SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended DECEMBER 31, 1999,

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

COMMISSION FILE NUMBER: 0-4366

REGAN HOLDING CORP.

(Exact name of registrant as specified in its charter)

CALIFORNIA	**68-0211359**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2090 MARINA AVENUE PETALUMA, CALIFORNIA 94954
(Address of principal executive offices and Zip Code)

(707) 778-8638
(Registrant's telephone number, including area code)

Securities registered under
Section 12(g) of the Exchange Act:
COMMON STOCK, NO PAR VALUE
(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of a date specified within the 60 days prior to the date of filing.

$24,780,201

There is currently no trading market for the registrant's stock. Accordingly, the foregoing is as of March 15, 2000 and is based on the price at which the registrant has repurchased its stock during the 60 days prior to the date of filing.

Index to Exhibits on Page 40

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 after the distribution of securities under a plan confirmed by a court. YES ☐ NO ☐

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of February 29, 2000, including redeemable common stock:

COMMON STOCK-SERIES A	25,745,709
COMMON STOCK-SERIES B	589,757

DOCUMENTS INCORPORATED BY REFERENCE

PART I

Item 1. ***Description of Business***

Except for historical information contained herein, the matters discussed in this report contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties that could cause actual results to differ materially.

Regan Holding Corp. (the "Company"), is a California Corporation that is primarily engaged, through its wholly-owned subsidiary Legacy Marketing Group ("LMG"), in the design, marketing and administration of life insurance and annuity products. Through LMG, the Company has entered into marketing agreements (the "Marketing Agreements") with American National Insurance Company ("American National"), IL Annuity and Insurance Company ("IL Annuity"), and Transamerica Life Insurance and Annuity Company ("Transamerica"), each of which is an unaffiliated company (collectively referred to herein as the "Carriers"). American National has over $1.7 billion in capital and surplus and is rated "A+" by A.M. Best. IL Annuity has $60.0 million in capital and surplus and is rated "A" by A.M. Best. Transamerica has over $830.0 million in capital and surplus and is rated "A+" by A.M. Best. The Company currently markets policies written in the District of Columbia and in each state of the United States except Alabama and New York.

The Marketing Agreements grant LMG the exclusive right to market certain annuity and life insurance products issued by the Carriers (the "Policies"). Under the terms of the Marketing Agreements, LMG is responsible for the recruiting, appointing and training of producers who contract with LMG to sell the Policies. For these services, the Carriers pay LMG marketing allowances and commissions based on the volume of premiums from Policies sold. The Carriers are also responsible for the funding of commissions paid to producers for sales of Policies. LMG may, in its discretion, elect to pay commissions to producers in addition to those paid by the Carriers.

The Company currently markets the Policies through a network consisting of approximately 19,400 producers, of whom approximately 5,200 generated business during 1999. Each of these producers has entered into a producer agreement with LMG pursuant to which the services of the producer are provided on a non-exclusive basis. These agreements may be terminated immediately by either the producer or LMG, with or without cause.

LMG's sales network is built on a multi-level structure, pursuant to which producers may recruit other producers. Recruited producers are referred to as "downline" producers within the recruiting producer's "downline network." Recruited producers may also recruit other producers, creating a hierarchy under the original recruiting producer. The producer contract contains a nine-level "open book" design in which a producer may advance from one level to the next based on his or her commission level and the size of his or her downline network. As a producer advances within the system, the producer receives higher commissions on sales made by the producer and the producer's downline network. LMG's multi-level structure creates a financial incentive for producers to build a hierarchy, or downline network, of producers, thereby contributing to their own financial growth and to the growth of LMG. Advancements to higher levels can occur as often as every three months. Producers at the highest levels are considered "wholesalers."

LMG provides tools and services that assist wholesalers with recruiting, training and support responsibilities associated with the producers in their downline network. In addition, LMG assists producers with programs designed to increase their sales and better serve their clients. Recruiting and training programs include visual presentations, product videos and seminars, advertising material guidelines and sales flip charts. LMG also generates product information, sales brochures, and recruiting material. In addition, LMG designs advanced estate planning concepts, pursuant to which clients of producers benefit from tax and legal advantages through purchase of the Policies.

In addition to Policy marketing and administration, LMG assists the Carriers in Policy design and development. LMG's marketing and actuarial departments work with the Carriers to design proprietary annuity and life insurance products to be marketed by LMG. Most products marketed by LMG include certain guarantees for the benefit of policyholders, known as LMG's Cornerstone Guarantees, which are designed to be unique in the insurance marketplace. LMG's Cornerstone Guarantees generally include: (i) a contractually guaranteed maximum administrative fee; (ii) multiple crediting rate options; and (iii) life insurance products providing a guarantee that changes in the cost of insurance will result solely from changes in the Policies' future experience factors.

LMG has also entered into Administrative Agreements (the "Administrative Agreements") with each of the Carriers pursuant to which LMG provides clerical, administrative and accounting services with respect to the Policies. Such services include billing, collecting and remitting cash on the Policies. However, all cash receipts are deposited into accounts maintained by the Carriers and all cash remitted by the Carriers to either policyholders or LMG is paid from accounts maintained by the Carriers. For providing such services, LMG is paid on a per transaction basis with the amount of the fee depending on the type of policy and type of service. Historically, all administrative services with respect to Policies were performed at the Company's headquarters in Petaluma, California. However, during 1998, LMG began performing administrative services with respect to certain annuity Policies at facilities located in Rome, Georgia.

Until the third quarter of 1998, American National and IL Annuity were the only insurance companies for which LMG marketed and administered insurance products. During the third quarter of 1998, LMG began marketing and administering insurance products for Transamerica. Approximately 36.2% and 57.0% of the Company's total consolidated revenue during 1997 resulted from agreements with American National and IL Annuity, respectively. Approximately 12.7%, 79.9%, and 1.7% of the Company's total consolidated revenue resulted from agreements with American National, IL Annuity, and Transamerica during 1998, respectively, and 10.5%, 73.5%, and 11.3% during 1999, respectively.

Neither the Marketing Agreements nor the Administrative Agreements prevent LMG from entering into similar arrangements with other insurance companies. However, the Marketing Agreements prevent LMG from marketing products with other carriers which are similar, in the case of American National and IL Annuity, or the same, in the case of Transamerica, to those being offered under the respective Marketing Agreements. In addition, under the terms of the Marketing Agreements with American National and IL Annuity, LMG is obligated to give American National and IL Annuity the opportunity to participate in the marketing of any new products developed by LMG.

The Marketing and Administrative Agreements with American National and IL Annuity expire on April 30, 2000, and December 31, 2005, respectively, but may be renewed by mutual agreement for successive one year terms. These Agreements may be terminated by either party upon 180 days notice without cause, and may be terminated by either party immediately for cause. In addition, the Marketing Agreements with American National and with IL Annuity will terminate automatically at the end of any calendar quarter upon failure of LMG to meet certain quarterly minimum production requirements for two successive calendar quarters. The Company is currently negotiating with American National to renew the Marketing and Administrative Agreements. Management expects that new agreements will be signed during the second quarter of 2000. The Marketing and Administrative Agreements with Transamerica do not have fixed terms but may be terminated by either party upon twelve months notice without cause, and may be terminated by either party immediately for cause.

