

**STATE OF OREGON  
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES  
INSURANCE DIVISION**

BEFORE THE DIRECTOR  
OF THE DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

In the Matter of the Proposed Plan of Acquisition )	Findings of Fact, Conclusions of
of Control and Merger of Utah Medical Insurance )	Law and Order
Association, Salem, Oregon, by MMIC Insurance, )	
Inc., Minneapolis, MN )	Case No. 13- 04-004

**INTRODUCTION**

On February 6, 2013, MMIC Insurance, Inc. ("MMIC") filed a Statement Regarding the Acquisition and Control of or Merger with a Domestic Insurer to acquire control of Utah Medical Insurance Association ("UMIA") pursuant to the terms of an Agreement and Plan of Merger dated January 31, 2013 (the "Original Agreement") as required by ORS 732.517 through 732.546. The Original Agreement was adopted and approved by the Board of Directors of MMIC Group, Inc. ("MMIC Group"), on January 21, 2013. The Board of Directors of USMA Insurance Management Company ("IMC"), a Utah corporation and attorney-in-fact of UMIA, and the Board of Governors of UMIA approved the Original Agreement on January 30, 2013.

On April 9, 2013, MMIC filed an Amended Statement Regarding the Acquisition and Control of or Merger with a Domestic Insurer to acquire control of UMIA (the "Form A") pursuant to the terms of an Amended and Restated Agreement and Plan of Merger dated April 9, 2013 (the "Definitive Agreement") as required by ORS 732.517 through 732.546. The Definitive Agreement was executed by the CEO of MMIC Group on April 9, 2013 pursuant to authority previously granted by the Board of Directors in its January 21, 2013 resolutions. The Board of Directors of IMC and the Board of Governors of UMIA approved the Definitive Agreement on April 8, 2013.

Supplemental information was periodically provided until the filing was complete on April 28, 2013.

#### FINDINGS OF FACT

- (1) UMIA is an Oregon domestic reciprocal insurer that redomesticated from Utah to Oregon on October 22, 2012. UMIA was authorized under ORS Chapter 731 on August 6, 2012, to transact casualty insurance (excluding workers' compensation) in Oregon.
- (2) MMIC is a Minnesota stock insurance company, which is wholly owned by MMIC Group. It provides professional liability insurance and will continue to conduct business following the acquisition of UMIA.
- (3) MMIC Group is a Minnesota mutual insurance holding company and ultimate controlling party of MMIC.
- (4) MMIC Acquisition Corporation ("Oregon Sub") is a newly formed Oregon stock insurance corporation and a wholly-owned subsidiary of MMIC. It was organized on March 27, 2013 to facilitate the change of control of UMIA and will be authorized under ORS Chapter 731 prior to the Effective Time to transact property and casualty insurance (excluding workers' compensation).
- (5) Prior to the change of control, UMIA will convert from a reciprocal insurer to a mutual insurer (the "Reciprocal Conversion") in accordance with a Plan of Conversion and Merger dated April 9, 2013 (the "Plan of Conversion"). UMIA will convert from a reciprocal insurer to a mutual insurer by (i) terminating the Second Amended and Restated Management Agreement—Power of Attorney after which UMIA will no longer have an attorney-in-fact as required by the Oregon Insurance Code and (ii) adopting the articles of incorporation and bylaws attached as exhibits to the Plan of Conversion. By such actions, UMIA will no longer satisfy the Oregon Insurance Code provisions for a reciprocal insurer, but will satisfy the Oregon Insurance Code provisions for a mutual insurer. ORS 732.531(4)

provides that the Director may require ORS 732.600 to 732.630 to apply if the proposed activity described in the Form A is primarily a plan to convert a domestic reciprocal insurer to a stock insurer. This requirement has been satisfied because of the importance to the transaction and the ensuing MMIC Group organizational structure of having UMIA remain as a separate stock subsidiary of MMIC with a separate name.

(6) Immediately after the Reciprocal Conversion, UMIA will convert from a mutual insurer to a stock insurer (the “Mutual Conversion”) under the Oregon Insurance Code and in accordance with the Plan of Conversion. Simultaneous with the Mutual Conversion, Oregon Sub will merge with and into UMIA. UMIA, then a stock insurer, will be the surviving corporation in the Merger and will become a wholly owned subsidiary of MMIC Insurance. The separate existence of Oregon Sub will cease, and UMIA will continue in existence. The terms of the proposed merger are set forth in the Definitive Agreement.

(7) As a result of the Reciprocal Conversion and the Mutual Conversion (collectively, the “Conversion”), each subscriber of UMIA (a “UMIA Member”) will retain his, her, or its ownership interest in UMIA (the “Membership Interest”). The Membership Interest of each UMIA Member immediately before the Reciprocal Conversion will not be altered or modified in any respect by the Reciprocal Conversion or the Mutual Conversion and will remain unimpaired.

(8) As a result of the Conversion, the rights provided under an insurance policy issued by UMIA to a UMIA Member will be unimpaired, all insurance policies issued by UMIA as a reciprocal insurer will remain in full force and effect as insurance policies of UMIA as a stock insurer, and all obligations, liabilities, and duties of UMIA as a reciprocal insurer under such insurance policies will become obligations, liabilities, and duties of UMIA as a stock insurer under such insurance policies without any action on the part of the UMIA Members.

