our no-action letter request of October 10, 2005, regarding the issuance of stock in connection with the Demutualization of Farmers Home Mutual Fire Insurance Company ("Farmers Home").

We certify on behalf of Farmers Home and Farmers Home Holding Company, Inc. (the "Holding Company") that except for the scheduled fairness hearing disclosed in the no-action letter, that the transaction is not, to our knowledge, directly or indirectly the subject of any pending or final judicial SRO or administrative proceeding. We acknowledge, on behalf of Farmers Home and the Holding Company that the no-action request, together with any documents or information submitted to the division and any response you might make, is public information that may be released for publication, except as otherwise provided by law.

Please let me know if you need any additional information regarding this request. Thank you for your assistance.

Yours truly,

  
Margaret A. Johnston

MAJ:ljp