In February of 2000, LMG entered into an Agency Agreement with Bankers United Life Assurance Company ("Bankers") pursuant to which LMG is authorized to solicit, through its network of independent insurance producers, sales of long-term care products offered by Bankers. For this solicitation, LMG will receive commissions based on the volume of premiums sold. The Agency Agreement may be terminated by either party with 15 days notice without cause, and may be terminated by either party immediately for cause. LMG is currently working to become licensed in several states to sell long-term care products. Accordingly, no sales of long-term care products have occurred to date.

Through its wholly-owned broker-dealer subsidiary, Legacy Financial Services, Inc. ("LFS"), the Company engages in the offering and sale of variable annuity and life insurance products, mutual funds and debt and equity securities on a fully disclosed basis. LFS has entered into agreements (the "Agreements") with various entities pursuant to which LFS has non-exclusive rights to solicit sales of investment products offered by such entities through its network of independent representatives and to provide certain marketing and administrative services in order to facilitate sales of such products. Under the Agreements, the Company is compensated based upon pre-determined percentages of production. The Agreements may be terminated by any party upon 30 days written notice. During 1999, approximately 3.4% of the Company's consolidated revenues were generated by LFS.

Through its wholly-owned subsidiary, LifeSurance Corporation, the Company conducts estate planning seminars which provide continuing education credits for producers at various locations throughout the United States. Producers pay fees to attend the seminars and may also purchase educational materials which can be used as tools in promoting life insurance and annuity policies and estate planning concepts. The seminars and educational materials are marketed under the business name Wealth Transfer Educational Systems.

Legacy Advisory Services, Inc. ("LAS") is a wholly-owned subsidiary of the Company, incorporated in the State of California for the purpose of operating as an "investment advisor," as defined by and regulated pursuant to the Investment Advisors Act of 1940. LAS is registered with the Securities and Exchange Commission (the "SEC") and began limited operations during 1999.

Legacy Reinsurance Company ("LegacyRe") is a wholly-owned subsidiary of the Company, incorporated in the State of Arizona. The Company is in the process of obtaining approval from the Arizona Department of Insurance for LegacyRe to engage in the reinsurance business. Accordingly, LegacyRe has conducted no business to date. Upon receipt of approval from the Arizona Department of Insurance, LegacyRe may enter into one or more reinsurance agreements with insurance carriers to reinsure life insurance and annuity products.

Competitive Business Conditions

The life insurance and annuity business is highly competitive. The Company faces competition from various companies and organizations, including banks, securities brokerage firms, investment advisors and other financial intermediaries marketing insurance products, annuities, mutual funds, and other retirement oriented products. Some of these competitors have substantially greater assets, financial resources and market acceptance than LMG. In addition, the recent enactment of the Gramm-Leach-Bliley Act which reduced previously existing Federal restrictions on combinations of banks, insurance companies, and insurance agents, may increase the number and strength of potential competitors. The Company's distribution system relies on independent insurance producers to effectively market its products competitively. Maintaining relationships with producers requires introducing new products to the market in an efficient and timely manner, offering competitive commission schedules, and providing superior marketing training and support.

Regulatory Environment

LMG, or a licensed individual acting on behalf of LMG (in the states that do not permit the licensing of corporations), is licensed or is currently seeking licensure as an insurance agent and/or third party administrator in all states that require such licensure. As a result of being licensed as an insurance agency, LMG's operations are subject to regulation, including its sales practices, fiduciary responsibilities and familiarity with pertinent statutes and regulations. As a result of being licensed as a third party administrator, LMG is subject to regulation regarding maintenance of records, settlement and payment of claims, underwriting services or standards, disclosure of the administrator's capacity, payment of fees or charges and other fiduciary duties.

Increased national attention has resulted in examination by the National Association of Insurance Commissioners and state insurance departments of existing laws and regulations affecting insurance companies, especially those laws and regulations involving insurance company solvency, fair and ethical marketing practices, and investment policies. The Company has responded to this increased scrutiny by instituting strict advertising guidelines, generating consistent marketing materials and testimonies addressing appropriate marketing practices, and including this topic in its bi-annual wholesaler meetings. Although the Company, itself, is not an insurance company, changes in the regulatory environment which affect the insurance companies with which it contracts can impact its operations.

LFS is registered as a broker-dealer with, and is subject to regulation by, the SEC and the National Association of Securities Dealers, Inc. (the "NASD"). As a result of federal and state broker-dealer registration and self regulatory organization ("SRO") memberships, LFS is subject to regulation which covers many aspects of its securities business. Such regulation covers matters including capital requirements, record-keeping and reporting requirements, supervisory and organizational procedures intended to ensure compliance with securities laws and to prevent the improper trading on material non-public information, employee-related matters, including qualification and licensing of supervisory and sales personnel, and rules of the SROs designed to promote high standards of commercial honor and just and equitable principles of trade. A particular focus of the applicable regulations concerns the relationship between broker-dealers and their customers. As a result, many aspects of the broker-dealer customer relationship are subject to regulation, including "suitability" determinations as to customer transactions, limitations in the amounts that may be charged to customers, and correspondence with customers. LFS is currently in compliance with all applicable capital and other regulatory requirements.

Compliance with many of the regulations applicable to the Company or its subsidiaries involves a number of risks, particularly because regulations in a number of areas may be subject to varying interpretation. Regulators make periodic examinations and review annual, monthly and other periodic reports on the Company's operations and financial condition. In the event of a violation of, or non-compliance with, any applicable law or regulation, governmental regulators, SROs , and other regulators may institute administrative or judicial proceedings that may result in censure, fine, civil penalties (including treble damages in the case of insider trading violations), criminal penalties, the issuance of cease-and-desist orders, the deregistration or suspension of a non-compliant broker-dealer, the suspension of disqualification of a broker-dealer's officers or employees, and other adverse consequences. Such violations or non-compliance could also subject the Company and/or its employees to civil actions by private persons. Any governmental, SRO or private proceeding alleging violation of, or non-compliance with, laws and regulations applicable to the Company or its subsidiaries could have a material adverse effect upon the Company's business, financial condition, results of operations and business prospects.

As of March 15, 2000, the Company had approximately 507 full-time equivalent employees. None of the employees of the Company are covered by a collective bargaining agreement, and the Company believes that its employee relations are satisfactory.

Information about the Company, including copies of the Company's Forms 10-K and 10-Q may be reviewed at offices maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 and at the regional offices of the SEC located at Seven World Trade Center, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such materials may be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. In addition, the SEC maintains a Web site on the Internet at http://www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

Item 2. ***Property***

The Company currently leases approximately 72,000 square feet of office space in Petaluma, California, at which the Company's headquarters are located. This lease expires in April 2009, subject to extension at the option of the Company for two additional terms of five years each.

In March 1999, the Company purchased a building in Petaluma, California, which previously housed the Company's headquarters for $4.3 million. The building consists of approximately 53,700 total square feet of useable office and warehouse space. Approximately 13,700 square feet of the newly purchased building is currently used for LFS operations and training facilities for the Company's employees. The remaining approximate 40,000 square feet is leased to unrelated parties. The Company also leases approximately 5,700 square feet of warehouse space in Petaluma, California.