(9) The Merger will become effective at the time (the "Effective Time") that UMIA and MMIC Acquisition Corporation file articles of merger with the Director of the Oregon Department of Consumer and Business Services (the "Director"). At the Effective Time, by virtue of the Conversion and the Merger and without any action on the part of the parties or the UMIA Members:

(a) Each issued and outstanding share of common stock of the Oregon Sub will be converted into one (1) share of the common stock, par value of \$1.00 per share, of UMIA, as the surviving corporation in the Merger, with the result that UMIA will be a wholly-owned subsidiary of MMIC;

(b) The Membership Interests in UMIA held by UMIA Members immediately prior to the Effective Time will be cancelled and will be converted automatically into the right to receive the payments described in Paragraph 10 below;

(c) The UMIA Members will not be entitled to receive any shares of capital stock of UMIA as a stock insurer and will not be considered shareholders of UMIA as a stock insurer;

(d) The Membership Interest of each UMIA Member will be retired and cease to exist, and each UMIA Member will cease to have any rights with respect thereto or with respect to any ownership of UMIA, except for (i) the rights to receive payments in accordance with Section 3.2 of the Definitive Agreement, and (ii) the rights as an insured under insurance policies issued by UMIA and in force as of the Effective Time.

(e) Each policyholder of UMIA will automatically become a member of MMIC Group in accordance with the terms of the articles of incorporation and bylaws of MMIC Group. No direct monetary value will be assigned to a membership interest in MMIC Group. MMIC Group will cause each policyholder of UMIA that becomes a member of MMIC Group to be treated in a fair and equitable manner in relation to other members of MMIC Group regarding voting rights, rights to the surplus of

MMIC Group and its affiliates and any other rights of membership, but only with respect to premiums paid by the policyholders of UMIA after the Effective Time.

(10) The record date (the "Record Date") is April 30, 2013. Only those UMIA Members reflected on UMIA's records whose UMIA insurance policies are in force on April 30, 2013 (the "Record Date Members") will receive consideration for their Membership Interests. An extended reporting endorsement (commonly referred to as "tail coverage") is not an insurance policy for these purposes.

(11) The initial purchase price will be \$141,537,124 to be paid over a five year period, according to the schedule described below. A cash payment of \$20,000,000 will be paid within 10 days after closing. The balance of the purchase price will be paid to the Record Date Members over a five year period (the "Future Payments") as described in Paragraph 15 below. The purchase price will be adjusted annually based on reserve deficiencies or redundancies determined as of December 31, 2013, December 31, 2014, December 31, 2015, December 31, 2016, and December 31, 2017 (each, an "Adjustment Date") for (i) losses and defense and cost containment expenses and (ii) reinsurance premiums, commissions, and profit sharing which are based on loss experience (the "Reinsurance Profit Adjustment"). A reserve deficiency or redundancy will be determined in accordance with Schedule 3.2(f) of the Definitive Agreement by (i) comparing the sum of net ultimate losses and defense and cost containment expenses for years 2012 and earlier at the Adjustment Date and at December 31, 2012 and (ii) comparing the Reinsurance Profit Adjustment expected upon final settlement at the Adjustment Date and at December 31, 2012 for all reinsurance agreements in effect through December 31, 2012. As of each Adjustment Date, the purchase price either will be (i) decreased by the full amount of any reserve deficiency determined as of the Adjustment Date (but not more than \$11,500,000 in the aggregate) or (ii) increased by 65 percent of the amount of any reserve redundancy determined as of the Adjustment Date. UMIA will retain 35 percent of the amount

of any reserve redundancies to reflect the tax liability that it estimates will be paid on such amount at an assumed tax rate of 35 percent.

Once a Future Payment has been made, it will not be recouped from the UMIA Members even if subsequent loss development decreases the purchase price below the level of the aggregate payments previously made to UMIA Members. The reserve adjustments will be made using data only with respect to the UMIA book of business as of the Effective Time.

(12) The purchase price will be adjusted for retention. The retention adjustment will be determined as the percentage of UMIA's physicians (defined as physicians, oral surgeons or osteopaths) as of January 1, 2013 who are insured by UMIA or an affiliate as of December 31, 2015 without a break in coverage. The retention adjustment computation will not include (1) UMIA members who have died, become disabled, have permanently retired or been non-renewed by the insurer and (2) UMIA members who cease to be insured by UMIA as a result of accepting employment by a hospital that is an insured of UMIA or an affiliate. The retention adjustment will reduce the purchase price on the December 31, 2015, December 31, 2016, and December 31, 2017 Adjustment Dates by 0.3 percent (or fraction thereof) for each one percent (or fraction thereof) by which the retention rate at December 31, 2015 is below 85 percent. The purchase price will not be reduced by more than \$11.5 million due to this adjustment.

(13) In addition to the adjustments described above related to reserve adequacy and retention, the purchase price may be decreased for:

- Costs incurred in connection with the engagement and activities of the Member Representatives in excess of the first \$150,000 of expenses.
- Losses, costs, damages and expenses incurred by UMIA in connection with litigation brought by the Member Representatives against UMIA (or an affiliate of UMIA) in which the Member

Representatives are not the prevailing party.

