

CITIZENS FINANCIAL CORP /KY/
Form PRER14A
August 29, 2007

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. 1)

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive additional materials

Soliciting material pursuant to Section 240.14a-12

Citizens Financial Corporation
(Name of Registrant as Specified in Its Charter)

Citizens Financial Corporation
(Name of Person(s) Filing Proxy Statement)

Payment of filing fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transactions applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount previously paid:

(2) Form, schedule or registration statement no.:

(3) Filing party:

(4) Date filed:

CITIZENS FINANCIAL CORPORATION

12910 Shelbyville Road, Suite 300

Louisville, Kentucky 40243

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON _____, 2007**

A special meeting of the shareholders of Citizens Financial Corporation (the "Company") will be held on _____, 2007, at _____m. local time, at the offices of the Company located at 12910 Shelbyville Road, Suite 300, Louisville, Kentucky 40243 (the "Special Meeting") to consider and vote on the following matters:

1. To approve a going private transaction by means of a reverse stock split ("Reverse Stock Split") in which the Company's Articles of Incorporation are amended such that all outstanding shares of the Company's currently outstanding no par value Class A common stock ("Common Stock") are reconstituted on the basis of one (1) new share of no par value common stock ("New Common Stock") for each currently outstanding two hundred and fifty (250) shares of Common Stock, with cash in the amount of \$7.25 per share of Common Stock being paid in lieu of any fractional shares of New Common Stock. Once approved by the shareholders, the Reverse Stock Split will be effective on or about [effective date].
2. To transact any other business as may properly come before the Special Meeting or any adjournments or postponements of the Special Meeting. The Board of Directors is not aware of any other business to be conducted at the Special Meeting.

Only shareholders of record as of the close of business on [record date], the "Record Date," are entitled to notice of, and to vote at, the Special Meeting or any adjournments or postponements thereof. The Board of Directors recommends that you vote FOR the approval of the Reverse Stock Split. Those shareholders who will receive cash in lieu of fractional shares if the Reverse Stock Split is approved are entitled to dissenters' rights. In order to perfect dissenters' rights, you must comply in full with the requirements of the applicable Kentucky law. A copy of the Kentucky statute providing for dissenters' rights is attached as Appendix B to the proxy statement (the "Proxy Statement") that is included with this notice.

The Board of Directors of the Company is soliciting proxies in connection with the above matters. Shareholders are urged to read the Proxy Statement carefully and in its entirety, including the attached appendices. The Proxy Statement is first being mailed to shareholders on or about [mail date].

Whether or not you plan to attend the Special Meeting, please submit your proxy as soon as possible to make sure that your shares are represented and voted.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE TRANSACTION, PASSED UPON THE MERITS OR FAIRNESS OF THE TRANSACTION, OR PASSED UPON THE ACCURACY OR ADEQUACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

By Order of the Board of Directors:

Darrell R. Wells

President and Chief Executive Officer

Louisville, Kentucky

[mail date]

SUMMARY TERM SHEET

This summary is qualified in its entirety by the more detailed information set forth elsewhere in this Proxy Statement and therefore this Proxy Statement should be read in its entirety.

- **The reverse stock split.** The Board of Directors of Citizens Financial Corporation (the “Company”), a Kentucky corporation, has reviewed and unanimously recommended and authorized an amendment to the Company’s Articles of Incorporation to effect a reverse stock split (“Reverse Stock Split”) whereby all outstanding shares of the Company’s currently outstanding no par value Class A common stock (“Common Stock”) shall be reconstituted on the basis of one (1) new share of no par value common stock (“New Common Stock”) for each currently outstanding two hundred and fifty (250) shares of Common Stock, with cash being paid in lieu of any resulting shares of New Common Stock as described immediately below. See “TERMS OF THE TRANSACTION - Amendment to Articles of Incorporation.”
- **Fractional shares.** No certificates for fractional shares of New Common Stock will be issued. Instead, holders of fractional shares will be paid \$7.25 per share of Common Stock that becomes a fractional share as a result of the Reverse Stock Split. Shareholders who own fewer than 250 shares of Common Stock immediately prior to the Reverse Stock Split will no longer be shareholders of the Company. However, if a shareholder would prefer not to receive cash in lieu of fractional shares but would instead prefer to receive only New Common Stock, such a shareholder can, prior to [effective date] (the “Effective Date”), purchase through the market, to the extent available, such additional shares of Common Stock to make his or her holdings of Common Stock evenly divisible by 250 (and thereby not having a fractional share as a result of the Reverse Stock Split). While in the 30 days following July 2, 2007, the date the Company announced the plans to pursue the Reverse Stock Split, the NASDAQ Capital Market (“NASDAQ”) reported that 27,875 shares of Common Stock traded and the average closing share price during that period was \$6.42, it is possible that the share price of the Common Stock will increase based on the \$7.25 price the Company will be paying for fractional shares. As a result, shareholders seeking to purchase shares of Common Stock to make their holdings of Common Stock evenly divisible by 250 might be forced to pay a significant premium in order to purchase additional shares. See “TERMS OF THE TRANSACTION – Fractional Shares.”
- **What you will receive.** Holders of Common Stock will receive one share of New Common Stock in exchange for every 250 shares of Common Stock they own of record and cash in lieu of any resulting fractional shares as described above. See “TERMS OF THE TRANSACTION - Amendment to Articles of Incorporation.”
 - **Purpose.** The principal reason for the Reverse Stock Split is to bring the Company’s number of record holders of Common Stock below 300 so that the Company will no longer have the expense of filing reports with the Securities and Exchange Commission (“SEC”). A second purpose is to provide shareholders owning fewer than 250 shares of Common Stock the opportunity to dispose of their stock easily and without having to pay brokerage commissions. Additionally, the Company will save approximately \$27,000 per year in administrative expenses associated with maintaining and servicing a large base of shareholders who own relatively small numbers of shares. See “SPECIAL FACTORS – Purposes of the Reverse Stock Split.”
- **Going private.** The principal reason for effecting the Reverse Stock Split is to bring the number of holders of record of Common Stock below 300 so that the Company will no longer have the expense of filing reports with the SEC. Immediately following the Company’s certification to the SEC that it has fewer than 300 common shareholders of record, the Company’s obligations to file annual, quarterly, and current reports with the SEC will be suspended. Its proxy and insider filing and other SEC reporting obligations will terminate 90 days thereafter. As a result, there will be less information publicly available to the Company’s remaining shareholders, the public, and to market makers, and this could adversely affect the trading market and market value for the remaining shares. Additionally, upon suspension of the Company’s periodic reporting obligations, the New Common Stock will not be

eligible to be traded on the NASDAQ Capital Market. This will adversely affect the liquidity, and may adversely affect the market value, of the Company's common stock. See "SPECIAL FACTORS – Effects of the Reverse Stock Split."

- **Advantages and disadvantages of terminating SEC registration.** The Board of Directors has considered the following advantages and disadvantages of terminating the Company’s SEC registration and determined that the advantages outweigh the disadvantages in the Company’s case. See “SPECIAL FACTORS – Advantages and Disadvantages of Terminating SEC Registration.”

Advantages

Disadvantages

Anticipated expense savings of approximately \$552,000 per year, plus approximately \$172,000 in one-time expense savings.

Loss of NASDAQ listing and associated decrease in liquidity of the Common Stock.

Time savings for management relating to the preparation and filing of SEC reports.

Loss of disclosure and investor protections afforded by SEC regulations and the Sarbanes-Oxley Act.

Opportunity for holders of small numbers of shares to liquidate their investment without incurring brokerage commissions.

Reduced ability to raise capital in a public offering or to use stock as acquisition consideration.

- **Expected effect of the reverse stock split on selected per share financial performance.** As of June 29, 2007, there were 1,586,111 shares of Common Stock outstanding. Following the Reverse Stock Split, it is anticipated that there will be approximately 5,663 shares of New Common Stock outstanding. As a result, certain per share metrics of financial performance will change. For example, following the Reverse Stock Split, due to the smaller number of shares of common stock outstanding, a given amount of income or loss will result in earnings or loss per share that is 250 times the pre-Reverse Stock Split earnings or loss per share for that given amount of income or loss. Also, following the Reverse Stock Split, due to the smaller number of shares of common stock outstanding, a given amount of shareholders’ equity will result in a book value per common share that is 250 times the pre-Reverse Stock Split book value per common share for that given amount of shareholders’ equity. Also, to the extent that the \$7.25 price paid for fractional shares is less than the book value per common share as of the Effective Date (at June 30, 2007 the book value per common share was \$7.91), the book value per common share for post-Reverse Stock Split shareholders will increase as a result of that differential; conversely, to the extent that the \$7.25 price paid for fractional shares exceeds the book value per common share as of the Effective Date, the book value per common share for post-Reverse Stock Split shareholders will decrease as a result of that differential. For example, based upon the June 30, 2007 book value per common share, post-Reverse Stock Split shareholders would experience a 1% increase in the book value per common share as a result of such differential. See “OTHER INFORMATION – Financial Information.”

