ORGANIZATIONAL EXAMINATION

of the

AMERICAN CONTINENTAL INSURANCE COMPANY

101 CONTINENTAL PLACE
BRENTWOOD, TN

as of

August 4, 2005

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Dept. of Commerce & Insurance
Company Examinations

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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TABLE OF CONTENTS

Item	Page
Salutation	one
Introduction	1
Scope of Examination	1
Company History and Organization	2
Charter and Bylaws	3
Management and Control	5
Proposed Plan of Operation	6
Statutory Deposit	8
Subsequent Events	8
Financial Statement	9
Analysis of Changes in Financial Statement and Comments Resulting from Examination	10
Comments	11
Conclusion	12
Affidavit	13
Organizational Chart	14

Brentwood, Tennessee
August 31, 2005

Honorable Paula A. Flowers
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-2-103, a financial examination was made of the condition and affairs of the

AMERICAN CONTINENTAL INSURANCE COMPANY
101 CONTINENTAL PLACE
BRENTWOOD, TN 37027-5033

hereinafter and generally referred to as the Company, and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on August 17, 2005. The examination was the "Organizational Examination" and was conducted by a duly authorized representative of The Department of Commerce and Insurance, State of Tennessee.

SCOPE OF EXAMINATION

Upon payment by the Company of the application fee of $675 prescribed in Tenn. Code Ann. § 56-4-101, this examination was conducted as of August 4, 2005 to determine if the Company has complied with the statutory and regulatory requirements to be issued a Certificate of Authority to establish and operate a life insurance and accident and health insurance company according to the provisions of Tenn. Code Ann. § 56-2, Part 1.

COMPANY HISTORY AND ORGANIZATION

The Company was incorporated on March 18, 2005 under the Tennessee Business Corporation Act as a for-profit corporation authorized to transact business in the State of Tennessee. The Charter and Bylaws are discussed in detail in this report under the caption "CHARTER AND BYLAWS".

On March 18, 2005, the Incorporator acted by "Written Consent" to approve the following actions:

- "Adopt and accept the Charter of the Corporation."
- "Adopt the Bylaws of the Corporation."
- "Designate Rudick J. Murphy, II as registered agent for service of legal process and designate the business address of 101 Continental Place, Brentwood, Tennessee 37027 as registered office of the Corporation."
- "Direct that hereafter the Board of Directors of the Corporation be composed of:"

  Randall Ray Baskin
  Saddie Tucker Baskin
  Thomas Anthony Light

On March 18, 2005 following the above actions of the Incorporator, the Board acted by "Written Consent" to approve the following actions:

- All acts taken on behalf of the Company by Rudick J. Murphy, II, as Sole Incorporator, are hereby adopted, ratified and approved.
- Election of officers as follows:

Randall Ray Baskin	President
Thomas Anthony Light	Secretary/Treasurer

- Approve the Uniform Consent to Service of Process appointing the Commissioner of Commerce and Insurance, State of Tennessee as agent for service of process.

The Company was funded on July 6, 2005 with the purchase of one million (1,000,000) shares of common stock, one dollar ($1) par value by Continental Life Insurance Company of Brentwood, Tennessee.

CHARTER AND BYLAWS

Charter:

The Charter of the Company was filed and recorded with the Tennessee Secretary of State on March 18, 2005 after having been approved by The Department of Commerce and Insurance, State of Tennessee on March 10, 2005. Said Charter establishes and sets forth the following:

1. "The name of the corporation is: American Continental Insurance Company."

2. "The corporation is for profit."

3. "The purpose of the corporation is to engage in the business of insurance as a principal, including but not limited to life insurance and accident and health insurance, and to engage in any other lawful business under the laws of the State of Tennessee."