- Losses incurred by MMIC or its affiliates as a result of a breach by UMIA with respect to its representations, warranties or covenants under the Definitive Agreement, costs of corrective action required in connection with a market conduct examination or enforcement action by a regulator with respect to UMIA, and taxes in excess of any accruals by UMIA for taxes on its balance sheet as of December 31, 2012 (not including any taxes imposed with respect to the transaction).
- Litigation losses (excluding losses recoverable under reinsurance and other insurance coverage and in excess of reserves) to the extent paid after the Closing Date, arising out of legal proceedings pending or threatened as of the Closing Date but not including losses, liabilities, or costs related to claims litigation (excluding bad faith and excess of limits claims).

Losses incurred by the UMIA Members as a result of a breach by MMIC or MMIC Group with respect to its representations, warranties or covenants under the Definitive Agreement will increase the purchase price. Any unconsumed portion of the \$150,000 expense allowance provided to the Member Representatives also will increase the purchase price.

(14) The Definitive Agreement creates a panel of three Member Representatives to represent the interests of the UMIA Members with respect to the purchase price adjustment provisions, compliance of MMIC and MMIC Group with the Definitive Agreement and other matters arising under the Definitive Agreement. The Member Representatives are to make decisions by the written consent of the majority. Each year, no later than 90 days after each Adjustment Date, UMIA will deliver a schedule and supporting documentation of the computation of purchase price as of the Adjustment Date to the Member Representatives. If the Member Representatives approve the purchase price computation or do not object in writing within 45 days, the purchase price computation as of that Adjustment Date is set. If

the Member Representatives object to the computation of the purchase price and cannot agree with UMIA within 30 days after the date of objection, the parties will utilize the dispute resolution mechanism set forth in the Definitive Agreement. Under the dispute resolution mechanism, the parties will retain a "Neutral Actuary" from a nationally recognized firm to make an independent assessment of the purchase price computation. The Neutral Actuary's determination will be binding on the parties with respect to the disputed computation. The undisputed portion of the Future Payment will be paid to the Record Date Members eligible while the dispute resolution mechanism is proceeding. If a review by a Neutral Actuary is conducted and the Neutral Actuary determines that UMIA's calculation of the purchase price was at least 5 percent lower than the Neutral Actuary's determination of the purchase price, then Future Payments will be reduced by an amount equal to the cost of retaining the Neutral Actuary. If the Neutral Actuary determines that UMIA's calculation of the purchase price was between three percent (3%) and five percent (5%) lower than the Neutral Actuary's determination of the purchase price, half of the costs and expenses related to the Neutral Actuary's review will be paid by UMIA, and Future Payments will be reduced by an amount equal to the other half of the costs and expenses. The Definitive Agreement provides that the parties may jointly prepare and reasonably agree upon a standard form of Indemnification Agreement in order to protect the Member Representatives against personal liability. In the event a Member Representative incurs indemnifiable costs and expenses arising from his or her duties, the amount of the indemnification will reduce the succeeding Future Payments.

(15) The final purchase price will not be determined until the December 31, 2017 Adjustment Date computation is made in 2018. The interim purchase price payments will be based on an annual recalculation of the purchase price based on reserve redundancies or deficiencies, retention, and the other factors set forth in the Definitive Agreement and described above.

The purchase price will be paid to the Record Date Members (and not to the medical practice entities that employ Record Date Members) according to the following table:

At Closing	\$20,000,000
May 15, 2014	33.33% of the purchase price (determined as of December 31, 2013 Adjustment Date) less the payment at Closing.
May 15, 2015	50.00% of the purchase price (determined as of December 31, 2014 Adjustment Date) less previous payments.
May 15, 2016	66.67% of the purchase price (determined as of December 31, 2015 Adjustment Date) less previous payments.
May 15, 2017	83.33% of the purchase price (determined as of December 31, 2016 Adjustment Date) less previous payments.
May 15, 2018	100% of the purchase price (determined as of December 31, 2017 Adjustment Date) less previous payments. Interest will be paid at the time of this payment.

(16) There will be no "claw back" if adverse reserve development, drops in retention, or other reductions to the purchase price cause the relevant percentage of the purchase price as of a later point in time to be lower than the amounts already paid out, although the Definitive Agreement provides for an offset of the interest payment against a prior overpayment of the purchase price in the computation of the final payment.

(17) In connection with the calculations made in respect of the December 31, 2017 Adjustment Date, simple interest at a variable annual rate equal to the 10 year federal Treasury bond rate plus 100

basis points (1 percent) will be determined as of each Adjustment Date. The interest will be paid as part of the final Future Payment in 2018. The interest due to each Record Date Member will be computed based on the *final* purchase price determined as of the December 31, 2017 Adjustment Date, rather than the interim purchase price figures used to determine the amounts of the first four Future Payments. Interest will be computed using the unpaid balance of the final purchase price as of each payment date. If the final Future Payment computation shows that a Record Date Member has already received more than his or her share of the final purchase price, the interest due will be offset against the overpayment.