- **Why a reverse stock split and why now.** The Board of Directors considered alternatives to structuring the transaction as a reverse stock split, but decided that the reverse stock split format will ensure that the number of record shareholders of the Company will be fewer than 300 following the transaction and is designed to accomplish this objective with transaction-related expenses that are reasonable relative to the size of the transaction and the anticipated savings. A major factor in the Board of Directors’ decision to effect the Reverse Stock Split at this time was the rapidly growing expense of maintaining the registration of the Company’s common stock under the Exchange Act. See “SPECIAL FACTORS - Reasons for the Reverse Stock Split” and “SPECIAL FACTORS - Alternatives Considered.”

- **Fairness of the transaction.** The Board of Directors believes that the Reverse Stock Split is fair to the Company's unaffiliated shareholders, including both those who will receive cash in lieu of fractional shares and those who will receive New Common Stock. The Board of Directors considers the Reverse Stock Split fair to the unaffiliated shareholders who will remain shareholders following the Reverse Stock Split because the Board of Directors views the savings expected to result from termination of registration under the Exchange Act and from the reduction in the number of shareholders as more than offsetting the loss of eligibility for listing on the NASDAQ Capital Market, the reduction in the amount of publicly-available financial information, and any other benefits of having stock registered under the Exchange Act. In setting the price to be paid for fractional shares, the Board of Directors gave great weight to the opinion letter ("Fairness Opinion") provided by Burke Capital Group ("Burke"), an independent financial advisor, that such price was fair, from a financial point of view, to the unaffiliated shareholders who will be cashed-out as a result of the Reverse Stock Split as well as to the unaffiliated shareholders who will not be cashed-out as a result of the Reverse Stock Split. The Board of Directors noted that the price set by the Board of Directors, \$7.25 per share, is an 11% premium over \$6.54, which was the closing bid price of the Common Stock on June 28, 2007, the last trading day immediately preceding the date on which the Board of Directors selected the price, and a 16% premium over \$6.23, the average price at which the Company and its directors and executive officers had purchased shares of Common Stock during 2006 and 2007. The Board of Directors considered but rejected various other potential measures of value. See "SPECIAL FACTORS – Fairness of the Transaction."
- **Fairness of the process.** The Board of Directors obtained the Fairness Opinion from Burke in advance of its final decisions regarding the Reverse Stock Split. The Board of Directors did not retain a representative or advisor on behalf of the unaffiliated shareholders to review or negotiate the transaction. The Board of Directors concluded that the expense of such a step was not reasonable in relation to the size of the transaction being contemplated and concluded it could adequately establish the fairness of the Reverse Stock Split without such a step. The Reverse Stock Split also was not structured so that approval of at least a majority of the unaffiliated shareholders is required. The Board of Directors did not form a special committee of independent directors to review and approve the terms of the Reverse Stock Split. With respect to all of the above, the Board of Directors concluded that there was sufficient independent representation in the decision-making at the Board of Directors level to protect the interests of the unaffiliated shareholders. This decision was based on the fact that three of the five members of the Board of Directors are not controlled by, or under common control with, the Company, and these members of the Board of Directors are not employees of the Company. The Board also noted the equal applicability of the terms of the Reverse Stock Split to shareholders regardless of their relationship to the Company, and the availability of dissenters' rights as an alternative means for shareholders to seek the fair value of their shares in the transaction. See "SPECIAL FACTORS – Fairness of the Transaction."
- **Conflicts of interest.** Darrell Wells, the President and Chief Executive Officer of the Company, has extended a line of credit to the Company that will be used, in part, to finance the repurchase of fractional shares in the Reverse Stock Split. The cost of purchasing fractional shares and expenses associated with the Reverse Stock Split are expected to be approximately \$1,324,900, resulting in total borrowings against the line of credit of \$7,084,900, with estimated annual interest payments of \$655,353. As a result, he has a conflict of interest with respect to the Reverse Stock Split, as he is financing the transaction and also had a role in electing to pursue it and structuring its terms.

In addition, certain members of the Board of Directors and executive officers of the Company currently own sufficient shares of Common Stock to continue as shareholders following the Reverse Stock Split. As a result of the Reverse Stock Split, the collective percentage ownership by such directors and officers will increase from approximately 68.6% to approximately 76.8%. In particular, Darrell and Margaret Wells' percentage ownership will increase from approximately 62% to 69% (over two-thirds) of the outstanding common stock. These prospective increases present a conflict of interest for our directors and executive officers as a group and for those whose individual proportionate ownership will increase, given that their relative voting power and equity ownership of the Company will increase as a result of the transaction. Furthermore, to the extent that the Reverse Stock Split may enable the Company to realize significant cost savings, continuing shareholders of the Company – including these officers and directors – may be able to realize the benefits of such savings, including the potential for increased net earnings and any long-term appreciation stemming therefrom. See “COMPANY INFORMATION – Interest in Securities of the Company,” “– Interest of Certain Parties in the Reverse Stock Split” and “SPECIAL FACTORS – Effects of the Reverse Stock Split.”

- **Vote required and reservation of rights.** Under Kentucky law and the Company's Articles of Incorporation and Bylaws, the amendment to the Articles of Incorporation to accomplish the Reverse Stock Split requires the affirmative vote of a majority of the votes cast by all holders of Common Stock. The Company's President and Chief Executive Officer, Darrell R. Wells (“Mr. Wells”), beneficially owns approximately 62% of the outstanding Common Stock, and the Company's executive officers and directors as a group beneficially own approximately 69% of the outstanding shares. Mr. Wells and the other directors and executive officers of the Company have indicated that they intend to vote “FOR” the Reverse Stock Split. Assuming that they vote as they have indicated that they will, approval of the Reverse Stock Split is assured. See “COMPANY INFORMATION – Interest in Securities of the Company” and “TERMS OF THE TRANSACTION – Vote Required.”

The Board of Directors reserves the right, in its discretion, to abandon the Reverse Stock Split prior to the proposed Effective Date if it determines that abandoning the Reverse Stock Split is in the best interest of the Company. The Board of Directors believes that it is prudent to recognize that, between the date of this Proxy Statement and the Effective Date, factual circumstances could possibly change such that it might not be appropriate or desirable to complete the Reverse Stock Split at that time or on the terms currently proposed. Such factual circumstances could include the number of dissenting shareholders, a material change to the Company's business, or litigation affecting the Company's ability to proceed with the Reverse Stock Split. See “TERMS OF THE TRANSACTION – Reservation of Rights.”

- **Effective date.** Assuming shareholder approval is received, the Company anticipates that the Reverse Stock Split will be effective on [effective date]. See “TERMS OF THE TRANSACTION - Amendment to Articles of Incorporation.”
- **Post-Split Exchanges and Transfers.** All certificates representing issued and outstanding shares of Common Stock immediately prior to the Reverse Stock Split will be cancelled and must be returned to the Company. A letter of transmittal describing how to collect any cash to be paid in lieu of fractional shares and receive certificates for shares of New Common Stock is being mailed to shareholders in conjunction with the mailing of this Proxy Statement. Transfers of New Common Stock will not be permitted until a shareholder's old certificates have been properly surrendered. See “TERMS OF THE TRANSACTION – Post-Split Exchanges and Transfers.”

- **Source of funds.** The Company estimates that approximately \$1,234,900 will be required to purchase fractional shares resulting from the Reverse Stock Split. The Company also estimates that expenses connected with the Reverse Stock Split will total approximately \$90,000. The Company plans to borrow the funds related to the Reverse Stock Split from Mr. Wells. The amounts borrowed will expand an existing loan agreement between the Company and Mr. Wells. The outstanding principal under that loan agreement is callable upon 90 days notice and is otherwise due on June 30, 2008. Interest is payable quarterly at an annual rate equal to the greater of 6% or the prime lending rate plus 1%. The Company anticipates making payments on the loan, as to both debt incurred in connection with the Reverse Stock Split and the existing balance of the loan prior to the Reverse Stock Split, from savings generated from the Reverse Stock Split. The Company anticipates that Mr. Wells will extend the maturity of the loan each year until the loan is repaid, although such extensions are not guaranteed. The Company has not arranged an alternative source for financing the Reverse Stock Split in the event Mr. Wells fails to loan the Company the funds as indicated. See “COMPANY INFORMATION – Interests of Certain Parties in the Reverse Stock Split” and “OTHER INFORMATION – Source and Amount of Funds.”
- **Tax consequences.** The issuance of the New Common Stock in exchange for the Common Stock will be treated as a tax-free recapitalization for federal income tax purposes. Accordingly, the exchange of shares will not result in the recognition of gain or loss to a shareholder, and the adjusted tax basis of a shareholder in and holding period for the stock will not change. Shareholders who receive cash in lieu of fractional shares will recognize a capital gain or loss to the extent of the difference between the shareholder’s tax basis in such shares and the amount of cash received in exchange therefor. See “SPECIAL FACTORS - Federal Income Tax Consequences.”
- **Dissenters’ rights.** A shareholder who will receive cash in lieu of fractional shares upon implementation of the Reverse Stock Split has the right under Kentucky law to demand the appraised value of such shareholder's shares of Common Stock if the shareholder votes against the Reverse Stock Split and complies with certain other procedural matters. See “OTHER INFORMATION – Dissenters’ Rights,” and Appendix B to this Proxy Statement.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

When used in this document, the words or phrases “will likely result,” “are expected to,” “anticipate,” “estimate,” “project,” or similar expressions are intended to identify “forward-looking statements.” Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from results presently anticipated or projected. You should not place undue reliance on any such forward-looking statements, which speak only as of the date made. Actual results may differ materially from any opinions or statements expressed with respect to future periods in any current statements in this document or in the Company’s other filings with the SEC.