4. "The street address of the corporation's principal office is:"

   101 Continental Place
   Brentwood, TN 37027
   Williamson County

   (a) "The name of the corporation's initial registered agent is"

   Rudick J. Murphy, II

   (b) "The street address of the corporation's initial registered office in Tennessee is:"

   101 Continental Place, Third Floor
   Brentwood, Tennessee 37027
   Williamson County

5. "The name and address of the incorporator is:"

   Rudick J. Murphy, II
   101 Continental Place, Third Floor
   Brentwood, Tennessee 37027
   Williamson County

6. "The number of shares of stock the corporation is authorized to issue is five million (5,000,000) shares of common stock, one dollar ($1.00) par value."

7. "The shareholders of the corporation shall not have preemptive rights."

8. "To the fullest extent permitted by the Tennessee Business Corporation Act as in effect on the date hereof and as hereafter amended from time to time, a director of the corporation shall not be liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director. If the Tennessee Business Corporation Act or any successor statute is amended after adoption of this provision to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Tennessee Business Corporation Act, as so amended from time to time. Any repeal or modification of this Paragraph 8 by the shareholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification or with respect to events occurring prior to such time; provided, however that nothing herein shall diminish liability of a director of the corporation under Title 56, Tennessee Code Annotated."

Bylaws:

The Bylaws of the Company in effect at August 4, 2005 were adopted by the Board on March 18, 2005 at the meeting duly called and held in all respects as required by law and have not been amended or changed during the period covered by this examination. The Bylaws are such as those generally found in corporations of this type and contain no unusual provisions.

An annual meeting of the shareholders of the Company shall be held at such time and place, either within or without the state of incorporation, as may be designated from time to time by the Board. Special meetings of the shareholders may be called by the President, a majority of the Board or by the holders of not less than one-tenth (1/10) of all the shares entitled to vote at such meeting. The place of such annual and special meetings shall be designated by the Board. If no place is fixed by the Board, the meeting shall be held at the principal office of the Company. A majority of shares entitled to vote must be present to constitute a quorum for the transaction of business.

The business and affairs of the Company shall be managed under the direction of a Board. The number of directors shall be not less than three (3) members or nor more that fifteen (15). Board members need not be shareholders or residents of this state. They shall be elected by a majority of the votes cast at the annual meetings of the

shareholder or at a special meeting for that purpose. The Board may hold regular or special meetings either within or without the State of Tennessee. A majority of the directors shall constitute a quorum. The Board may designate an executive committee or such other committees it deems desirable subject to stipulations set out in the Bylaws.

The officers for the Company shall be a President, a Secretary/Treasurer and such other officers as the Board shall from time to time deem necessary. One person may simultaneously hold more than one (1) office except the President may not simultaneously hold the office of Secretary.

MANAGEMENT AND CONTROL

Management:

The Bylaws provide that all corporate powers shall be exercised by or under the authority of and the business and affairs of the Company managed under the direction of the Board. As of August 4, 2005, the Board of the Company was composed of the following:

Randall Ray Baskin
Saddie Tucker Baskin
Thomas Anthony Light

As of August 4, 2005, the following persons held office in the Company:

Randall Ray Baskin	President
Donald Lee Behne	Chief Financial Officer
Thomas Anthony Light	Secretary/Treasurer
Rudick Joseph Murphy II	Vice President Internal Operations & General Counsel
Margaret Ann Tramell	Assistant Vice President/Contract Administration
Carla Jean Springs	Assistant Vice President/ Human Resources

Control:

The Company is a one hundred percent (100%) owned subsidiary of Continental Life Insurance Company of Brentwood, Tennessee which is a one hundred percent (100%) owned subsidiary of Continental Insurance Service, Inc. Continental Insurance Service, Inc. is one hundred percent (100%) owned by Randall Ray Baskin who is the ultimate

parent.

A holding company organizational chart is included at the last page of this examination report.

PROPOSED PLAN OF OPERATION

The Company's plan of operation states that it intends to "market health and life insurance on an individual basis with an emphasis toward a balanced portfolio of business, allocated between Medicare Supplement, Life and other Health products". The products to be offered are as follows:

Accident and Health

- Medicare Supplement Insurance

"The Company intends to market coverage using Plans A through G of the NAIC Standardized Plan designations."