(18) The Closing Payment and the Future Payments will be allocated to each Record Date Member based on the ratio of (1) the premiums earned by UMIA for the period from January 1, 2008 to December 31, 2012 with respect to such Record Date Member to (2) premiums earned by UMIA with respect to all such Record Date Members for that period.

(19) The source of the consideration for the Closing Payment will be the existing surplus of MMIC. The source of the Future Payments will be a combination of the existing surplus of UMIA, the existing surplus of MMIC, additional investments by MMIC in UMIA, the net income of UMIA and the net income of MMIC. The timing of any such additional investments by MMIC in UMIA has not yet been determined.

(20) UMIA initiated a "Loyalty Rewards Program" on January 1, 2012. Under the UMIA Loyalty Rewards Program, UMIA allocated \$2 million of its 2012 surplus to UMIA Members who paid premiums in 2008. Upon authorization by the Board of Directors of IMC and the Board of Governors of UMIA, balances in the Loyalty Rewards Program subscriber accounts are payable upon the death, disability or permanent retirement of the UMIA Member. Because of the proposed acquisition, the Loyalty Rewards Program was terminated effective as of April 30, 2013, and the surplus allocated to the

Loyalty Rewards Program was returned to the unallocated surplus of UMIA. This treatment of the Loyalty Rewards Program is appropriate because the Definitive Agreement provides that the sharing ratios of the Record Date Members will be based, in part, on 2008 premiums; therefore, if the Loyalty Rewards Program was not terminated, UMIA Members could benefit both from the Loyalty Rewards Program and their share of the purchase price based on their 2008 premiums.

(21) UMIA retained Willamette Management Associates (“Willamette”) to provide a valuation analysis of UMIA. Willamette issued a valuation report (the “Valuation Report”) dated February 27, 2013, which contains its valuation analysis. In the Valuation Report, Willamette opined that the adjusted fair market value range of the UMIA Members’ equity in UMIA as of February 27, 2013 on a controlling, marketable basis is \$122,400,000 to \$142,500,000. The purchase price set forth in the Definitive Agreement is at the upper end of this valuation range. The Valuation Report arrives at the valuation range by applying (i) the market approach in reliance upon the guideline merged and acquired company method and (ii) the income approach utilizing the direct capitalization method. The Valuation Report was made available to the Oregon Department of Consumer and Business Services. On or before the Closing Date, Willamette will issue a fairness opinion to the Board of Governors of UMIA and the Board of Directors of IMC in connection with the transaction. AMI Risk Consultants, Inc., a consultant hired by the Insurance Division of the Oregon Department of Consumer and Business Services, performed a review of the valuation report prepared by Willamette and opined that the estimated value of UMIA as of April 23, 2013, is between \$108,750,000 and \$128,500,000. In addition, UMIA retained Geffen Mesher & Company to provide an opinion with respect to certain tax consequences of the Conversion and the Merger. The tax opinion issued by Geffen Mesher & Company provides that the Conversion and the Merger will avoid an entity level tax and will provide the Record Date Members with favorable capital gains treatment.

(22) MMIC and MMIC Group intend to manage the UMIA business in keeping with historical operations and the use of best practices. For a period of five years after the Merger becomes effective, the board of directors of UMIA will be comprised of seven (7) members, of which three (3) directors will be designated by the Member Representatives, and four (4) directors will be designated by MMIC. Following the Merger, UMIA will establish an advisory board comprised of the physician directors of IMC and will create a Claims Committee, Underwriting Committee, and Loss Prevention Committee, which may include members of the current Board of Governors of UMIA and the Board of Directors of IMC. Following the Merger, the members of the Board of Directors, the advisory board, and the Claims, Underwriting, and Loss Prevention Committees will be compensated for service in accordance with MMIC Group's standard policies.

(23) Immediately following the Merger, the current employees of IMC, including the senior managers, will continue to manage the operations of the UMIA book of business in Utah, Idaho, Montana and Wyoming following the Merger. The UMIA book of business will be managed from Salt Lake City, Utah.

(24) Prior to the Effective Time, Martin J. Osowski, President and Chief Executive Officer of IMC, will receive from IMC a distribution of his account balance in the IMC deferred compensation plan. (No other employees of UMIA participate in UMIA's deferred compensation plan.) The Merger will entitle Mr. Osowski and Joseph D. Perry, Vice President-Finance of IMC, to trigger change of control payments under their existing employment agreements with IMC. MMIC Group will enter into new employment agreements with Mr. Osowski and Mr. Perry, and their current employment agreements with IMC will be terminated. Mr. Osowski's employment agreement with MMIC Group will provide for employment for a specified term followed by post-employment consulting services, subject to a noncompetition restriction. In consideration of these arrangements, Mr. Osowski will receive, during

the term of his employment, his current IMC annual salary, plus an additional amount based on IMC's prior contribution obligations to Mr. Osowski's deferred compensation account and 401(k) plan account. Compensation will be paid to Mr. Osowski at a substantially reduced level once he transitions from employment to consulting services. Following the termination of his employment and consulting services, Mr. Osowski will receive payments under MMIC's Supplemental Executive Retirement Plan, which provides for a lifetime annual benefit for participants. Mr. Perry's employment agreement with MMIC Group will provide for employment for a specified minimum term (subject to extension beyond the minimum term upon mutual agreement), and Mr. Perry will receive compensation at least equal to his current IMC annual salary. The employment agreements between MMIC Group and Mr. Osowski and Mr. Perry are currently being negotiated. The compensation and severance payments for Mr. Osowski and Mr. Perry do not violate ORS 732.325.