In addition, the Company leases 18,200 square feet of office space in Des Moines, Iowa, expiring in October 2004, and leases 30,500 square feet of office space in Rome, Georgia, expiring in December 2001.

Management believes that existing and planned office and warehouse space is and will continue to be adequate for the Company's operations for the foreseeable future.

Item 3. *Legal Proceedings*

As a professional services firm engaged in marketing and servicing life insurance and annuity products, the Company encounters litigation in the normal course of business. Management is not aware of any material exposure to the Company currently existing as a result of such litigation.

Item 4. *Submission of Matters to a Vote of Security Holders*

No items were submitted to a vote of security holders during the fourth calendar quarter of 1999.

PART II

Item 5. *Market for Registrant's Common Equity and Related Shareholder Matters*

As of March 15, 2000, the Company's Series A common stock was held by approximately 1,500 shareholders of record and the Company's Series B common stock was held by approximately 9,800 shareholders of record. There is no established trading market for the Company's stock.

The Board of Directors of the Company may, at its sole discretion, declare and pay dividends on common stock, subject to capital and solvency restrictions under California law. To date, the Company has not paid any dividends on its common stock. The Company's ability to pay dividends is dependent on the ability of the Company's wholly-owned subsidiaries to pay dividends or make other distributions to its parent company. In addition, the Company's ability to pay dividends is restricted under the terms of a loan agreement (see Management's Discussion and Analysis of results of operations and Financial Condition — Analysis of Regan Holding Corp. Consolidated.) As of December 31, 1999, the Company does not anticipate paying dividends on any of its outstanding common stock in the foreseeable future.

Item 6. *Selected Consolidated Financial Data*

	Year Ended December 31,				
	1999	1998	1997	1996	1995
Selected Income Statement Data:					
Total Revenue	$ 50,030,617	$ 45,935,164	$ 21,883,482	$ 17,508,601	$ 16,800,554
Net Income	4,467,834	9,770,208	3,150,454	2,714,495	4,858,620
Earnings Per Share-Basic	.17	.37	.12	.10	.18
Earnings Per Share-Diluted	.16	.36	.12	.10	.18
Selected Balance Sheet Data:					
Total Assets	$ 46,592,396	$ 31,286,013	$ 19,280,941	$ 15,424,902	$ 12,304,801
Total Non-current Liabilities	4,258,492	662,808	281,894	316,741	304,557
Total Liabilities	14,904,343	6,364,743	3,621,380	2,519,866	1,762,924
Redeemable Common Stock	11,563,285	11,225,431	11,842,651	12,343,001	12,682,750
Shareholders' Equity (Deficit)	20,124,768	13,695,839	3,816,910	562,035	(2,140,873)
Cash Dividends Declared	—	—	—	—	—

	Year Ended December 31,				
	1999	1998	1997	1996	1995
Selected Operating Data:					
Total Premium Placed Inforce(1)	$1.62 billion	$1.65 billion	$777.3 million	$626.8 million	$620.0 million
Total No. of Policies Placed Inforce(1)	28,000	31,900	15,060	11,144	12,167

(1) Inforce premium and policies are actually statistics of the Carriers but represent factors which directly affect the Company's revenue.

Item 7. *Management's Discussion and Analysis of Results of Operations and Financial Condition*

Except for historical information contained herein, certain of the matters discussed in this Form 10-K are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These "forward-looking statements" involve certain risks and uncertainties. All forecasts and projections in this report are "forward-looking statements" and are based on management's current expectations of the Company's near term results, based on current information available. Actual results could differ materially.

The table below presents information about the Company's operating segments for the years ended December 31, 1999, 1998 and 1997:

	Legacy Marketing Group	Legacy Financial Services, Inc.	Other	Total
Year Ended December 31, 1999				
Total revenue	$48,117,700	$1,694,680	$ 218,237	$50,030,617
Total expenses	34,291,486	1,485,463	7,926,249	43,703,198
Operating income (loss)	13,826,214	209,217	(7,708,012)	6,327,419
Other income	1,202,854	3,155	22,670	1,228,679
Income (loss) before tax	15,029,068	212,372	(7,685,342)	7,556,098
Tax provision (benefit)	5,413,341	(55,514)	(2,269,563)	3,088,264
Net income (loss)	$ 9,615,727	$ 267,886	$(5,415,779)	$ 4,467,834
Year Ended December 31, 1998				
Total revenue	$45,113,652	$ 821,512	$ —	$45,935,164
Total expenses	27,649,023	861,486	2,449,557	30,960,066
Operating income (loss)	17,464,629	(39,974)	(2,449,557)	14,975,098
Other income (loss)	1,220,313	1,439	(720)	1,221,032
Income (loss) before tax	18,684,942	(38,535)	(2,450,277)	16,196,130
Tax provision (benefit)	6,880,139	(128,953)	(325,264)	6,425,922
Net income (loss)	$11,804,803	$ 90,418	$(2,125,013)	$ 9,770,208

	Legacy Marketing Group	Legacy Financial Services, Inc.	Other	Total
Year Ended December 31, 1997				
Total revenue	$21,571,588	$ 311,894	$ —	$21,883,482
Total expenses	15,011,972	653,926	1,569,699	17,235,597
Operating income (loss)	6,559,616	(342,032)	(1,569,699)	4,647,885
Other income (loss)	715,168	—	(17,575)	697,593
Income (loss) before tax	7,274,784	(342,032)	(1,587,274)	5,345,478
Tax provision (benefit)	2,420,753	(230,335)	4,606	2,195,024
Net income (loss)	$ 4,854,031	$ (111,697)	$(1,591,880)	$ 3,150,454
Total assets				
December 31, 1999	$27,652,585	$1,300,153	$17,639,658	$46,592,396
December 31, 1998	$21,777,580	$ 823,714	$ 8,684,719	$31,286,013

The "Other" segment above includes Regan Holding Corp. (stand-alone) and its remaining subsidiaries, LifeSurance Corporation, Legacy Advisory Services, Inc., and Legacy Reinsurance Company. Such entities' operations do not currently factor significantly into management decision making and, accordingly, were not separated for purposes of this disclosure.

Analysis of Regan Holding Corp. Consolidated

Results of Operations — The Company's consolidated net income decreased approximately $5.3 million in 1999, compared to 1998, due primarily to increases in LMG expenses, as discussed below. Consolidated net income increased approximately $6.6 million in 1998, compared to 1997, and is primarily attributable to increases in LMG revenue, as discussed below.

Liquidity and Capital Resources — The Company's ability to mobilize its assets remained strong at December 31, 1999 and 1998, with cash and short-term investment grade securities representing 47.1% and 73.2% of the Company's total consolidated assets, respectively. At December 31, 1999, the Company's investment portfolio included a $12 million investment in Indianapolis Life Group of Companies ("Indianapolis Group"), an affiliate of IL Annuity, which represents 25.8% of the Company's total assets. In the first quarter of 2000, the Indianapolis Group repurchased the equity securities from the Company for approximately $12.5 million, pursuant to the terms of the investment agreement under which the securities were purchased.