SPECIAL FACTORS

Background of the Reverse Stock Split. On May 23, 2007, the SEC adopted final guidance regarding compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (“SOX”). The SEC also announced its decision not to delay the deadlines for implementation of Section 404 of SOX for non-accelerated filers, such as the Company. These decisions prompted Messrs. Wells, Cornett, and Schweitzer, acting in their respective capacities as officers of the Company, to analyze the activity and expenses necessary to comply with the requirements of Section 404 of SOX and the benefits, expenses, and exposures of maintaining the registration of the Company’s common stock under the Exchange Act.

On June 11, 2007, Messrs. Wells and Cornett contacted counsel, Powell Goldstein LLP, to discuss these issues and the alternatives to maintaining registration of the Company's common stock under the Exchange Act. The discussion focused on the relative costs and benefits of being a public company as described in "– Advantages and Disadvantages of Terminating SEC Registration" and the principal types of transactional alternatives available to the Company as described in "– Alternatives Considered."

On June 13, 2007, Mr. Cornett discussed with Burke Capital Group the terms of a potential engagement to offer an opinion of the fair market value of the Common Stock.

At a regular meeting of the Board of Directors held on June 14, 2007 with all directors in attendance, Mr. Cornett presented an analysis of the de-registration process that included the following discussion topics. The Board of Directors discussed the relative advantages and disadvantages of terminating the registration of the Company's common stock under the Exchange Act as described in "– Advantages and Disadvantages of Terminating SEC Registration" and also discussed the specific anticipated cost savings and other potential effects of such a transaction that are described in "– Purposes of the Reverse Stock Split" and "– Effects of the Reverse Stock Split." The Board of Directors also discussed various transactions that could be used to terminate such registration and their relative advantages and disadvantages as described in "– Alternatives Considered."

Mr. Cornett also presented, and the Board reviewed, the following shareholder analysis based on the shareholders of record as of April 16, 2007. In particular, the Board noted the limited public float of the Common Stock as evidenced by the ownership of approximately 90% of the outstanding Common Stock by only 4% of its shareholders.

<u>No. of Shares</u>	<u>No. of Holders</u>	<u>Percent of Holders</u>	<u>Total Shares Held</u>	<u>Percent of Shares</u>
0-99	1,540	68%	63,666	4%
100-199	451	20%	52,355	3%
200-299	150	7%	31,662	2%
300-399	36	2%	11,352	1%
400-499	18	1%	7,451	0%
500+	85	4%	1,421,525	90%
Total	2,280		1,588,011	

Mr. Cornett also presented an analysis showing that a reverse split ratio of 1-for-200 would produce approximately 290 shareholders of record, while a 1-for-300 ratio would produce approximately 140 shareholders of record. He updated this analysis at the June 29, 2007 Board meeting, and it is presented in more detail with the discussion of that meeting below.

The Board also discussed potential measures of the fair value of fractional shares should a reverse stock split be pursued as described in "– Fairness of the Transaction – Fairness of the Substance of the Transaction" and potential steps that could be taken to provide procedural fairness should a reverse stock split be pursued as described in "– Fairness of the Transaction – Fairness of the Process."

At the conclusion of this meeting, the Board of Directors concluded that a reverse stock split would be the best means of accomplishing a going-private transaction for the reasons stated in "– Alternatives Considered" and requested that management develop additional information regarding the steps required and likely timing related to a potential reverse stock split. It also authorized the engagement of Burke Capital Group, as independent financial advisor, to prepare an analysis of the fair market value of the Common Stock and to provide a range of prices that Burke would deem to be fair to unaffiliated shareholders, including both those who might receive cash in lieu of fractional shares as the result of a potential reverse stock split as well as those who might receive post-split shares of the Company's common stock as the result of a potential reverse stock split. Burke was so engaged on June 15, 2007.

On June 18, 2007, Messrs. Wells, Cornett, and Schweitzer discussed with a representative of Powell Goldstein the steps required to effect a potential reverse stock split and going-private transaction, such as document preparation, filing, and mailing, the shareholders' meeting, the process involved in exchanging Common Stock for New Common Stock and/or cash, and the likely timing related to a potential reverse stock split. The parties determined that the reverse stock split would require shareholder approval of an amendment to the Company's Articles of Incorporation, which would be filed with the Kentucky Secretary of State promptly following receipt of shareholder approval and would evidence the effective date of the transaction. To obtain such approval, a proxy statement would need to be prepared, reviewed by the SEC and sent to shareholders, with the shareholders' meeting being likely (although not guaranteed) to occur during the fourth quarter of 2007. The exchange of stock would follow shortly after the Effective Date and be accomplished by means of a Letter of Transmittal as described in "TERMS OF THE TRANSACTION – Post-Split Exchanges and Transfers." The parties also discussed the availability of dissenters' rights under Kentucky law as described in "OTHER INFORMATION – Dissenters' Rights."

On June 29, 2007, the Board of Directors held a special meeting, with all directors in attendance, and representatives of Burke Capital Group and a representative of Powell Goldstein present for a portion of the meeting by telephone. At that meeting, the Board of Directors reviewed the following split ratio analysis, which was based on the distribution of the Company's shareholders as of June 29, 2007.

Split Ratio	Resulting # of Shareholders	Fractional Shares
200	284	149,031
225	166	173,806
250	159	170,331
275	142	182,681
300	135	183,631

Subject to the further discussions and actions of the independent directors described below, the Board decided that a ratio of 1-for-250 would be appropriate, as it was the smallest ratio that would bring the number of shareholders of record safely under 300 while resulting in the smallest number of fractional shares. The selection of this ratio was based on the assumption that only a small number of shareholders owning fewer than 250 shares of Common Stock would purchase additional shares of Common Stock prior to the Effective Date in order to remain shareholders following the Reverse Stock Split.

The Board also discussed with representatives of Burke their report of the valuation of the Common Stock as of June 22, 2007 and the valuation methodologies used therein as described in "– Opinion and Report of the Financial Advisor" and adopted Burke's analyses and conclusions as its own. After discussion of the factors set forth in "– Fairness of the Substance of the Transaction" and for the reasons set forth therein, the Board determined that subject to the further discussions and actions of the independent directors as described below, a \$7.25 per share valuation would be appropriate. The Board also reviewed the procedural safeguards described in "– Fairness of the Process" and reached the conclusions stated therein subject to the further discussions and actions of the independent directors. In addition, management and the representative from Powell Goldstein reviewed with the Board of Directors the content of the June 18, 2007 conversation of the steps needed to accomplish a "going private" reverse stock split and the likely timing.

At the end of the meeting, Mr. and Mrs. Wells, as control shareholders, absented themselves from the meeting. Thereafter, the independent members of the Board of Directors, John H. Harralson, Jr., George A. Turk and Thomas G. Ward, discussed and set the split ratio at 1-for-250 for the reasons set forth above, discussed and set the cash price to be paid in lieu of fractional shares as discussed in "– Fairness of the Substance of the Transaction," discussed and affirmed the procedural safeguards described in "– Fairness of the Process" and then unanimously voted in favor of the Reverse Stock Split with the terms and conditions as discussed in this Proxy Statement. The Company

issued a press release announcing the proposed Reverse Stock Split on July 2, 2007. See “– Fairness of the Process” for additional information regarding the independent members of the Board of Directors and their actions.

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With respect to the foregoing, it should be noted that Gerald A. Wells, who is not related to either Darrell R. Wells or Margaret A. Wells, became a director of the Company on August 9, 2007, subsequent to the meetings and actions discussed above. Therefore, any references contained herein to the discussions, deliberations, and actions of the Board of Directors and the “independent members of the Board of Directors” related to the Reverse Stock Split exclude Gerald A. Wells.