(25) In addition to entering into employment contracts with Mr. Osowski and Mr. Perry, MMIC Group will also offer employment to John Butler, M.D., Patrice Hirning, M.D., Mara Nixon, Stewart Pierce, and Doug Smith (the "Management Employees"). The employment will be on substantially the same terms and at the same or higher compensation (including compensation received through benefit plans) as received from IMC. MMIC Group will employ these management employees "at will," subject to the payment of a severance payment equal to one year's salary if such Management Employee is terminated without cause within three years after the Closing Date.

(26) MMIC Group will offer employment to all or substantially all other persons employed by IMC (the "Other Employees") on substantially the same terms and at the same compensation as were provided to them by IMC. MMIC Group will employ the Other Employees "at will." An employee whose employment with MMIC Group is terminated due to elimination or consolidation of his or her position or otherwise without cause within three years after the Effective Time will receive a severance

payment equal to six months' salary. MMIC and MMIC Group intend to transition the IMC employees to MMIC Group, but this transition may not occur immediately after the Merger is completed. With respect to eligibility and vesting of future benefits, IMC's employees will receive credit based on their years of service at IMC.

(27) Pursuant to the Conversion and the Merger, UMIA's name will be changed to UMIA Insurance, Inc. UMIA will issue name change endorsements, in a form approved by the applicable regulators, for policies written by UMIA that are in force as of the Effective Time. For the period following the Effective Time until December 31, 2015, MMIC has affirmatively agreed not to increase premium rates for the UMIA book of business above the rates recommended by an independent actuary. This commitment is intended to balance the interests of MMIC in maintaining rate adequacy for the UMIA book of business and the interests of the UMIA Members to achieve a high rate of retention to mitigate the effect of a retention adjustment to the purchase price.

(28) Following the completion of the Merger, UMIA will continue to write the medical malpractice insurance business of UMIA in Utah, Idaho, Montana, and Wyoming. Because UMIA's existence as a stock insurer following the Conversion and the Merger will be a continuation of its existence as a reciprocal insurer prior to the Conversion and because UMIA will be the surviving corporation in the Merger, UMIA's certificates of authority in Oregon, Utah, Idaho, Montana, Nevada and Wyoming will not be affected and will remain in place following the Conversion and the Merger. MMIC currently does not write any direct insurance in Utah, Idaho, Montana or Wyoming. UMIA and MMIC will not make a Form E filing in Idaho because the volume of business written by MMIC in conjunction with the volume of business written by UMIA is not sufficient to trigger the Form E filing requirement. The transaction also does not trigger the prima facie anti-competitive threshold under Idaho Code Section 41-3805B.

(29) Following the Merger, MMIC has no plans to liquidate UMIA, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management. MMIC and UMIA do not contemplate that UMIA will seek permission to declare an extraordinary dividend in 2013. It is possible that at some point in the period from 2014 to 2018, the period in which Future Payments will be made to the Record Date Members, UMIA may seek approval of the Oregon Department of Consumer and Business Services for payment of an extraordinary dividend by UMIA to MMIC.

(30) Following the Closing, MMIC and UMIA will be adequately capitalized. See Pro Forma Financial Statements at Appendix 13-17 to the Form A. MMIC will add UMIA's projected surplus of approximately \$100 million to its balance sheet as the value of the investment in subsidiary. Immediately after closing, MMIC's projected surplus will be \$228 million, and is projected to be \$239 million at 2013 year end. UMIA's surplus will be unchanged from immediately before the Closing.

(31) UMIA will maintain its home office, accounts and records in Oregon in compliance with ORS 732.245.

(32) A public hearing on the Agreement was held in Salt Lake City, Utah, on April 25, 2013. Notice of the public hearing was mailed to UMIA's policyholders on April 12, 2013 and published twice in the following newspapers: Salt Lake Tribute (Utah), Deseret News (Utah), Casper Star Tribute (Wyoming), Billings Gazette (Montana) and Idaho Statesman (Idaho).

(33) At the hearing, the following witnesses testified on behalf of UMIA: Dr. Ronald A. Miller (Chair of the IMC Board), Dr. Mark S. Shockey (Chair of the UMIA Board), Dr. Beth C. Hanlon (member of the IMC Board and a Member Representative), Martin J. Osowski (President and Chief Executive Officer of IMC), Michelle Slater (attorney for UMIA), and Michael Zimmerman (Utah attorney). Dr. Miller testified about the factors that influenced the IMC Board's decision to sell UMIA,

