BEFORE THE DEPARTMENT OF COMMERCE AND INSURANCE
FOR THE STATE OF TENNESSEE

IN THE MATTER OF:	)	
	)	**No.: 05-049**
MERASTAR INSURANCE COMPANY	)	

ORDER ADOPTING EXAMINATION REPORT
WITH MODIFICATIONS AND DIRECTIVES

Pursuant to Tenn. Code Ann. §§ 56-1-401, *et seq.*, the Insurance Division of the State of Tennessee Department of Commerce and Insurance (hereinafter referred to as the "Division") has examined certain affairs of Merastar Insurance Company (hereinafter also referred to as the "Company"), an insurance company domiciled in the State of Tennessee. As a result of an examination conducted as of the 31st day of December, 2004, the examiner-in-charge filed with the Division, on the 13th day of June, 2005, a verified, written report on examination, and a copy of that report has been sent to Merastar Insurance Company. (The Report on Examination of Merastar Insurance Company is attached hereto and marked as Exhibit A). The Division received written rebuttal to said examination report from the Company on June 29, 2005. (A copy of the Company's written rebuttal is attached hereto and marked as Exhibit B.)

Pursuant to Tenn. Code Ann. § 56-1-411, said examination report regarding the affairs of Merastar Insurance Company, filed with the Insurance Division of the State of Tennessee Department of Commerce and Insurance on the 13th day of June, 2005, is hereby **ADOPTED** as filed with the following **MODIFICATIONS** and **DIRECTIVES**:

1. The Report on Examination is hereby **MODIFIED** by deleting the line "$1,000,000 xs of $800,000 each occurrence" near the top of page twenty-three (23) of the Report under the subheading "Limits and Retentions", and replacing it with "$1,000,000 xs of $1,000,000 each occurrence".

2. The Report on Examination is further **MODIFIED** by deleting the first sentence of the first full paragraph on page thirty (30) of the Report, and replacing it with the following sentence:

> "Claims for the first quarter 2005, including 1,170 claims that were closed without payment."

3. The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-3-112 and Tenn. Comp. R. & Regs., ch. 0780-1-46-.04 (1999) by maintaining a custodial agreement that complies with said rule, should the Company choose an authorized method of holding its securities that requires such an agreement.

4. The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-1-411(c)(2) by meeting the guidelines set forth in the National Association of Insurance Commissioners' Examiners Handbook. Such compliance includes, but is not limited to, ensuring that the Company's investment manager properly register with the United States Securities and Exchange Commission so as to be fully compliant with United States securities laws.

5. The Company is **DIRECTED** to comply with Tenn. Tenn. Code Ann. § 56-1-501 by filing accurate annual statements and preparing its financial statements in accordance with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual.

The company shall comply with the directive contained in this order within thirty (30) days of its entry.

The adoption of this examination report shall not preclude the Department from imposing sanctions against Merastar Insurance Company for potential violations of the Tennessee Insurance Law which may be revealed in the examination report, it being the intent of this Order Adopting Examination Report With Modifications and Directives merely to adopt the examination report filed by the examiner-in-charge.

It is so **ORDERED**.

ENTERED this the 15th day of July, 2005.

Paula A. Flowers

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

PREPARED FOR ENTRY:

Eric J. Stansell (BPR# 021707)
Staff Attorney
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Davy Crockett Tower, Fifth Floor
Nashville, Tennessee 37243
(615) 741-2199

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Order Adopting Examination Report as Filed has been messenger mailed to Larry C. Knight, Jr., Assistant Commissioner for Insurance, Department of Commerce and Insurance, and Don Spann, Chief Examiner, Department of Commerce and Insurance, and mailed, first class, postage prepaid, to Merastar Insurance Company, 5600 Brainerd Road, Suite 1A, Chattanooga, Tennessee 37411, on this the 18th day of July, 2005.

Eric J. Stansell
Certifying Attorney

Merastar
INSURANCE COMPANY

Timothy D. Bruns
President & CEO
Merastar Insurance Company
5600 Brainerd Rd. Ste. 1A
Chattanooga, TN 37411
Tel: (800) 523-3796 Fax: (423) 296-7950

June 27, 2005

RECEIVED
JUN 29 2005
Dept. Of Commerce & Insurance
Company Examinations

State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

ATTN: Mr. Don Spann

RE: Financial Condition Association Examination of Merastar Insurance Company

Dear Mr. Spann:

We have received a copy of the Examination Report of Merastar Insurance Company made as of December 31, 2004. In reviewing the contents of the report, two items were noted that contained information that was not correct. These items are:

Item #1- Multiple Lines Excess of Loss Reinsurance Agreement No. S40067-041404, section of Limits and Retentions, page 23. Under Private passenger auto liability and comprehensive personal liability-3
layers: $1,000,000 xs of $800,000 each occurrence should read "$1,000,000 xs of **$1,000,000** each occurrence"

Item #2 – Claims Handling, page 30. Paragraph beginning "Claims for first quarter 2005, including 16 claims that were closed without payment" should read, "Claims for first quarter 2005, including **1,170** claims that were closed without payment."

With the exception of two items listed above, we do not have any further comments or changes on any other information or statements contained within the report.

Sincerely,

Timothy D. Bruns
President & CEO