Purposes of the Reverse Stock Split. The principal reason for the Reverse Stock Split is to bring the number of record holders of Common Stock below 300 so that the Company will no longer have the expenses associated with being an SEC-reporting company, while still enabling the Company to pursue its business plans without significant change. In addition to eliminating the legal, accounting, and other costs associated with making filings as an SEC-reporting company, the Company’s management and employees will no longer be required to spend time preparing reports required of SEC-reporting companies. The reasons for undertaking the Reverse Stock Split now are described below in “– Reasons for the Reverse Stock Split.” The Reverse Stock Split will reduce the number of the Company’s shareholders from approximately 2,388 to approximately 159. Immediately following the Company’s certification to the SEC that it has fewer than 300 common shareholders of record, the Company’s obligations to file annual, quarterly, and current reports with the SEC will be suspended. Its proxy filing and other SEC reporting obligations will terminate 90 days thereafter.

Another purpose of the Reverse Stock Split is to allow shareholders owning fewer than 250 shares of Common Stock to dispose of their stock easily and without having to pay brokerage commissions.

An additional purpose for the Reverse Stock Split is to reduce the expenses resulting from administering a large number of small shareholder accounts. The expense of administering accounts of small record shareholders is disproportionate to their ownership interest in the Company. As of June 29, 2007, approximately 2,229 shareholders of record held 249 or fewer shares of Common Stock, totaling approximately 170,331 shares and representing approximately 9% of the Company’s outstanding Common Stock. A disproportionate amount of the Company’s administrative expenses relating to shareholder accounts and reporting requirements are attributable to these shareholders. For example, of the approximately \$29,000 per year of total stock transfer and shareholder communication costs, excluding internal personnel expenses related thereto, approximately \$27,000 is attributable to shareholders who in the aggregate own less than 9% of the Company’s outstanding Common Stock.

Reasons for the Reverse Stock Split. The Board of Directors elected to structure the proposed transaction as a Reverse Stock Split because (1) it ensures that the number of record shareholders of the Company will be fewer than 300 following the transaction, (2) it involves transaction-related expenses that are reasonable relative to the size of the transaction and the anticipated savings, and (3) it allows shareholders owning fewer than 250 shares of Common Stock to dispose of their stock easily and without having to pay brokerage commissions.

A significant factor in the timing of the Reverse Stock Split is the recognition by the Company’s Board of Directors that the expenses associated with maintaining registration of the Common Stock under the Exchange Act have increased significantly over the past few years. The principal components of this increase are audit and related fees associated with Exchange Act reporting compliance, which increased from \$141,400 for 2001 to \$253,722 for 2006, an increase of 79.4% over the five-year period. The Board of Directors believes that additional significant increases to such expenses can be expected in the future. For example, starting with the audit of fiscal year 2008, management estimates there will be additional annual fees of approximately \$175,000 to obtain the independent accountant opinion regarding the Company’s internal controls as required by Section 404 of SOX. If the Company does not de-register promptly, it will also be forced to incur significant one-time costs associated with compliance with Section 404 of SOX.

The Company incurs significant direct and indirect costs complying with its periodic reporting and other obligations under the Exchange Act, including: the legal, accounting, printing, mailing, public relations, compliance, and administrative costs of preparing, reviewing, printing, and distributing the reports and other filings required under the Exchange Act; the broker and transfer agent charges for forwarding materials to beneficial holders of Common Stock; the management time and attention expended in preparing and reviewing such reports and other filings; and the disadvantage of publicly disclosing detailed operational and financial information of the Company when non-public competitors are not required to make comparable disclosures.

The estimated savings to the Company of no longer maintaining registration under the Exchange Act are categorized as follows:

Estimated Annual Savings

Audit fees (including annual SOX Section 404 opinion)	\$300,000
Legal fees	60,000
Shareholder communications (printing, mailing, etc.)	16,000
NASDAQ listing fee and stock transfer costs	37,000
Director and officer insurance and fees	74,000
Internal personnel expense (time savings)	65,000
Total	\$552,000

Estimated One-Time Savings

SOX consulting	\$132,000
Internal personnel expense (time savings)	40,000
Total	\$172,000

In reviewing the estimated savings from the termination of the Company's common stock under the Exchange Act, it is important to note that the Company's insurance subsidiaries, the only significant assets of the Company, are required by state regulatory authorities to prepare their financial statements in accordance with statutory accounting principles ("SAP") and not generally accepted accounting principles ("GAAP"). Significant differences between SAP and GAAP are discussed in the notes to the Company's annual financial statements. The Company's management primarily uses SAP financial information for managing the operations of the Company. Therefore, the costs of preparing GAAP financial information are incurred primarily for complying with the requirements of the Exchange Act. Shareholders may obtain SAP financial information on the Company's insurance subsidiaries through the Company, the state insurance departments for those states in which the insurance subsidiaries are licensed to conduct business, and through the National Association of Insurance Commissioners.

While management believes that the annual savings noted above represent a reasonable estimate, it is possible that the actual savings resulting from the Reverse Stock Split will be more or less than the amount estimated. The Company cannot guarantee that the benefits of the termination of registration under the Exchange Act will be accomplished as rapidly as currently expected, or at all.

The Board of Directors also believes that holders of fewer than 250 shares of Common Stock may be deterred from selling their shares because of the brokerage commissions involved in such a sale. Commissions on a sale of a small number of shares of stock may be significant in relation to the market value of the shares involved. The Board of Directors believes that the relatively small financial investment in the Company by those shareholders owning fewer than 250 shares of Common Stock limit those shareholders' opportunities to realize the value of their shares through market transactions. Small lots of stock often sell poorly, with numerous shareholders frozen into very small investment positions from which they can extricate themselves only with the payment of a brokerage fee that is disproportionate to the actual per share value of the stock to the small shareholder. In that regard, the Board of Directors noted that approximately 1,644 of the Company's 2,388 shareholders of record at June 29, 2007 owned fewer than 100 shares of Common Stock.

Alternatives Considered. The Board of Directors considered other means of reducing the number of shareholders below 300 while still enabling the Company to pursue its business plans without significant change.

The Board of Directors considered and rejected making a tender offer. The Board of Directors noted that the key advantage of a tender offer is that shareholder action would be entirely voluntary on the part of each shareholder. The Board of Directors determined, however, that it is not sufficiently predictable whether enough holders of small numbers of shares would make the effort to tender their shares, and such offer would be required to be extended to all shareholders, so the desired result of reducing the number of shareholders below 300 would not be assured. In addition, by extending the offer to all shareholders, the cash cost could be much greater, which would raise financing issues deemed by the Board of Directors to be inappropriate at this time.

The Board of Directors considered and rejected a merger in which holders of odd lots would have had their shares converted automatically into a right to receive a cash payment. Under this alternative, a merger would have been coordinated with a shell corporation by which stock of the newly merged entity would be issued to Company shareholders, with shareholders owning fewer than a threshold number of shares being cashed out in connection with the merger. While, like the Reverse Stock Split, a merger would have guaranteed the success in reducing the number of shareholders below 300, a merger transaction would have required the establishment of a new corporate entity and entitled all shareholders, as opposed to only those receiving cash in lieu of fractional shares, to dissenters' rights, which could result in additional transaction expenses. While, but for the possibility of increased shares having to be purchased as a result of dissenters' rights, a merger might have resulted in fewer fractional shares to be purchased (as the Reverse Stock Split creates some fractional shares among shareholders owning more than 250 shares of Common Stock whereas a merger would not), the Board of Directors viewed the benefits of the Reverse Stock Split over a merger (primarily, the Reverse Stock Split's simplicity to effect and explain) as more than offsetting the relatively small number of additional fractional shares created through the Reverse Stock Split.

The Board of Directors considered a reclassification transaction. Under this alternative, the Company would create a new class of stock, and then a certain group of shareholders would be required, through a merger or charter amendment, to convert all of the shares of Common Stock held by them prior to the transaction into the newly created class of stock. Under this alternative, the Company would not be required to pay any cash in order to complete the transaction. The objective of the transaction is to divide the shareholders of the Company into classes of stock that have fewer than 300 shareholders of record in each class of stock. This type of transaction is usually initiated when only one or two additional classes of stock will be created. Given the large number of Company shareholders and the relatively large number of classes of stock that would be required to insure that no one class had more than 300 shareholders, the Board of Directors did not believe that a reclassification transaction was feasible.

Effects of the Reverse Stock Split. Based upon the number of shareholders of the Company as of June 29, 2007, and provided that few, if any, of the Company's shareholders who currently hold 249 or fewer shares of the Company's Common Stock will purchase sufficient additional shares to hold at least 250 shares of the Company's Common Stock at the time of the Reverse Stock Split, the Reverse Stock Split will decrease the number of outstanding common shares from 1,586,111 shares of Common Stock to approximately 5,663 shares of New Common Stock and reduce the number of shareholders from approximately 2,388 to approximately 159.