the termination of the prior transaction with The Doctors Company, the go-shop process undertaken by UMIA, and the benefits of the MMIC transaction. Dr. Shockey testified about the role of the UMIA Board, the factors that influenced the UMIA Board's decision to sell UMIA, and the benefits of the MMIC transaction. Dr. Hanlon testified about the role of the Member Representatives, the perspectives of and fairness to UMIA's policyholders, and the allocation of the purchase price among the UMIA Members. Mr. Osowski testified about the terms of the transaction, the benefits of the transaction to UMIA, the tax opinion, the valuation opinion and the reasons why the Conversion and the Merger satisfy the regulatory approval standards under Oregon law. Ms. Slater's testimony addressed the effect of UMIA's redomestication. Mr. Zimmerman testified regarding the nonapplicability of Utah law to the transaction as a result of UMIA's redomestication and as a result of the Utah Insurance Department's decision to withdraw its order asserting jurisdiction under the holding company provisions of the Utah Insurance Code. In addition, James M. Kennedy, an attorney for UMIA, responded to a question asked by Commissioner Savage regarding the hearing notices.

(34) At the hearing, the following witnesses testified on behalf of MMIC: William J. McDonough (President and Chief Executive Officer of MMIC Insurance and MMIC Group) and Dr. Mark D. Odland (Chairman of the Board of Directors of MMIC Group). Mr. McDonough testified about MMIC's perspectives on the proposed transaction, the retention of UMIA policyholders, the benefits of the transaction structure, and the reasons why the transaction satisfies the statutory approval requirements. Dr. Odland testified about the organizational structure and prior acquisitions of MMIC and MMIC Group and the benefits of the transaction to UMIA and MMIC.

(35) There were no other persons who offered to testify at the hearing. There was no additional comment or information provided for the hearing record by the comment period deadline of 5:00 PM on April 28, 2013.

(36) In order for the Conversion and the Merger to become effective, they must be approved by at least two-thirds of the Record Date Members voting on the Conversion and the Merger, in person or by proxy, at the special meeting of the UMIA Members, at which a quorum is present. Because the Conversion and the Merger are integrated, and neither will occur without the other, the proxy used for voting by each Record Date Member at the special meeting will provide that a single vote for or against the Conversion and the Merger will be cast by the Record Date Member. The notice of special meeting, the proxy and the proxy statement to be used in connection with the special meeting of the UMIA Members have been approved by the Director. Dissenters' rights are not available to a Record Date Member who votes against the proposed transaction or otherwise in accordance with ORS 732.529(5) and 732.630(1).

(37) The Plan of Conversion includes conditions in Section 8.1 and the Definitive Agreement includes conditions in Article VIII that must be satisfied or waived prior to the closing for the Conversion and the Merger to become effective.

(38) On the basis of the Plan of Conversion and the Definitive Agreement, and specifically on the basis of the findings of fact above, the Director enters the following:

## CONCLUSIONS OF LAW

1. The Definitive Agreement to acquire control of Utah Medical Insurance Association by MMIC Insurance, Inc. and MMIC Group, Inc. that was submitted to the Director is properly supported by the required documents, and meets the requirements of the Oregon Insurance Code for approval with respect to acquisitions and mergers pursuant to ORS 732.517 to 732.546.
2. The Director finds that there is no evidence that:
  - (a) The activity is contrary to law or would result in a prohibited combination of risks or classes of insurance.

The merger between UMIA and MMIC Acquisition Corporation is permitted by ORS 732.521(3). UMIA, as the surviving corporation in the merger, will have capital and surplus in an amount that is adequate to transact insurance in Oregon. ORS 731.554(1).

- (b) The activity is inequitable or unfair to the policyholders or shareholders of any insurer involved or to any other person affected by the proposed activity.

The initial purchase price is \$141,537,124, subject to the adjustments provided in the Definitive Agreement. The purchase price is reasonable in light of the valuation opinions of Willamette Management Associates, Inc. and AMI Risk Consultants, Inc., the other acquisition offers received by UMIA, and the adjustments provided in the Definitive Agreement. The tax opinion issued by Geffen Mesher & Company provides that the Conversion and the Merger will avoid an entity level tax and will provide the Record Date Members with favorable capital gains treatment. The allocation of the purchase price among the Record Date Members is fair and equitable and complies with ORS 732.612(7)(b). The record date of April 30, 2013 complies with ORS 732.531(2).

- (c) The activity would substantially reduce the security of and service to be rendered to policyholders of any domestic insurer involved, or would otherwise prejudice the interests of such policyholders in this state or elsewhere.

With respect to continued operations, the financial security afforded by the substantial capitalization of MMIC and the continuity provided to UMIA policyholders and employees are factors that substantially enhance the benefits of the proposed transaction to UMIA's policyholders. MMIC offers a wider array of services, products and resources than UMIA that will become available to UMIA's policyholders.

- (d) The activity provides for a foreign or alien insurer to be an acquiring party, and the insurer cannot satisfy the requirements of this state for transacting an insurance business involving the classes of insurance affected by the activity.

MMIC Acquisition Corporation, the insurer with which UMIA will merge, is an Oregon insurer. As such, this provision is not relevant to the Director's consideration.

(e) The activity or its consummation would substantially lessen competition in insurance in this state or tend to create a monopoly.