The Company's principal needs for cash are for: (i) funding operating expenses; (ii) purchases of computer hardware and software, leasehold improvements, and acquisitions of furniture and fixtures to accommodate new employees and support growth in operations; (iii) funding continued product development and potential strategic acquisitions; and (iv) utilization as a reserve to cover possible redemptions of certain shares of the Company's common stock, which is redeemable at the option of the shareholders under various agreements with the Company. In 1999, 1998, and 1997, redemption requests received by the Company were not material in amount, neither individually nor in the aggregate, and the Company believes that its liquid assets are sufficient to meet anticipated requests for redemption. At December 31, 1999 and 1998, the total redemption value of all redeemable common stock outstanding was approximately $11.5 million and $9.6 million, respectively.

Generally, the Company's cash needs are met through cash provided from operating activities, which totaled approximately $6.7 million during the year ended December 31, 1999 and $12.1 million in the preceding year. During the last quarter of 1999 and the first quarter of 2000, however, operating activities generated negative cash flows due primarily to decreases in LMG revenue (see discussion below). Such negative cash flows may continue through early 2000. Cash and investments on hand are expected to be sufficient to cover any shortfalls during this period. The Company's future cash flows available to fund operations will depend primarily on the level of sales of annuity and life insurance products by LMG and upon the Company's ability to control expenses.

During the second half of 1999, the Company obtained $3.5 million in margin loan advances from its investment broker. The margin loan was repaid in full during the first quarter of 2000, using proceeds from the repurchase of equity securities by the Indianapolis Group, as discussed above.

In May 1999, the Company purchased for $4.3 million the building in Petaluma, California, which previously housed the Company's headquarters. In conjunction with the building acquisition, the Company paid $2.2 million of the purchase price in cash and entered into a loan payable for the remaining $2.1 million. The loan has a ten-year term and is payable in monthly installments plus one balloon payment of approximately $1.8 million, due on May 10, 2009. In addition, the loan agreement contains certain covenants with which the Company must comply, including restrictions on indebtedness or investments outside the ordinary course of business and restrictions on dividends or other changes in the Company's capital structure. One of the covenants requires management to obtain lender approval prior to repurchasing non-redeemable common stock. The Lender has waived this covenant through June 30, 2000, provided that such voluntary repurchases do not exceed $125,000 per quarter. Management expects to obtain an extension of this waiver throughout the term of the loan. Pursuant to the loan agreement, the Company was also required to place approximately $560,000 in reserve to cover loan payments in the event of default and to provide for certain repair costs.

Pursuant to a Shareholder's Agreement with Lynda Regan, Chief Executive Officer of the Company and Chairman of the Company's Board of Directors, and certain other individuals, in the event of the death of Ms. Regan, the Company shall repurchase from Ms. Regan's estate all of the shares of the Company's common stock that were owned by Ms. Regan at the time of her death, or that were transferred by her to one or more trusts prior to her death. The purchase price to be paid by the Company shall be equal to 125% of the fair market value of the shares. The Company has purchased a life insurance policy with a face amount of $14.0 million for the purpose of funding this obligation in the event of Ms. Regan's death. Any excess of the obligation over the insurance proceeds are expected to be funded with cash and investments and, if necessary, through external financing.

In order to fund LFS during the start-up phase, the Company has committed to make sufficient contributions to support LFS' operations to ensure LFS' compliance with financial requirements through December, 2000. Such contributions totaled $247,000 in 1999 and $475,000 in 1998. LFS operating results reached break-even on a monthly basis during the second half of 1999. As a result, future contributions are expected to decrease from prior levels.

Management intends to continue to retain any earnings for use in its business and does not anticipate paying any cash dividends in the foreseeable future. As a result, management anticipates that cash and investments will continue to represent a high percentage of total assets. Management believes that existing cash and investment balances, together with cash flows from operations, will provide sufficient funding for the foreseeable future. However, in the event that a shortfall were to occur, management believes that adequate financing could be obtained to meet the Company's cash flow needs.

Year 2000 — For the past several years, the Company has taken corrective measures to ensure that, on January 1, 2000, its computer systems and equipment that uses embedded computer chips would be able to distinguish between the years "1900" and "2000." The Company also undertook corrective measures to avoid any business disruptions as a result of the millennium's first leap year on February 29, 2000. Due to these efforts, since December 31, 1999, the Company has not experienced any material system errors or failures as a result of Year 2000 issues. The Company will continue to monitor its computer systems and infrastructure, as well as the Year 2000 efforts of third parties with which the Company does business. Although the Company does not anticipate that any future Year 2000 issues will result in a material impact on the Company, there can be no assurance that this will be the case.

Analysis of Legacy Marketing Group

Results of Operations — LMG's net income decreased approximately $2.1 million in 1999 from 1998 due primarily to increases in expenses, as discussed below. In 1998, however, LMG's net income increased approximately $6.9 million from 1997 to 1998 due primarily to increases in revenue, which is also discussed below.

Revenue — LMG's major sources of income are marketing allowances, commission income and administrative fees from sales and administration of annuity and life insurance products on behalf of the Carriers. Levels of marketing allowances and commission income are directly related to the sales volume of such products. Administrative fees are a function not only of product sales, but also of administration of policies inforce and producer appointments. Total LMG income increased approximately $3.0 million, or 6.7%, in 1999 compared to 1998, and increased approximately $23.5 million, or 109.1% in 1998, compared to 1997. The increases are attributable primarily to changes in product mix and fluctuations in premium placed inforce for the Carriers, as discussed below.

LMG marketing allowances and commission revenue, combined, increased approximately $1.1 million, or 3.0%, during 1999 compared to 1998 due to the continued shift in product mix to products which yielded higher marketing allowances and commission income, such as life insurance products. The increase in life insurance premium placed inforce, reached $10.9 million in 1999, up 60.6% from $6.8 million in 1998. This increase was offset by the effect of a decrease in overall premium placed inforce for the Carriers of approximately $37.0 million, or 2.3%, due primarily to reduced sales of fixed annuities during the second half of the year. This decrease is attributable primarily to the poor performance of bond investments underlying the annuities' crediting rates and to lower than anticipated market acceptance of the VisionMark II™ annuity, which was introduced in 1999 to replace the original VisionMark™. LMG marketing allowances and commission revenue, combined, increased approximately $20.4 million, or 115.1%, in 1998 compared to 1997 due primarily to increases in the volume of sales by LMG's distribution network for the Carriers. Premium placed inforce for the Carriers totaled $1.6 billion in 1998, an increase of 112.6% from 1997. Also contributing to the increase from 1997 to 1998 was the shift in product mix to products which yielded higher marketing allowances and commission income.

Administrative fees increased approximately $2.0 million, or 29.6%, from 1998 to 1999, and increased approximately $3.1 million, or 84.9%, in 1998 compared to 1997, due primarily to increases in the number of policies sold and administered during the respective periods and to a continued shift in policies administered to those which generate higher administrative fees.