As soon as practicable after the Effective Date, the Company intends to notify the SEC of the reduction of the Company's shareholder base to fewer than 300 shareholders of record. This notification will automatically suspend the Company's obligation to file annual, quarterly, and current reports. Beginning 90 days thereafter, the Company's remaining filing obligations relating to the Exchange Act registration of the Common Stock, such as proxy and insider filing requirements, will terminate. Upon termination of Exchange Act registration, the amount of information publicly available to the Company's remaining shareholders, the public, and to market makers will be significantly reduced, and this could adversely affect the trading market and market value for the remaining shares. Generally, broker-dealers may give less attention to companies that do not file reports with the SEC. As a result, the market price for the New Common Stock may be lower than it would otherwise be. The reduced flow of information may also cause the trading prices of the shares that are not purchased to be more volatile. However, the Company is unable to predict with certainty the effect of the termination of Exchange Act registration on either the market price of the New Common Stock or the volatility of such price. Further, the Company expects to save an estimated \$552,000 per year as of result of eliminating the costs of complying with the Exchange Act (although the Company will incur an interest expense of approximately \$123,000 to finance the Reverse Stock Split).

The Common Stock is currently traded on the NASDAQ Capital Market. Upon termination of Exchange Act registration, the New Common Stock will not be eligible to be traded on the NASDAQ Capital Market. Market makers may seek to have the New Common Stock quoted on the Pink Sheets, a centralized quotation service that collects and publishes market maker quotes for over-the-counter securities. Whether or not the New Common Stock is quoted in the Pink Sheets is not dependent on the Company taking or failing to take some action in that regard. In order for the New Common Stock to be quoted in the Pink Sheets, it is necessary that one or more broker-dealers act as market makers and sponsor the New Common Stock on the Pink Sheets. While the Company expects that one or more broker-dealers will take the actions necessary for the New Common Stock to be quoted in the Pink Sheets, there can be no assurance that any broker-dealer will be willing to take such actions. The Company's expectation regarding being quoted on Pink Sheets is based upon a June 19, 2007 telephone conversation between Mr. Cornett and a representative of Pink Sheets who stated that, based on what that representative saw regarding the number of market makers in the Company's Common Stock and the length of time such market makers have published a quote with respect to the Common Stock, he believed that one or more of these broker-dealers would take the actions necessary for the New Common Stock to be quoted in the Pink Sheets. The Company did not receive any details of that representative's analysis.

The Reverse Stock Split also gives shareholders owning fewer than 250 shares of Common Stock the opportunity, which cannot be predicted to reoccur, to sell their stock at a price related to current market prices without incurring the cost of service fees or a broker's commission. Shareholders who receive cash in lieu of fractional shares will have no further interest in the Company with respect to cashed out shares and will no longer be entitled to vote as a shareholder or share in the Company's assets or earnings, if any, with respect to such cashed out shares.

Termination of SEC registration will make it more difficult for the Company to use its Common Stock as acquisition consideration because SEC registration is required in order to issue liquid stock to a large number of shareholders of a target company. Similarly, it would be easier for the Company to raise capital in a follow-on public offering if it had current public information available by virtue of its ongoing SEC filings. The Board of Directors noted, however, that the Company has not used Common Stock to raise capital or make acquisitions for many years and does not believe that the Company will use Common Stock for such purposes in the foreseeable future.

The Reverse Stock Split will not alter voting rights or other rights of shareholders.

For information on the accounting and financial effects of the Reverse Stock Split see “OTHER INFORMATION – Financial Information – Pro Forma Financial Information.”

The Reverse Stock Split will exchange any fractional shares held following the Effective Date for cash. As a result, the percentages of beneficial ownership of each shareholder following the Effective Date may change. Because the Company currently has a large number of shareholders who hold fewer than 250 shares of Common Stock, and holders of fewer than 250 shares of Common Stock at the Effective Date will receive cash for their fractional shares but will not receive New Common Stock as a result of the Reverse Stock Split, the relative ownership percentages of holders of the Company’s Common Stock who remain holders of New Common Stock following the Effective Date is likely to increase. For example, the directors and executive officers of the Company are currently the beneficial owners of approximately 68.6% of the Common Stock. As a result of the Reverse Stock Split, it is expected that the directors and executive officers of the Company will beneficially own approximately 76.8% of the New Common Stock. See also “COMPANY INFORMATION – Interest in Securities of the Company.” However, holders of fewer than 250 shares of the Company’s Common Stock who wish to remain shareholders of the Company following the Reverse Stock Split may purchase additional shares of the Common Stock, subject to availability, prior to the Effective Date. While in the 30 days following July 2, 2007, the date the Company announced the plans to pursue the Reverse Stock Split, NASDAQ reported that 27,875 shares of Common Stock traded and the average closing share price during that period was \$6.42, it is possible that the share price of the Common Stock will increase based on the \$7.25 price the Company will be paying for fractional shares. As a result, shareholders seeking to purchase shares of Common Stock to make their holdings of Common Stock evenly divisible by 250 might be forced to pay a significant premium in order to purchase additional shares. To the extent that any such shareholders will hold more than 250 shares of Common Stock at the Effective Date, they will receive at least one share of New Common Stock as a result of the Reverse Stock Split, and will remain shareholders of the Company. All shareholders whose holdings of Common Stock are not evenly divisible by 250 at the Effective Date, including the directors and executive officers of the Company, will receive cash in lieu of fractional shares.

The federal income tax consequences related to the Reverse Stock Split are described below under “– Federal Income Tax Consequences.”

The Company currently has no plans to change the corporate structure or business of the Company following the Reverse Stock Split. The Company is not currently contemplating any extraordinary transaction, such as a merger, reorganization, or liquidation; any purchase, sale, or transfer of a material amount of assets; any material change in the present dividend policy, indebtedness, or capitalization; or any change in the present Board of Directors or management. While the Company has no current plans with regard to the items listed above, the Company is in a dynamic environment. Given this environment and the Company’s relatively small size, as opportunities and challenges arise, the Company might indeed pursue a material transaction from the types listed above.

The Company has on occasion in the past purchased shares of its common stock on the open market and may continue to do so in the future. The Company currently has no plans to materially increase the volume of such purchases following the Reverse Stock Split. The termination of Exchange Act registration will reduce the restrictions on the Company and its affiliates related to the purchase and sale of the Company’s common stock.

Advantages and Disadvantages of Terminating SEC Registration. In its discussions regarding the Reverse Stock Split, the Board considered the following advantages and disadvantages of terminating the Company's SEC registration:

Advantages

Expense Savings. If the Company terminates its SEC registration, management estimates that the Company will save approximately \$552,000 in annual costs relating to the preparation, filing and distribution of Exchange Act reports and compliance with its other obligations as a public company, including legal, audit and related fees. It will also save approximately \$172,000 in one-time expenses relating to the initial audit and consulting work that would be required to deliver an audited report regarding the Company's internal controls over financial reporting for fiscal 2008. See "– Purposes of the Reverse Stock Split" for more detailed information as to the anticipated expense savings.

Time Savings. The annual expense savings described above include approximately \$65,000 of annual internal personnel expense, representing management's estimation of the portion of its time that is devoted to preparing Exchange Act reports and fulfilling the Company's other obligations as a public company, multiplied by the salaries of the personnel tasked with those responsibilities. In addition to these "hard costs," however, the Company incurs less tangible but potentially more significant opportunity costs, which arise when these activities take time away from potentially revenue-enhancing opportunities. See "– Purposes of the Reverse Stock Split."

Opportunity to Liquidate Holdings. The Reverse Stock Split (or any other form of cash-out transaction) provides an opportunity for shareholders owning fewer than 250 shares of Common Stock to obtain cash for their shares without incurring brokerage commissions that could be disproportionate to the value of the stock held. See "– Purposes of the Reverse Stock Split."

Disadvantages

Loss of NASDAQ Listing. When the Company's Exchange Act reporting obligations are suspended, its stock will no longer be eligible for listing on the NASDAQ Capital Market. This will make it more difficult for shareholders to trade their stock, as an automated quotation service matching buyers and sellers for the stock will no longer be available. This reduction in the liquidity could also adversely affect the market price of the stock. See "– Effects of the Reverse Stock Split."

Elimination of Investor Protections and Publicly Available Information. As a private company, the Company would no longer be subject to the disclosure requirements and investor protections that apply to public companies by virtue of SEC regulations and the Sarbanes-Oxley Act. The amount of information that would be publicly available with respect to the Company would be reduced significantly, and this could adversely affect the trading market and market value for the New Common Stock. See "– Effects of the Reverse Stock Split."