Neither UMIA nor MMIC write business in Oregon. Following the Merger, UMIA will continue to write its medical malpractice insurance business in Utah, Idaho, Montana, and Wyoming. MMIC currently does not write any direct insurance in Utah, Idaho, Montana or Wyoming. As such, this transaction will not substantially lessen competition of insurance in this state or another state or tend to create a monopoly.

(f) After the change of control and ownership, the domestic insurer to which the activity applies would not be able to satisfy the requirements for the issuance of a certificate of authority to transact the line or lines of insurance for which the insurer is currently authorized.

UMIA is adequately capitalized to transact property and casualty insurance in Oregon. *See* ORS 731.554.

(g) The financial condition of any acquiring party might jeopardize the financial stability of the insurer.

The financial condition of MMIC will enhance – not jeopardize – the financial stability of UMIA. MMIC has significantly greater assets and statutory surplus (assets in excess of liabilities) and has reported more positive operating results (net income) than UMIA.

(h) The plans or proposals that the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in the insurer's business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest.

Following the Merger, MMIC has no plans to liquidate UMIA, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management.

(i) 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 of the insurer and of the public to permit the activity or its consummation.

The current employees of IMC will continue to manage the day-to-day operations of the UMIA book of business in Utah, Idaho, Montana and Wyoming following the Merger. There is nothing to suggest that these individuals lack the necessary competence, experience, or integrity to continue in the operations of UMIA. Nor is the Director aware of any person that is an officer or director of MMIC or may become an officer or director of UMIA who lacks the necessary competence, experience, or integrity to manage UMIA. MMIC has successfully conducted its insurance business over a long period of time and has demonstrated a high level of competence, experience, and integrity.

(j) The activity or its consummation is likely to be hazardous or prejudicial to the insurance-buying public.

The Merger will not be hazardous or prejudicial to the insurance-buying public, but will be beneficial. The financial condition of MMIC will enhance – not jeopardize – the financial stability of UMIA. The acquisition should enable UMIA to be more competitive in Utah, Idaho, Montana and Wyoming. MMIC offers a wider array of services, products and resources that will become available to UMIA’s policyholders.

(k) The activity is subject to other material and reasonable objections.

There are no other material and reasonable objections.

3. The Plan of Conversion to convert Utah Medical Insurance Association from a reciprocal insurer to a stock insurer and make it a wholly-owned subsidiary of MMIC Insurance, Inc. that was submitted to the Director is properly supported by the required documents and meets the requirements of the Oregon Insurance Code for approval, including the provisions relating to conversions pursuant to ORS 732.600 to 732.630.

4. The Director finds all of the following:

(a) The applicable provisions of ORS 732.600 to 732.630, and other applicable provisions of law, have been fully met.

The Plan of Conversion complies with Oregon law. UMIA will convert from a reciprocal insurer to a mutual insurer immediately before the Effective Time by (i) terminating the Second Amended and Restated Management Agreement—Power of Attorney after which UMIA will no longer have an attorney-in-fact as required by the Oregon Insurance Code and (ii) adopting articles of incorporation and bylaws. By such actions UMIA will no longer satisfy the Oregon Insurance Code provisions for a reciprocal insurer, but will satisfy the Oregon Insurance Code provisions for a mutual insurer. ORS 732.531(4) provides that the Director may require ORS 732.600 to 732.630 to apply if the proposed activity described in the Form A is primarily a plan to convert a domestic reciprocal insurer to a stock insurer. This requirement has been satisfied because of the importance to the transaction and the ensuing MMIC Group organizational structure of having UMIA remain as a separate stock subsidiary of MMIC with a separate name. The conversion of UMIA from a mutual insurer to a stock insurer simultaneously with the Merger satisfies the applicable provisions of ORS 732.600 to 732.630.

(b) The plan protects the rights of policyholders.

The policyholders of UMIA will benefit from the Conversion and the Merger as policyholders, by having continuity of insurance coverage with a financially secure insurer, and as owners, by receiving for their ownership interests the initial purchase price of \$141,537,124, subject to the adjustments provided in the Definitive Agreement. As a result of the Conversion and the Merger, all insurance policies issued by UMIA as a

reciprocal insurer will remain in full force and effect as insurance policies of UMIA as a stock insurer and the obligations, liabilities and duties of UMIA under the insurance policies will not be affected in any respect. The continued business operations of UMIA, the financial security afforded by the substantial capitalization of MMIC and the continuity provided to UMIA policyholders and employees are factors that substantially enhance the benefits of the proposed transaction to UMIA's policyholders. MMIC offers a wider array of services, products and resources that will become available to UMIA's policyholders.

(c) The plan will be fair and equitable to UMIA's Members, and the plan will not prejudice their interests.

As a result of the Conversion, each UMIA Member will retain his or her Membership Interest, which will not be altered or modified in any respect by the Conversion; however, in the Merger the Membership Interest will be cancelled and the Record Date Members will have the right to receive a share of the purchase price as provided in the Definitive Agreement. The purchase price is reasonable in light of the valuation opinions of Willamette Management Associates, Inc. and AMI Risk Consultants, Inc., the other acquisition offers received by UMIA, and the adjustments provided in the Definitive Agreement.

(d) The allocation of consideration among the eligible UMIA Members is fair and equitable.