In 1999, the Company marketed and administered insurance products for three Carriers, American National, IL Annuity, and Transamerica. However, the Company did not market or administer products for Transamerica until the third quarter of 1998. In 1999, approximately 10.5%, 73.5%, and 11.3% of the Company's total consolidated revenue resulted from LMG's agreements with American National, IL Annuity, and Transamerica, respectively, compared to approximately 12.7%, 79.9%, and 1.7% in 1998, respectively, and approximately 36.2% and 57.0% with American National and IL Annuity, respectively, in 1997. In addition, during the fourth quarter of 1999, 20.6% of the Company's total consolidated revenue resulted from LMG's Transamerica agreements. These shifts in sales mix from American National to IL Annuity in 1998 from 1997 and the shift from IL Annuity to Transamerica from 1998 to 1999 are attributable to favorable acceptance of the respective Carrier's products in the marketplace.

LMG is currently in discussions with two other insurance carriers to provide marketing and administrative services, similar to those performed for the Carriers. If those discussions result in LMG entering Agreements to provide services, LMG's revenue could increase beginning as early as third quarter 2000. However, there can be no assurances that such agreements will be entered into or regarding the terms of such agreements, if entered into.

Although the Company markets and administers several annuity and life insurance products on behalf of the Carriers, LMG's revenues are derived primarily from sales and administration of annuity products. During 1999, 1998, and 1997, 56.2%, 70.6%, and 52.4% of the Company's total consolidated revenues resulted from LMG sales of the VisionMark™ annuity, respectively. However, during the fourth quarter of 1999, 17.8% of the Company's total revenues resulted from sales of the SelectMark™ annuity, offered through Transamerica. This shift from the VisionMark™ annuity and the VisionMark II™ annuity, to the SelectMark™ annuity is attributable primarily to market acceptance of the SelectMark™ product and is expected to continue for the foreseeable future.

Expenses — Total LMG expenses increased approximately $6.6 million, or 24.0%, during 1999 compared to 1998, and increased approximately $12.6 million, or 84.2%, during 1998 compared to 1997. These increases are due primarily to increases in compensation, sales promotion and support, and professional fees, as discussed below.

As a service organization, LMG's primary expenses are salaries and related employee benefits. These expenses increased approximately $3.9 million, or 23.6%, in 1999 from 1998, and increased $6.6 million, or 65.6%, in 1998 from 1997. These increases resulted primarily from increases in the average number of full-time equivalent employees, which are largely attributable to preparation for, and accommodation of, increases in sales of insurance products, particularly in the latter half of 1998 and the first half of 1999. Salaries and benefits also increased due to increases in bonuses in 1998, which are tied to net income, to the addition of personnel at higher pay levels in both 1999 and 1998, and to normal pay increases for existing employees. During 2000, LMG management plans to hire several employees at higher pay levels, some of whom are expected to be elected as officers of LMG. Accordingly, salaries and benefits expense is expected to increase during 2000.

Sales promotion and support expense consists primarily of costs related to LMG's annual national sales conventions and to various sales and training events. Also included in sales and promotion support expense is the cost of designing and printing sales brochures for use by producers. It is expected that these expenses will continue to be a major element of LMG's cost structure, as attendance at the national sales conventions increases, as the number of producers marketing products for the Company increases and as new products are introduced. This expense increased approximately $1.2 million, or 22.2%, in 1999 from 1998 and increased approximately $2.9 million, or 120.3%, in 1998 from 1997. These increases are due primarily to increased incentives paid to producers to stimulate sales and increased printing costs related to the introduction of new products and enhancements to existing products.

Occupancy expenses consist primarily of office building and equipment leasing costs. These expenses increased approximately $1.1 million, or 164.9%, in 1999 from 1998, and increased approximately $217,000, or 51.5%, in 1998 from 1997 due primarily to the leasing of new office space during 1999 and 1998 and to overall increases in telephone, utilities, and other related expenses which correspond with increases in sales and employment, as discussed above.

Professional fees decreased approximately $749,000, or 33.3%, in 1999 from 1998 and increased approximately $1.8 million, or 400.8%, in 1998 from 1997, due primarily to expenses associated with a $1.1 million settlement of litigation in 1998. Excluding the cost of this settlement, professional fees increased by approximately $355,000 in 1999 from 1998 and increased approximately $695,000 in 1998 from 1997 due primarily to increased consulting fees related to various information systems projects.

Depreciation and amortization expense increased approximately $237,000, or 235.4%, in 1999 from 1998 and increased approximately $97,000, or 2,434.5%, in 1998 from 1997 due primarily to acquisitions of fixed assets. Such acquisitions were necessary primarily to improve newly leased office space and to accommodate increases in employment, as discussed above.

Courier and postage, stationery and supplies, equipment, and miscellaneous expenses increased in 1999 from 1998 and in 1998 from 1997 due primarily to overall increases in the volume of business, increases in employment, and newly leased office space, all of which are discussed above.

Analysis of Legacy Financial Services, Inc.

Results of Operations — LFS net income increased approximately $177,470, or 196.3%, in 1999 from 1998, and net income of approximately $90,000 in 1998 represented an approximate $202,000 shift from net losses of approximately $112,000 in 1997. These fluctuations are due primarily to increases in revenue, offset by increases in expenses, as discussed below. During the second half of 1999, LFS results of operations shifted from net losses to net income on a monthly basis.

Revenue — LFS' major source of revenue is commission overrides, which are generated through sales of life and annuity products, mutual funds, and certain equity securities. Levels of commission income are directly related to the volume of sales of such products. Total LFS revenue increased approximately $873,000, or 106.3%, in 1999 from 1998, and increased approximately $510,000, or 163.4%, in 1998 from 1997. These increases are attributable to increases in the volume of sales by LFS' distribution network of registered representatives in 1999 and 1998, respectively. Also contributing to increases in commission income were shifts to sales by representative networks from which LFS receives a higher net commission.

Expenses — Total LFS expenses increased approximately $624,000, or 72.4%, in 1999 from 1998 and increased approximately $208,000, or 31.7%, in 1998 from 1997 due primarily to increases in salaries and related benefits. As a service organization, LFS operating expenses consist primarily of salaries and related employee benefits. These expenses increased approximately $315,000, or 47.5%, in 1999 from 1998, and increased approximately $228,000, or 52.4%, in 1998 from 1997, due primarily to increases in the average number of employees to accommodate increases in sales volume, to the addition of personnel at higher pay levels, and to regular annual pay increases.

Analysis of Other Segments

Results of Operations — Other segments consist of Regan Holding Corp (stand-alone), LifeSurance Corporation, Legacy Advisory Services, Inc. and Legacy Reinsurance Company. Combined net losses from these entities increased approximately $3.3 million, or 154.8%, in 1999 from 1998 and increased approximately $533,000, or 33.5%, in 1998 from 1997 due primarily to increases in expenses.

Combined expenses for these entities increased approximately $5.5 million, or 223.6%, in 1999 from 1998 and increased approximately $880,000, or 56.1%, in 1998 from 1997.