- Hospital/Surgical and Medical/Surgical

"The Company intends to market at least one hospital/medical/surgical indemnity policy with expense riders. The expected hospital benefits will be expressed as a fixed dollar reimbursement for daily room benefits plus 80% of the miscellaneous expenses, a fixed dollar surgical schedule, intensive care increased benefits, and other miscellaneous benefits such as outpatient, accident, ambulance, etc."

- Cancer, Heart Attack and Stroke

"The Company intends to market a policy that provides scheduled fixed-dollar benefits for medical expense caused by cancer and other specified dread diseases, including hospital room and board, surgical procedures, nursing and physician charges, radiation, chemotherapy, drugs and medicines, etc."

- Short-Term Nursing Care and Home Health Care

"The Company intends to market polices which provide benefits for medically necessary nursing home stays and/or home health care visits from a licensed home health care agency, with fixed maximum amounts per visit, varying benefit periods and varying elimination periods."

Life Insurance

- Whole Life

"The Company plans to gradually introduce a portfolio of continuous pay, limited pay, level whole life, increasing whole life and modified whole life policies."

- Term Insurance

"The Company plans to gradually introduce various plans with current premiums guaranteed for five (5) years and guaranteed rates thereafter, on an annual renewable term, ten (10) year term renewable term, fifteen (15) year renewable term and twenty (20) year renewable level term basis."

- Supplemental Benefit Riders

"The Company plans to offer the customary waiver of premium, accidental death, children and spouse term riders for most of its proposed life and term plans. The Company also proposes to offer for life policies an accelerated death benefit rider which allows a payment of up to fifty (50%) percent of the face amount not to exceed ten thousand dollars ($10,000) to be paid to the insured in the event of diagnosis of a terminal illness."

The Company will contract its underwriting and administration functions to be performed by Continental Life Insurance Company of Brentwood, Tennessee (its parent). Claims handling will also be performed by Continental Life Insurance Company of Brentwood, Tennessee. Continental Life Insurance Company of Brentwood, Tennessee is a Tennessee Domestic Insurance Company licensed to write coverage in thirty-five (35) states.

Solicitation of business will be through a general agency system. The Company will solicit general agents throughout Tennessee by direct mail or through a supervising general agent or recruiter appointed for the entire state. The Company is also considering a branch office system.

The Company has no reinsurance treaties in place at this time. It will consider entering into reinsurance arrangements as business needs dictate.

The Company estimates written premium of approximately five hundred thousand dollars ($500,000) in year one.

STATUTORY DEPOSIT

In compliance with statutory requirements, the Company maintained the following deposits with The Department of Commerce and Insurance, State of Tennessee at August 4, 2005:

Where Deposited and Description	Par Value	Statement Value	Market Value
Tennessee			
US Treasury 3.25%, due 8/15/2007	$250,000	$247,614	$246,328
Total general deposits held for the benefit of all policyholders, claimants and creditors of the Company	**250,000**	**247,614**	**246,328**
Total	**$250,000**	**$247,614**	**$246,328**

The above deposit was delivered to the Commissioner on July 21, 2005. The security is held pursuant to a Depository Agreement with Bank of America, N.A. dated June 22, 2005 signed by Bank of America, NA on July 8, 2005 and signed by the Commissioner of Commerce and Insurance, State of Tennessee on August 4, 2005.

SUBSEQUENT EVENTS

None

FINANCIAL STATEMENT

There follows a statement of assets and liabilities at the funding date of July 6, 2005 together with a statement of assets and liabilities established by this examination as of August 4, 2005.