Limitations on Use of Stock in Offerings and Acquisitions. Regardless of whether the Company is a public company, it would not be able to engage in a public offering of its securities, either to raise capital or to offer its stock as consideration to a large group of shareholders in an acquisition, without filing a registration statement with the SEC. As a public company, however, this process would be easier and involve less legal and accounting expense because the Company would already have current SEC-filed information available for inclusion in the new registration statement. If the Company terminates its SEC reporting, however, the public offering process would involve significantly more time and expense and would require the Company to continue to file SEC reports for at least a full fiscal year. The difficulties associated with the public offering alternative decreases the strategic alternatives available to the Company in the areas of capital planning and growth by acquisition.

Fairness of the Transaction. The Board of Directors believes that the Reverse Stock Split is fair to the Company's unaffiliated shareholders, including both those who will receive cash in lieu of fractional shares and those who will receive shares of New Common Stock. The Reverse Stock Split was unanimously approved by the Board of Directors, with Mr. and Mrs. Wells, as control shareholders, abstaining from the vote.

Fairness of the Substance of the Transaction

The Board of Directors considered the Reverse Stock Split fair to the unaffiliated shareholders who will receive shares of New Common Stock in that the Board of Directors viewed the savings to be generated from the termination of registration under the Exchange Act and from the reduction in the number of shareholders as more than offsetting the loss of eligibility for listing on the NASDAQ Capital Market, the reduction in the amount of publicly-available financial information, and any other benefits of having stock registered under the Exchange Act. Such savings are estimated at over \$550,000 per year, with additional one-time savings of over \$170,000 (although the Company will incur interest expense annually of approximately \$123,000 in connection with financing the Reverse Stock Split and one-time expenses of approximately \$90,000 to effect the Reverse Stock Split).

Based on the factors noted below, the Board of Directors considered the price to be paid for fractional shares to be fair to both those unaffiliated shareholders who will receive cash in lieu of fractional shares and those unaffiliated shareholders who will receive shares of New Common Stock. None of the factors that the Board of Directors considered led the Board of Directors to believe that the transaction is unfair to unaffiliated shareholders.

The Board of Directors based its determination of the fairness of the price to be paid for fractional shares in the Reverse Stock Split primarily on Burke's valuation report and the analyses and conclusions therein, which it adopted as its own. The Board determined that although valuation reports can differ in scope, analysis and conclusions and do not represent a conclusive objective determination of value, the Burke report provided a reliable independent determination of the range of fair values to be paid in the Reverse Stock Split and represented the best available basis for its determination of substantive fairness. Burke determined that a fair price to be paid for fractional shares was in the range of \$7.01 to \$7.36 per share and that such a price was fair, from a financial point of view, to both the unaffiliated shareholders who will receive cash in lieu of fractional shares and those unaffiliated shareholders who will receive shares of New Common Stock. The Board selected a cash-out price of \$7.25, which was slightly above the midpoint of the valuation range. This was because, in its view, the involuntary nature of the transaction warranted a slight premium within the range for the purchase of the fractional shares. While the Board also considered prices at which the Common Stock had traded and been repurchased as described below, it used those prices as a check against the Burke valuation range and gave them minimal weight as price determinants. In the Board's view, the Burke valuation was a more reliable indicator of value than these market transactions because the trading volume of the Common Stock is low and does not necessarily reflect a consistent market value. Additionally, the Burke valuation was performed in the context of the contemplated Reverse Stock Split, which involved determining specifically a fair price to be paid in the context of an involuntary cash-out transaction, as opposed to the daily trading price for a minority interest in the Common Stock. The Board did compare the trading and repurchase prices to the valuation range, however, to ensure that the valuation range did not deviate radically from those prices. In each case, as is more specifically described below, the trading and repurchase prices were less than the low end of the valuation range – a result that the Board found to support its fairness determination, albeit with minimal weight for the reasons stated above. See “– Opinion and Report of Financial Advisor.”

The Board of Directors considered recent and historical trades of the Company's Common Stock. The Common Stock has traded in recent years on the NASDAQ Capital Market. That market has represented the principal outlet for a shareholder who wished to dispose of his or her shares. The Board of Directors viewed that market as a good indicator of what a willing buyer would pay to a willing seller, neither one of whom is under any compulsion to buy or sell, after considering such factors as their estimate of the Company's value as a whole, its earnings and performance history, its prospects, the prospects of the industry as a whole, an assessment of the control parties and management of the Company, and other factors that typically bear on a common stock purchase or sale decision. The cash price determined by the Board of Directors to be paid for fractional shares, \$7.25, exceeds the price a shareholder selling his or her shares would likely receive (but for the Reverse Stock Split), based on the average closing bid price reported by NASDAQ for the period May 29, 2007 through June 28, 2007 (the day before the Board established the cash-out price), which was \$6.45 per share. The Board of Directors noted that the 52-week high price of the Common Stock reported by NASDAQ as of June 28, 2007, \$6.84, and the closing bid price for the Common Stock on June 28, 2007, \$6.54, were both less than \$7.25. The Reverse Stock Split also provides a means for a small shareholder wishing to dispose of his or her shares to do so without brokerage costs. The Board of Directors noted that if a shareholder would prefer not to receive cash in lieu of fractional shares but would instead prefer to receive only New Common Stock, such a shareholder can purchase, prior to the Effective Date and subject to availability, additional shares of Common Stock through the market in order to make his or her holdings of Common Stock evenly divisible by 250 (and thereby not having a fractional share as a result of the Reverse Stock Split). By doing so, a Common Stock shareholder who on the Record Date owns fewer than 250 shares may elect to remain a shareholder and continue to participate in the equity of the Company. While in the 30 days following July 2, 2007, the date the Company announced the plans to pursue the Reverse Stock Split, NASDAQ reported that 27,875 shares of Common Stock traded and the average closing share price during that period was \$6.42, it is possible that the share price of the Common Stock will increase based on the \$7.25 price the Company will be paying for fractional shares. As a result, shareholders seeking to purchase shares of Common Stock to make their holdings of Common Stock evenly divisible by 250 might be forced to pay a significant premium in order to purchase additional shares.

The Board of Directors noted that the Company, a member of its Board of Directors, and certain of its executive officers had purchased shares of Company Common Stock in 2006 and 2007. Such purchase prices ranged from \$5.01 to \$6.67, with an average per share price of \$6.23. The cash price to be paid for fractional shares is a premium over any of these values. See "COMPANY INFORMATION – Interest in Securities of the Company" for additional information on these purchases.

The Board of Directors did not view net book value to be a reliable measure of fair value. The Board of Directors noted that net book value does not state all assets and liabilities at market value nor does it take into account the other considerations that might be part of the "willing buyer/willing seller" evaluation discussed above. In the Company's financial statements, certain assets are reflected at market value (such as fixed maturities available for sale, equity securities, and cash) whereas others are not (such as real estate and property and equipment). Also, liabilities are generally not reflected at market value. Significantly, contract reserves, which represent over 82% of the Company's total liabilities, are not reflected at market value but are generally reflected based on assumptions as to investment yields, mortality, withdrawals, and dividends that were made at the time the contracts were issued or, for contracts acquired by purchase, at the purchase date. So, while the Company has recognized the unrealized losses (approximately \$1,696,765 at December 31, 2006) from the Company's fixed maturities available for sale resulting primarily from changes in the interest rate environment from the point such securities were purchased, each of the Company's contract reserves continue to be reflected based on historical interest rates. Were the Company's contract reserves to be revalued based on current market interest rates, such liability values would change and thereby change the net book value. No study has been performed to determine the value of the contract reserves based on current assumptions and to restate other liabilities and assets that are not currently so stated at fair value. Such a study would be based on a large number of subjective assumptions and be very expensive to perform. Given the other considerations discussed herein, the Board of Directors decided not to pursue such a study.

The Board of Directors viewed the liquidation value of the Company to be an inappropriate measure for the purpose of evaluating the cash price to be paid for fractional shares. There is no present intention of liquidating the Company or selling a substantial portion of its assets. The Company's principal shareholder is not considering the sale of his interest or the sale of the Company as a whole. Further, the Reverse Stock Split will only result in the termination of an equity interest by the shareholders reduced to fractional shares as a result of the Reverse Stock Split. The total of all such shares represent only about 11% of the total outstanding shares of Common Stock prior to the Reverse Stock Split and the maximum amount applicable to any single shareholder is only 249 shares of Common Stock. Liquidation value is also a difficult concept to apply to a life insurance enterprise, such as the Company. Liquidation value involves valuing the individual assets of a company as if each asset were to be sold and determining the resulting value of the company after satisfying the company's liabilities. For many industries, liabilities are neither significant nor long term. However, a life insurance enterprise's liabilities are both significant and long term (continuing until the last policy has terminated by death, surrender, or lapsing). While valuing the Company's assets on a liquidation basis would be relatively simple, since the primary assets are marketable securities, the determination of the offsetting liability value would be difficult, based on a large number of subjective assumptions, and would be relatively expensive to perform. Given the other considerations discussed herein, the Board of Directors decided not to pursue the valuation of the liabilities to pursue the liquidation value approach.