The increase in 1999 expenses is attributable primarily to: (i) $2.9 million in stock option expense recorded during 1999 by Regan Holding Corp. related to approximately 4.9 million stock options that were granted to LMG producers during 1999 and 1998; (ii) awards of the Company's common stock to producers, which resulted in recognition of approximately $420,000 in related expense; (iii) $1.6 million in expenses relating to the producer estate planning seminars conducted under the name of WTES, which were reported in LMG expenses in 1998 and 1997 and which are now reported as expenses of LifeSurance Corporation; and (iv) increases in legal and consulting fees related to various parent company strategic planning projects. During the first quarter of 2000, approximately 2.1 million additional producer stock options were granted. As a result, related stock option expense is expected to be recorded in the first quarter of 2000. This latter grant is expected to be the final "broad-scale" grant to producers. However, future grants to the highest performing producers are still expected to occur which will result in additional expense in future years.

The increase in 1998 expenses is due primarily to increases in depreciation and equipment expense attributable to overall increases in subsidiary sales volume and employment, as discussed above.

Item 7-A. ***Quantitative and Qualitative Disclosure About Market Risk***

In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), all of the Company's short-term investments are treated as available-for-sale.

Investments in fixed income instruments carry a degree of market risk. Market risk represents the potential for loss due to adverse changes in the fair market value of financial investments. The market risks faced by the Company relate primarily to its investment portfolio, which exposes the Company to risks related to interest rates and, to a lesser extent, credit quality and equity prices.

Interest rate risk is the price sensitivity of a fixed income security to changes in interest rates. The following table provides information about the Company's fixed income investments, which are sensitive to changes in interest rates. Listed below are cash flows from principal amounts and related weighted average interest rates by expected maturity dates for fixed income investments held at December 31, 1999 and 1998. Actual cash flows could differ from expected amounts.

	2000	2001	2002	2003	Thereafter	Total Amortized Cost	Total Estimated Market Value
December 31, 1999							
Fixed maturities	$12,000,000	$ —	$ —	$499,251	$4,852,143	$17,351,394	$17,093,404
Average interest rate	5.18%	—	—	5.23%	6.53%		
December 31, 1998							
Fixed maturities	$ —	$501,654	$1,004,337	$996,676	$7,911,303	$10,413,970	$10,449,800
Average interest rate	—	6.67%	6.81%	3.30%	4.04%		
Mortgage-backed securities	—	—	—	—	$1,524,500	$ 1,524,500	$ 1,523,415
Average interest rate	—	—	—	—	5.67%		

The Company invests in marketable securities which are predominately investment grade. As a result, management believes that the Company has minimal exposure to credit risk.

Equity price risk is the potential loss arising from changes in the value of equity securities. In general, equity securities have more year-to-year price variability than intermediate term high grade bonds. However, returns over longer time frames have been consistently higher. The Company's equity securities consist primarily of preferred stocks, which provide consistent income. As a result of unfavorable market conditions related to preferred securities, the fair value of the Company's equity securities is below original cost at December 31, 1999 and 1998. The original cost and fair values of the Company's marketable equity securities are shown below:

	Original Cost	Fair Value
December 31, 1999	$3,125,708	$2,403,857
December 31, 1998	$5,139,732	$5,014,411

All of the above risks are monitored on an ongoing basis. A combination of in-house review and consultation with external experts is used to analyze individual securities, as well as the entire portfolio.

Item 8. ***Financial Statements and Supplementary Data***

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Regan Holding Corp.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Regan Holding Corp. and its subsidiaries (the "Company") at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed Note 1, the Company changed its method of accounting for the cost of computer software developed or obtained for internal use in 1999.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 34 and 35 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Accordingly, we do not express an opinion on the financial position and results of operations. However, the consolidating information on pages 34 and 35 has been subjected to the auditing procedures applied to the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP
San Francisco, California
March 23, 2000

REGAN HOLDING CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31, 1999	December 31, 1998
Assets		
Cash and cash equivalents	$ 1,094,759	$ 5,916,731
Investments	20,861,973	16,987,628
Accounts receivable	2,625,867	1,704,265
Prepaid expenses	516,759	768,913
Income taxes receivable	2,893,701	884,089
Deferred income taxes-current	895,841	359,421
Marketing supplies inventory	706,418	385,616
Total current assets	29,595,318	27,006,663
Net fixed assets	12,168,135	2,982,267
Deferred income taxes-non current	2,030,993	904,974
Software licensing fees	779,375	—
Other assets	2,018,575	392,109
Total non-current assets	16,997,078	4,279,350
Total assets	$46,592,396	$31,286,013
Liabilities, redeemable common stock, and shareholders' equity		
Liabilities		
Accounts payable	$ 435,999	$ 418,821
Accrued sales convention costs	2,248,913	894,713
Accrued liabilities	4,227,137	4,388,401
Margin loan payable	3,088,918	—
Software licensing fees payable	537,500	—
Other current liabilities	107,384	—
Total current liabilities	10,645,851	5,701,935
Loan payable	2,256,418	132,285
Incentive compensation payable	469,720	530,523
Deferred compensation payable	1,364,713	—
Other liabilities	167,641	—
Total non-current liabilities	4,258,492	662,808
Total liabilities	14,904,343	6,364,743
Commitments and Contingencies (Note 10)	—	—
Redeemable common stock, Series A and B	11,563,285	11,225,431
Shareholders' equity		
Preferred stock, no par value:		
Authorized: 100,000,000 shares; no shares issued or outstanding	—	—
Series A common stock, no par value:		
Authorized: 45,000,000 shares; issued and outstanding: 20,863,520 and 20,530,224 shares at December 31, 1999 and 1998, respectively	3,659,367	3,248,874
Paid-in capital from retirement of common stock	927,640	888,109
Paid-in capital from producer stock options	2,892,000	25,000
Retained earnings	13,217,865	9,587,775
Accumulated other comprehensive income-net	(572,104)	(53,919)
Total shareholders' equity	20,124,768	13,695,839
Total liabilities, redeemable common stock and shareholders' equity	$46,592,396	$31,286,013

See accompanying notes to consolidated financial statements

REGAN HOLDING CORP. AND SUBSIDIARIES
Consolidated Statements of Income

	For the Year Ended December 31,		
	1999	1998	1997
Revenue			
Marketing allowances	$25,477,344	$26,229,937	$12,386,755
Commissions	15,395,259	12,651,358	5,609,078
Administrative fees	8,637,245	6,664,224	3,603,708
Seminar fees	381,319	263,785	220,406
Other	139,450	125,860	63,535
Total revenue	50,030,617	45,935,164	21,883,482
Expenses			
Salaries and related benefits	22,216,897	17,371,780	10,512,259
Sales promotion and support	7,734,997	5,520,798	2,565,200
Producer stock options	2,867,000	—	—
Professional fees	2,373,084	2,617,377	712,129
Occupancy	2,193,632	1,149,787	887,608
Depreciation and amortization	1,754,865	1,323,052	698,556
Equipment	1,019,075	586,164	369,706
Courier and postage	1,008,502	702,612	480,175
Stationery and supplies	954,358	753,397	399,140
Travel and entertainment	707,776	594,224	329,611
Insurance	399,929	169,524	165,028
Miscellaneous	473,083	171,351	116,185
Total expenses	43,703,198	30,960,066	17,235,597
Operating income	6,327,419	14,975,098	4,647,885
Other income			
Investment income — net	1,228,679	1,221,032	697,593
Income before income taxes	7,556,098	16,196,130	5,345,478
Provision for income taxes	3,088,264	6,425,922	2,195,024
Net income	$ 4,467,834	$ 9,770,208	$ 3,150,454
Earnings per share			
Weighted average shares outstanding — basic	26,393,679	26,543,535	26,895,594
Basic earnings per share	$ .17	$ .37	$ .12
Weighted average shares outstanding — diluted	27,760,140	27,187,436	26,895,594
Diluted earnings per share	$ .16	$ .36	$ .12