ASSETS

	Net Admitted Assets 7/6/2005	Net Admitted Assets 8/4/2005
Bonds	$247,520	$247,614
Cash and short-term investments	2,949,316	2,953,286
Investment income due and accrued	3,165	4,443
Totals	$3,200,000	$3,205,343

LIABILITIES, SURPLUS, AND OTHER FUNDS

	7/6/2005	8/4/2005
Liabilities	$0	$0
Common capital stock	1,000,000	1,000,000
Gross paid in and contributed surplus	2,200,000	2,200,000
Unassigned funds (surplus)	0	5,343
Totals	$3,200,000	$3,205,343

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

The following changes totaling an increase of five thousand three hundred forty three dollars ($5,343) to the Company's surplus are adjustments from the funding date of July 6, 2005 to the examination date as of August 4, 2005.

- The value the U. S. Treasury Bond increased by ninety four dollars ($94.00) due to increase in amortized value based on amortization of premium paid at time of purchase.

- Cash and short term investments increased three thousand nine hundred seventy dollars ($3,970) due to the collection of the corresponding amount of interest applicable to the Company's Sweep Account with Bank of America, N.A. for the period of July 6, 2005 through July 31, 2005. This amount was credited on August 1, 2005.

- Investment income due and accrued increased one thousand two hundred seventy eight dollars ($1,278). Six hundred fifty four dollars ($654) of the amount was applicable to the Company's U. S. Treasury Bond and six hundred twenty four dollars ($624) was an estimate applicable to the Company's Sweep Account with Bank of American, N.A.

The following depicts the change in surplus as outlined above:

Item	Surplus	
	Increase	Decrease
Bonds	$94	
Cash and short-term investments	3,970	
Investment income due and accrued	1,278	
Rounding	1	
Totals	$5,343	
Net change in surplus	$5,343	

COMMENTS

- The Company is a member of a Holding Company as defined by Tenn. Code Ann. § 56-11-201. The Company is aware that it is required to execute Form B filings on behalf of the controlling person/persons along with biographical data and financial statements.

- The Company is aware that it is required to file a Holding Company Registration within fifteen (15) days after the Company is licensed and every year thereafter by April 30 of each year for the previous calendar year. Tenn. Comp. R. & Regs. Tit. Dep't of Commerce and Ins., ch. 0780-1-67 exhibits the reporting forms and instructions.

- The Company is also aware that agreements within a holding company are required to be submitted to The Department of Commerce and Insurance, State of Tennessee at least 30 days prior to the effective date. It plans to submit its management agreement and claims service agreement with Continental Life Insurance Company of Brentwood, Tennessee within the required time frame.

CONCLUSION

I have verified the foregoing financial statement as included in this examination report. In conjunction, I have inspected the following documents and records of the Company: Charter of Incorporation, Bylaws, minutes of the Board meetings, the Subscription Agreement for one million (1,000,000) shares of the Company's Common Stock issued to Continental Life Insurance Company of Brentwood, Tennessee, biographical sketches of all directors and officers and the plan of operation.

It appears that the Company has fulfilled all necessary requirements to receive a Certificate of Authority to establish and operate a life insurance and accident and health insurance company in the State of Tennessee. Therefore, I recommend that American Continental Insurance Company be issued a Certificate of Authority pursuant to Tenn. Code Ann. § 56-2, to establish and operate such life insurance and accident and health insurance company in Tennessee.

Respectfully submitted,

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached Organizational Examination Report of American Continental Insurance Company dated August 31, 2005, and made as of August 4, 2005, on behalf of The Department of Commerce and Insurance, State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 31ST day of

August, 2005

Notary Donna J. Hastings

County Davidson

State Tennessee

Commission Expires March 31, 2009

DONNA J. HASTINGS
STATE OF TENNESSEE NOTARY PUBLIC
WILSON COUNTY, TN

ORGANIZATIONAL CHART

Randall Ray Baskin
(Ultimate Parent)

Continental Insurance Service, Inc.
(Subsidiary) (100% Owned by Parent)

Continental Insurance Company of Brentwood, Tennessee
(Subsidiary) (100% Owned by Parent)

American Continental Insurance Company
(Subsidiary) (100% Owned by Parent)