Since the Company has had an erratic history of earnings, the Board of Directors viewed a comparison to industry price-earnings multiples as inappropriate. The Company had a loss per share for 2006 of \$.51 and a loss per share for the first quarter of 2007 of \$.11. The Company has had a net loss in three of the last six years. Price-earnings multiples are not applicable with regard to net losses. Given the relatively small size of the Company's insurance operations, the Company is subject to a greater degree of volatility in mortality, morbidity, and other aspects of policy-related performance than larger insurance operations. This volatility makes any attempt to predict a "normal" pattern of earnings quite speculative.

An indicator of going concern value is the discounted future cash receipts approach. Given the other considerations discussed herein, the Board of Directors decided not to pursue this approach due to the volatility in the Company's recent history, which makes setting assumptions regarding future performance less reliable, and due to the significance of the subjective assumptions that would be involved in such an approach, as well as the expense associated with the approach.

There have been no offers for the Company, nor have any offers been solicited.

Based on the above, the Board of Directors set the price to be paid for fractional shares resulting from the Reverse Stock Split at \$7.25 per share.

On June 29, 2007, Burke rendered the Fairness Opinion to the effect that, as of that date and based upon and subject to the various assumptions and limitations stated therein, the price to be paid for fractional shares resulting from the Reverse Stock Split, \$7.25 per share, was fair from a financial point of view to both shareholders who will be cashed out and shareholders who will retain an equity interest in the Company. A copy of Burke's written Fairness Opinion is attached as Appendix C to this Proxy Statement and incorporated by reference. Shareholders should read the entire Fairness Opinion carefully. The Fairness Opinion does not constitute a recommendation by Burke to any shareholder as to how the shareholder should vote on the Reverse Stock Split at the special meeting or any other matter. See "– Opinion and Report of Financial Advisor."

Fairness of the Process

In addition to the fairness of the substance of the transaction, the Board of Directors believes that the process by which decisions were made regarding the Reverse Stock Split is fair to the Company's unaffiliated shareholders who will be cashed out and to those who will retain an equity interest in the Company as a result of the transaction.

As noted above, the Board of Directors engaged an independent financial advisor, Burke, to prepare the Fairness Opinion with respect to the Reverse Stock Split.

The Board of Directors made note of the fact that shareholders will be entitled to vote on the Reverse Stock Split and that those who will receive cash in lieu of fractional shares of New Common Stock will be entitled to dissenters' rights under Kentucky law (see "OTHER INFORMATION – Dissenters' Rights"). It also noted that shareholders can purchase, subject to availability, prior to the Effective Date, such additional shares of Common Stock through the market in order to make their holdings of Common Stock evenly divisible by 250 and thereby avoiding the result of fractional shares from the Reverse Stock Split. In this regard, while in the 30 days following July 2, 2007, the date the Company announced the plans to pursue the Reverse Stock Split, NASDAQ reported that 27,875 shares of Common Stock traded and the average closing share price during that period was \$6.42, it is possible that the share price of the Common Stock will increase based on the \$7.25 price the Company will be paying for fractional shares. As a result, shareholders seeking to purchase shares of Common Stock to make their holdings of Common Stock evenly divisible by 250 might be forced to pay a significant premium in order to purchase additional shares.

The five-member Board of Directors of the Company that was involved in the deliberations and decisions regarding the Reverse Stock Split has three independent members: Messrs. Harralson, Turk, and Ward. Gerald Wells was added to the Board of Directors on August 9, 2007 and was not involved in the deliberations and decisions regarding the Reverse Stock Split. None of the independent directors are employees of the Company nor are they otherwise controlled by, or under common control with, the Company. Each is an experienced and knowledgeable business person whose businesses and affiliates have not engaged in any transactions with the Company that were not on the same terms as are available to unrelated third parties. See "COMPANY INFORMATION – Information Regarding Directors and Executive Officers." Messrs. Harralson and Ward own shares of Common Stock, while Mr. Turk is not a shareholder of the Company. With regard to their shares of Common Stock, neither of Messrs. Harralson and Ward have any agreements with the Company or Mr. and Mrs. Wells regarding such shares. As discussed in "COMPANY INFORMATION – Interests of Certain Persons in the Reverse Stock Split," Messrs. Harralson and Ward are subject to receiving cash in lieu of fractional shares pursuant to the Reverse Stock Split, but there are no terms regarding such cash in lieu of fractional shares that apply only to Messrs. Harralson and Ward.

Mr. and Mrs. Wells absented themselves from the portion of the June 29, 2007 Board of Directors meeting during which the vote was taken regarding whether or not to engage in the Reverse Stock Split and from the selection of the split ratio, the cash price to be paid in lieu of fractional shares and the appropriate procedural safeguards, and Messrs. Harralson, Turk and Ward discussed these issues fully in executive session. They did not meet in executive session at an earlier point because they comprised a majority of the Board, viewed Mr. and Mrs. Wells' participation in, and contributions to, earlier meetings to be valuable to their decision-making process and did not consider their collective or individual independence to be jeopardized in any respect. Based on the factors described above, the independent members of the Board of Directors concluded that they had the independence and experience to fairly represent the interests of the unaffiliated shareholders and had a sufficient opportunity to discuss and form their own conclusions as to the fairness of the Reverse Stock Split without the necessity of forming a special committee. In their view, the procedural safeguards noted above of engaging an independent financial advisor and having only the independent members of the Board of Directors set the terms of and vote upon the Reverse Stock Split were sufficient. All of the independent members of the Board of Directors voted in favor of the Reverse Stock Split on the terms and conditions described herein.

Other possible procedural safeguards that were considered by the Board of Directors, but rejected based on the Board's conclusion that there were already sufficient safeguards regarding procedural fairness, are discussed below.

No representative or advisor was retained by the independent members of the Board of Directors on behalf of the unaffiliated shareholders to prepare a fairness evaluation or otherwise appraise or negotiate the proposed transaction. The independent members of the Board of Directors concluded that there were already sufficient procedural safeguards without the expense of retaining an external representative or advisor to negotiate the proposed transaction, particularly in view of the availability of dissenters' rights and given that the Burke opinion addressed the fairness of the price to all unaffiliated shareholders.

No independent committee composed of the three independent members of the Board of Directors was formed to appraise or negotiate the proposed transaction. The independent members considered whether to form such a committee and concluded that there were already sufficient procedural safeguards so as to make such a committee unnecessary. The independent members of the Board of Directors noted in this regard that they already comprised a majority of the entire Board of Directors and that Mr. and Mrs. Wells had announced at the start of deliberations regarding the Reverse Stock Split that they would absent themselves from the portion of the meeting at which the final discussions, decisions and vote regarding the Reverse Stock Split were to be made.

The Reverse Stock Split was not structured so that approval of at least a majority of unaffiliated shareholders is required. The Board viewed such a provision as unnecessary given that the terms of the Reverse Stock Split will apply equally to all shareholders. The Board of Directors was also concerned that if the Reverse Stock Split were structured to require the approval of a majority of the unaffiliated shareholders, that shareholders representing disproportionately few shares could unduly influence the Reverse Stock Split, especially if minority shareholder participation in the voting were light. Given that the independent members of the Board of Directors had concluded that there were already sufficient safeguards regarding the fairness of the transaction, the transaction was not structured to require the approval of at least a majority of the unaffiliated shareholders.

The Company and its Board of Directors and executive officers have not made any provision for granting unaffiliated holders of Common Stock access to the Company's records, beyond the inspection and other rights that might be available under Kentucky law, or to obtain counsel for unaffiliated holders at the expense of the Company and its Board of Directors and executive officers. The independent members of the Board of Directors concluded that the statutory provisions for shareholder access provided sufficient procedural safeguards and that the expense involved in obtaining additional counsel outweighed its potential benefit, particularly in view of the availability of dissenters' rights to shareholders receiving cash in the transaction.

Determination of Fairness by Other Filing Persons. Darrell R. Wells and his wife, Margaret A. Wells, in addition to the Company, are deemed to be "filing persons" for purposes of this transaction. Mr. Wells is President and Chief Executive Officer of the Company, and serves on the Company's Board of Directors, and Mrs. Wells also serves on the Company's Board of Directors. Together, Mr. and Ms. Wells beneficially own 980,997 shares of the outstanding Common Stock, representing approximately 62% of the outstanding shares. Their beneficial ownership will increase to approximately 69% of the then outstanding shares as a result of the Reverse Stock Split. Mr. Wells is extending the financing for the Reverse Stock Split as described in "COMPANY INFORMATION – Interests of Certain Parties in the Reverse Stock Split."