See accompanying notes to consolidated financial statements

REGAN HOLDING CORP. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity

	Series A Shares	Common Stock Amount	Paid-in Capital from Retirement of Common Stock	Paid-in Capital from Producer Options	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total
Balance							
January 1, 1997	20,800,791	$3,532,071	$310,110	$ —	$(3,332,887)	$ 52,741	$ 562,035
Comprehensive income:							
Net income					3,150,454		3,150,454
Net unrealized losses on investments						(93,509)	(93,509)
Less:							
Losses included in net income						13,499	13,499
Deferred taxes on net unrealized losses						32,139	32,139
Total comprehensive income							3,102,583
Retirement upon redemption	(186,777)	(149,157)	301,449				152,292
Balance							
December 31, 1997	20,614,014	3,382,914	611,559	—	(182,433)	4,870	3,816,910
Comprehensive income:							
Net income					9,770,208		9,770,208
Net unrealized losses on investments						(153,304)	(153,304)
Less:							
Losses included in net income						54,633	54,633
Deferred taxes on net unrealized losses						39,882	39,882
Total comprehensive income							9,711,419
Retirement upon redemption	(83,790)	(134,040)	276,550				142,510
Producer stock option expense				25,000			25,000
Balance							
December 31, 1998	20,530,224	3,248,874	888,109	25,000	9,587,775	(53,919)	13,695,839
Comprehensive income:							
Net income					4,467,834		4,467,834
Net unrealized losses on investments						(800,296)	(800,296)
Less:							
Gains included in net income						(60,007)	(60,007)
Deferred taxes on net unrealized losses						342,118	342,118
Total comprehensive income							3,949,649
Retirement upon redemption	(69,788)	(81,456)	39,531		(50,488)		(92,413)
Accretion of redeemable common stock to redemption value					(787,256)		(787,256)
Issuance of common stock	403,084	491,949					491,949
Producer stock option expense				2,867,000			2,867,000
Balance							
December 31, 1999	20,863,520	$3,659,367	$927,640	$2,892,000	$13,217,865	$(572,104)	$20,124,768

See accompanying notes to consolidated financial statements.

REGAN HOLDING CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	For the Year Ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net Income	$ 4,467,834	$ 9,770,208	$ 3,150,454
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of fixed assets	1,665,482	1,252,116	632,781
Amortization of intangible assets	89,383	70,936	65,775
Common stock awarded to producers	419,905	—	—
Producer stock option expense	2,867,000	25,000	—
Amortization/accretion of investments	(9,802)	(73,118)	(68,761)
Realized gains (losses) on sales of investments	60,007	(54,633)	(13,499)
Realized loss on sale of fixed assets	—	—	19,603
Changes in operating assets and liabilities:			
Accounts receivable	(921,602)	(464,959)	(727,596)
Prepaid expenses	252,154	(195,981)	(210,982)
Income taxes receivable and payable	(2,009,612)	(1,273,650)	569,307
Deferred tax assets	(1,320,321)	47,401	360,375
Marketing supplies inventory	(320,802)	(156,763)	23,126
Software licensing fees	(241,875)	—	—
Accounts payable	17,178	74,750	173,333
Accrued sales convention costs	1,354,200	(331,456)	400,613
Accrued liabilities	(161,264)	3,008,716	172,854
Other operating assets and liabilities	469,959	406,676	50,959
Net cash provided by operating activities	6,677,824	12,105,243	4,598,342
Cash flows from investing activities:			
Purchases of investments	(13,461,328)	(15,396,140)	(20,404,456)
Proceeds from sales and maturities of investments	8,676,474	6,129,871	20,667,228
Purchases of fixed assets	(10,851,351)	(1,624,059)	(1,521,320)
Payments for organization costs	—	(17,806)	—
Net cash used in investing activities	(15,636,205)	(10,908,134)	(1,258,548)
Cash flows from financing activities:			
Proceeds from loan payable	2,132,500	—	—
Payments toward loan payable	(8,368)	—	—
Proceeds from margin loan	3,500,000	—	—
Payments toward margin loan payable	(455,221)	—	—
Payment for building loan reserve	(562,730)		
Payments for redemption of common stock	(541,816)	(474,710)	(348,058)
Proceeds from stock option exercises	72,044	—	—
Net provided by (used in) in financing activities	4,136,409	(474,710)	(348,058)
Net (decrease) increase in cash and cash equivalents	(4,821,972)	722,399	2,991,736
Cash and cash equivalents, beginning of period	5,916,731	5,194,332	2,202,596
Cash and cash equivalents, end of period	$ 1,094,759	$ 5,916,731	$ 5,194,332
Supplemental cash flow information:			
Taxes Paid	$ 5,835,000	$ 7,201,000	$ 1,265,025
Interest Paid	$ 172,836	$ 19,873	$ 18,695

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
REGAN HOLDING CORP. AND SUBSIDIARIES

1. Organization and Summary of Significant Accounting Policies

a. Organization

Regan Holding Corp. (the "Company") was incorporated in the State of California on February 21, 1990.

The Company, through its wholly-owned subsidiary Legacy Marketing Group ("LMG"), has entered into marketing agreements (the "Marketing Agreements") with American National Insurance Company ("American National"), IL Annuity and Insurance Company ("IL Annuity") and Transamerica Life Insurance and Annuity Company ("Transamerica"), collectively referred to herein as the "Carriers." American National is an unaffiliated company with over $1.7 billion in capital and surplus and is rated "A+" by A.M. Best. IL Annuity is an unaffiliated company, with $60.0 million in capital and surplus and is rated "A" by A.M. Best. Transamerica is also an unaffiliated company, with over $830.0 million in capital and surplus and is rated "A+" by A.M. Best. The Marketing Agreements grant the Company the exclusive right to market certain annuity and life insurance products issued by the Carriers (the "Policies"). Under the terms of the Marketing Agreements, the Company is responsible for the recruiting, appointing, and training of producers in the sale of the Policies. For these services, the Carriers pay the Company marketing allowances and commissions based on the volume of Policies sold.

The Company has also entered into insurance administrative agreements (the "Administrative Agreements") with the Carriers pursuant to which the Company provides clerical, administrative and accounting services with respect to the Policies. Such services include billing, collecting and remitting cash on the Policies. However, all cash receipts are deposited into accounts maintained by the Carriers upon receipt by the Company and all cash remitted is paid from accounts maintained by the Carriers. For providing such services, the Company is paid on a per transaction basis with the amount of the fee depending on the type of policy and type of service.