The Plan of Conversion and the Definitive Agreement provide a fair and equitable method of allocating the purchase price among the Record Date Members, which is consistent with the allocation methodology set forth in ORS 732.612(7)(b). The record date of April 30, 2013 complies with ORS 732.600 to 732.630 and is fair and equitable to current UMIA Members. The treatment of former UMIA Members who do not have an insurance policy in force on the record date complies with ORS 732.531 and 732.600 to 732.630.

(e) The converted stock insurer will have capital or surplus, or any combination thereof, that is required of a domestic stock insurer on initial authorization to transact like kinds of insurance, and otherwise will be able to satisfy the requirements of this state for transacting its insurance business.

After the Conversion, UMIA will have capital and surplus in excess of the amount that is required of a domestic stock insurer on initial authorization to transact like kinds of insurance in Oregon. *See* ORS 731.554(1).

(f) The plan will not substantially reduce the security of the policyholders and the service to be rendered to the policyholders.

UMIA's continued operations, the financial security afforded by the substantial capitalization of MMIC, and the continuity provided to UMIA policyholders and employees are factors that substantially enhance the benefits of the proposed transaction to UMIA's policyholders. MMIC offers a wider array of services, products and resources than UMIA that will become available to UMIA's policyholders.

(g) If a stock holding company or mutual holding company is organized, the financial condition of the stock holding company, the mutual holding company or any subsidiary thereof will not jeopardize the financial stability of the converted stock insurer.

A stock holding company or mutual holding company will not be organized pursuant to the Conversion. However, the financial condition of MMIC will enhance – not jeopardize – the financial stability of UMIA. MMIC has significantly greater assets and statutory surplus (assets in excess of liabilities) and has reported more positive operating results (net income) than UMIA.

(h) The financial condition of the converting mutual insurer will not be jeopardized by the conversion or reorganization, and the conversion or reorganization will not jeopardize the financial stability of the stock holding company, the mutual holding company or any subsidiary thereof.

The Conversion will not have any effect upon the financial condition of UMIA and therefore will not jeopardize the financial stability of MMIC, MMIC Group or any of their subsidiaries.

(i) The competence, experience and integrity of those persons who will control the operation of the converted stock insurer are not contrary to the interests of policyholders of the converted stock insurer and of the public in allowing the plan to proceed.

The current employees of IMC will continue to manage the day-to-day operations of the UMIA book of business in Utah, Idaho, Montana and Wyoming following the Conversion and the Merger. There is nothing to suggest that these individuals lack the necessary competence, experience, or integrity to continue in the operations of UMIA. Nor is the Director aware of any person who is an officer or director of MMIC or may become an officer or director of UMIA who lacks the necessary competence, experience, or integrity to manage UMIA. MMIC has successfully conducted its insurance business over a long period of time and has demonstrated a high level of competence, experience, and integrity.

(j) Implementation of the plan will protect the interests of the insurance-buying public.

The Conversion facilitates the Merger, which will be beneficial to the insurance-buying public, will enhance the financial stability of UMIA, will enable UMIA to become more competitive in Utah, Idaho, Montana and Wyoming and will result in the offering by UMIA of a wider array of services, products and resources.

(k) The activity is not subject to other material and reasonable objections.

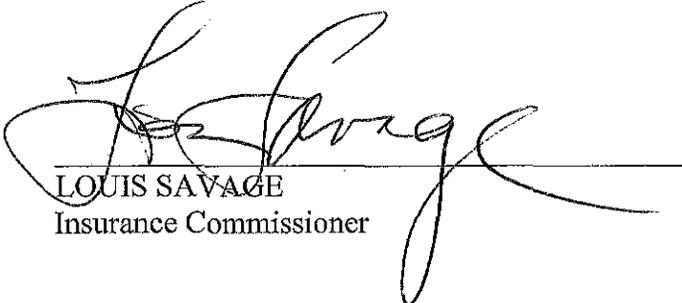
There are no other material and reasonable objections.

5. Consistent with the conclusions of law set forth in Paragraphs 4(c) and (d) above, and on the basis of the Plan of Conversion, the Definitive Agreement, and the Findings of Fact above, the Director finds that the terms and conditions of the Conversion and the Merger are fair, just, and equitable to the UMIA Members. The hearing constitutes a "fairness hearing" for purposes of Section 3(a)(10) of the Securities Act of 1933, as amended.

#### ORDER

Based on the foregoing Findings of Fact and Conclusions of Law, it is hereby ordered that the Amended Proposed Plan of Acquisition (as supplemented) to acquire control of Utah Medical Insurance Association by MMIC Insurance and MMIC Group and the Plan of Conversion and Merger are hereby approved and are found to be fair, just, and equitable to the UMIA Members.

DATED this 30 day of April, 2013.

  
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LOUIS SAVAGE  
Insurance Commissioner

## NOTICE

Pursuant to ORS 732.528 (6), any insurer or other party to the proposed activity, including the insurer proposed to be acquired, within 60 days after receipt of a notice of approval or disapproval, may appeal the final order of the director as provided in ORS 183.310 to 183.550. For purposes of the judicial review the specifications required to be set forth in the written notice from the director will be deemed the findings of fact and conclusions of law of the department.