For all filing persons, the purposes and reasons for engaging in the Reverse Stock Split, alternatives considered and analyses regarding substantive and procedural fairness of the Reverse Stock Split to unaffiliated shareholders receiving cash or New Common Stock as a result of the Reverse Stock Split were the same as those of the Board of Directors of the Company as a whole, and each of these filing persons adopted the analyses of the Board of Directors with respect to these issues. Based on these factors and analyses, each other filing person in addition to the Company has concluded that the Reverse Stock Split is procedurally and substantively fair to the Company's unaffiliated shareholders who will receive cash and to those who will receive New Common Stock.

Opinion and Report of the Financial Advisor. The Company retained Burke to act as an independent financial advisor with respect to the Reverse Stock Split. Burke is a nationally recognized investment banking firm. In the ordinary course of its investment banking business, Burke is regularly engaged in the valuation of companies and their securities in connection with mergers, acquisitions, and other corporate transactions. During the past two years, there has been no other material relationship between the Company and Burke and their respective affiliates, and no future material relationship is contemplated. The amount of consideration paid or payable by the Company in connection with this engagement is \$15,000 in professional fees and up to \$5,000 of expenses. The consideration was not contingent upon the outcome of the analysis performed by Burke. Burke was not provided with any specific instructions or guidelines by the Company in the preparation of the Fairness Opinion and there were no limitations imposed on Burke by the Company in the preparation of the Fairness Opinion.

Burke's financial advisory role included providing a valuation report detailing the range of fair value of the Company's Common Stock to be used by the Board of Directors to determine the price to be paid for fractional shares that result from the Reverse Stock Split. Burke also delivered a written opinion as to the fairness of the price selected by the Board of Directors to be paid for such fractional shares, from a financial point of view, to both those unaffiliated shareholders who will receive cash in lieu of fractional shares and those unaffiliated shareholders who will receive shares of New Common Stock. Burke has permitted such Fairness Opinion to be included in its entirety in this Proxy Statement (see Appendix C). The opinion is dated June 29, 2007, and no material events that would affect the opinion have occurred since that date. Burke's valuation report, dated June 22, 2007, will be made available for inspection and copying during ordinary business hours at the Company's executive offices by any interested shareholder of the Company or any representative of the shareholder designated by the shareholder in writing. Upon written request, the Company will furnish a copy of the valuation report to any interested shareholder of the Company at the expense of the requesting shareholder. The valuation report has also been filed with the SEC as an exhibit to the Company's Schedule 13E-3 (see "OTHER INFORMATION – Available Information").

Prior to rendering its opinion, Burke reviewed, among other things, (1) the Company's annual report on Form 10-K as of December 31, 2006 and the audited financial statements for the years 2005 and 2006 contained therein, (2) the Company's quarterly report on Form 10-Q as of March 31, 2007 and the unaudited financial statements contained therein, (3) trading activity in the stock of the Company over the last twelve months as described in "—Historical Trading Price and Volume" below, (4) trading value statistics involving comparable life insurance companies as described in "—U.S. Comparable Companies Analysis" below, and (5) recent going private transactions and associated premiums as described in "—Premiums Paid for Similar Going Private Transactions" below.

The information Burke relied upon was derived from sources Burke believes to be credible, but the accuracy and completeness of such information cannot be guaranteed. Burke did not assume any obligation to independently verify any of the information.

In accordance with customary valuation practice, Burke employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial and comparative analyses utilized by Burke in arriving at its opinion. It does not purport to be a complete description of the presentation of Burke to the Board of Directors or the analyses performed by Burke. The preparation of a fair value opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth below, without considering the analyses as a whole, could create a misleading or an incomplete view of the process underlying Burke's fair value opinion.

Burke relied upon the examination of publicly traded comparable companies, the premiums paid for similar going private transactions, and the Company's historical trading price and volume (together the "market approach") to derive a value for the Company's Common Stock. Burke did not consider liquidation or net book value in this Analysis for the reasons set forth in "—Fairness of the Substance of the Transaction" and instead calculated the value of the Company on a going concern basis.

U.S. Comparable Public Companies Analysis

Burke selected as proxies of the Company's value the stocks of publicly traded life & health insurance companies with market capitalizations of less than \$1 billion, which Burke believed represented a better pool of comparable companies than a broader range of insurance companies including property & casualty, multi-line, managed care, title and other lines of business in which the Company is not engaged. This search resulted in eleven life & health insurance companies. Burke did not exclude any companies that matched this criteria.

The companies included in the analysis were: National Western Life Insurance Company, Presidential Life Corporation, Kansas City Life Insurance Company, Independence Holding Company, Penn treaty American Corporation, KMG America Corporation, American Independence Corporation, Security National Financial Corporation, UTG Inc., Kentucky Investors Inc., and North Coast Life Insurance Company.

The public comparables approach typically utilizes the multiples of price/last twelve months earnings, price/book value, price/tangible book value, and price/earnings before interest, depreciation, and amortization to estimate value. In this case, however, Burke concluded that only the price/book value and the price/tangible book value multiples were material to its valuation analysis because the Company lost approximately \$1 million from March 31, 2006 through March 31, 2007. Because of this loss, Burke could not calculate earnings-based multiples for the Company and they were not meaningful bases for peer group comparison. Burke did not consider this to be material to its analysis and determined that it could base its public comparables valuation on the price/book value and price/tangible book value ratios alone.

The following table illustrates the financial metrics and trading multiples of each company in the peer group. The book value per share and tangible book value per share multiples were calculated by dividing stock price as of June 21, 2007 by the March 31, 2007 book per share and tangible book per share.

Company	Ticker	City	State	Public Market Information				Price/	
				Stock Price	Market Cap (\$M)	Book Value	Tangible Book	Book Value	Book Value
National Western Life Insurance Company	NWLIA	Austin	TX	\$ 256.92	\$ 879.2	\$ 263.40	\$ 263.40	0.98x	0.98x
Presidential Life Corporation	PLFE	Nyack	NY	\$ 19.97	\$ 599.3	\$ 22.03	\$ 22.03	0.91x	0.91x
Kansas City Life Insurance Company	KCLI	Kansas City	MO	\$ 44.96	\$ 534.4	\$ 56.80	\$ 56.80	0.79x	0.79x
Independence Holding Company	IHC	Stamford	CT	\$ 20.13	\$ 313.8	\$ 15.72	\$ 11.49	1.28x	1.75x
Penn Treaty American Corporation	KMA	Minnetonka	MN	\$ 5.30	\$ 119.9	\$ 8.22	NA	0.64x	NA
American Independence Corp.	AMIC	New York	NY	\$ 11.00	\$ 93.0	\$ 9.99	\$ 6.74	1.10x	1.63x
Security National Financial Corporation	SNFCA	Salt Lake City	UT	\$ 5.64	\$ 34.4	\$ 7.70	\$ 7.60	0.73x	0.74x
UTG, Inc.	UTGN	Springfield	IL	\$ 7.65	\$ 29.5	\$ 11.53	\$ 11.53	0.66x	0.66x
Kentucky Investors, Inc.	KINV	Frankfort	KY	\$ 25.00	\$ 27.8	\$ 37.30	\$ 37.30	0.67x	0.67x
North Coast Life Insurance Company	NCLI	Spokane	WA	\$ 5.40	\$ 3.3	\$ 11.09	\$ 11.09	0.49x	0.49x
				Mean	\$ 252.1			0.80x	0.92x
				Median	\$ 119.9			0.73x	0.77x

Pricing data as 6/21/2007

The selected public comparable companies had a median price/book value multiple of 0.73x and median price/tangible book value of 0.77x. After applying a 50% weighting to both relevant trading metrics, Burke calculated an implied public equity valuation of \$6.69 per share. This calculation is illustrated in the chart below.

Implied Valuation - Public Market Comparables

Metric	Multiples	Financials	Implied Value	Weighting	Weighted
					Valuation
Price / Book	0.73x	\$ 9.17	\$ 6.72	50.00%	\$ 3.36
Price / Tangible Book Value	0.77x	8.70	\$ 6.67	50.00%	\$ 3.33
Implied Stand-alone Valuation/Share					\$ 6.69

Premiums Paid for Similar Going Private Transactions

Burke studied going-private transactions involving a cash-out merger or reverse stock split that were announced during the past two years by publicly traded financial institutions. Burke selected financial institutions as a comparable group because they had engaged in several recent transactions that were structured similarly to, and undertaken for similar reasons as, the Reverse Stock Split. Burke discovered a list of fifteen going private transactions during this time period for which transaction data was publicly available and did not exclude any transactions from the valuation report. By observing premiums paid in other similar transactions, Burke was able to estimate a range of comparable premiums to compute the redemption price for the proposed transaction. Below is a list of the recent going private transactions that Burke was able to generate over the prior two years in which the selected companies had pursued a cash-out merger or reverse stock split transaction.

Company	Announce Date	Transaction Type	Offer Price	Premium to Average Price for			
				1-day	1-month	2-month	3-month
Northway Financial, Inc.	6/20/2007	Reverse Stock Split	\$ 37.50	3.9%			