The Marketing and Administrative Agreements with American National and IL Annuity expire April 30, 2000, and December 31, 2005, respectively, but may be renewed by mutual agreement for successive one year terms. The Agreements may be terminated by either party upon 180 days notice without cause, and may be terminated by either party immediately for cause. In addition, the Marketing Agreements will terminate automatically at the end of any calendar quarter upon failure of the Company to meet certain quarterly minimum production requirements for two successive calendar quarters. The Company is currently negotiating with American National to renew the Marketing and Administrative Agreements. The Marketing and Administrative Agreements with Transamerica do not have a fixed term but may be terminated by either party upon twelve months notice without cause, and may be terminated by either party immediately for cause. The Marketing and Administrative Agreements with American National were amended during 1999 to extend the terms. In addition, the Administrative Agreements with American National and Transamerica were amended during 1999 with respect to various policy administration matters.

Through its wholly-owned broker-dealer subsidiary, Legacy Financial Services, Inc. ("LFS"), the Company engages in the offering and sale of variable annuity and life insurance products, mutual funds and debt and equity securities on a fully disclosed basis. LFS has entered into agreements (the "Agreements") with various entities pursuant to which LFS has a non-exclusive right to solicit sales of investment products offered by such entities through its network of independent representatives and to provide certain marketing and administrative services in order to facilitate sales of such products. Under the Agreements, the Company is compensated based upon pre-determined percentages of production. The Agreements may be terminated by any party upon 30 days written notice.

Through LifeSurance Corporation, a wholly-owned subsidiary, the Company conducts estate planning seminars which provide continuing education credits for producers at various locations throughout the United States. Producers pay attendance fees to attend the seminars and may also purchase educational materials which can be used as tools in promoting life insurance and annuity policies and estate planning concepts. The seminars and educational materials are marketed under the business name Wealth Transfer Educational Systems.

Legacy Advisory Services, Inc. ("LAS") is a wholly-owned subsidiary of the Company, incorporated in the state of California for the purpose of operating as an "investment advisor," as defined by and regulated pursuant to the Investment Advisors Act of 1940. LAS is registered with the Securities and Exchange Commission (the "SEC") and has conducted limited operations to date.

Legacy Reinsurance Company ("LegacyRe") is a wholly-owned subsidiary of the Company, incorporated in the State of Arizona. The Company is in the process of obtaining approval from the Arizona Department of Insurance for LegacyRe to engage in the reinsurance business. Accordingly, LegacyRe has conducted no business to date. Upon receipt of approval from the Arizona Department of Insurance, LegacyRe may enter into one or more reinsurance agreements to reinsure annuity and life products.

b. Basis of Presentation

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States and include the accounts of Regan Holding Corp. and its wholly-owned subsidiaries, Legacy Marketing Group, Legacy Financial Services, Inc., LifeSurance Corporation, Legacy Advisory Services, Inc., and Legacy Reinsurance Company. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Revenue Recognition

Marketing allowances and commissions are recognized when policies become inforce. Administrative fees are recognized on a per transaction basis as services are performed.

d. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and short-term investments with an original maturity of 90 days or less. The short-term investments included in cash and cash equivalents are carried at market value.

e. Investments

Investments include mortgage-backed securities, corporate bonds and equity securities, and obligations backed by U.S. government agencies. The Company's investments are classified as available-for-sale and are carried at market value. Market values are determined using published quotes as of the close of business. Unrealized gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of shareholders' equity, within "accumulated other comprehensive income," until realized.

Premiums and discounts are amortized or accreted over the life of the related investment as an adjustment to yield using the effective interest method. Interest income is recognized when earned. Realized gains and losses on sales of investments are included in earnings in the period sold and are derived using the specific identification method for determining the cost of investments sold.

f. Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation and amortization. In addition, the Company capitalizes at cost certain consulting fees, salaries and benefits related to the development of software for internal use. Upon retirement or disposition of fixed assets, any gain or loss is included in net income.

Effective January 1, 1999, the Company adopted the AICPA Statement of Position 98-1 (SOP 98-1), Accounting for the Cost of Computer Software Developed or Obtained for Internal Use. SOP 98-1 provides guidance on accounting for the costs of the computer software developed or obtained for internal use. In accordance with SOP 98-1, the Company capitalized $1,288,886 of internal and external costs, incurred subsequent to December 31, 1998, which were directly associated with the development of internal-use software. Upon project completion, these costs are amortized over the estimated useful life of the software on a straight-line basis. Previously, these costs were expensed as incurred. Prior costs have not been restated.

Depreciation is computed using the straight-line method over the estimated useful life of each type of asset, as follows:

Computer hardware and purchased software	5 years
Internal use software development costs	5 years
Leasehold improvements	2-10 years
Furniture and equipment	5 years
Building	20 years

g. Redeemable Common Stock

Shares of Series A and B Redeemable Common Stock are redeemable at a rate per share based upon current fair market value. The contractual agreements under which the Redeemable Common Stock was issued specify factors to be considered in determining fair market value, including the net present value of inforce insurance policy cash flows. However, since the Company no longer operates an insurance company, this factor is not applicable. Further, there is no active trading market for the Company's stock which would establish market value. Accordingly, the Company's Board of Directors has approved a redemption value of $1.99 per share as of December 31, 1999, based on management's estimate of fair market value. Management's estimate is derived from a valuation performed at the end of each period presented. Redeemable Common Stock is recorded at the greater of the issuance value or the redemption value, with the periodic differences recorded as redeemable common stock accretion. The Company recorded redeemable common stock accretion of $787,256 for the year ended December 31, 1999. The issuance value exceeded the redemption value at December 31, 1998. Accordingly, no accretion was recorded during the year ended December 31, 1998.

h. Sales Promotion and Support Costs

Sales promotion and support costs are expensed as incurred, except for sales brochures and other marketing materials, which are inventoried at cost.

i. Income Taxes

The Company and its subsidiaries file consolidated income tax returns for federal purposes. For financial reporting purposes, the income tax effects of transactions are recognized in the year in which they enter into the determination of recorded income, regardless of when they are recognized for income tax purposes. Accordingly, the provisions for income taxes in the consolidated statements of income include charges or credits for deferred income taxes relating to temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements.

j. Earnings Per Share

Basic and diluted earnings per share are presented in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share. Earnings per share is based on the weighted average number of common shares outstanding, including shares of redeemable common stock.

k. Reclassifications

Certain 1998 and 1997 balances have been reclassified to conform with the 1999 presentation. Such reclassifications had no effect on net income or shareholders' equity.

2. Investments

Investment portfolios at the dates indicated consisted of the following:

	Maturity in years: 1 Year or Less	1 to 5 Years	Longer Than 10 Years	Other	Total
December 31, 1999					
Government agency securities	$ —	$4,056,128	$ 769,532	$ —	$ 4,825,660
Investment in IL Annuity	12,000,000	—	—	—	12,000,000
Corporate bonds	—	—	525,733	—	525,733
Mutual Funds	—	—	—	1,335,756	1,335,756
Equity securities	—	—	—	3,125,708	3,125,708
Amortized cost	12,000,000	4,056,128	1,295,265	4,461,464	21,812,857
Gross unrealized gains	—	—	—	241,957	241,957
Gross unrealized losses	—	(170,545)	(87,443)	(934,853)	(1,192,841)
Market value	$12,000,000	$3,885,583	$1,207,822	$3,768,568	$20,861,973
December 31, 1998					
Government agency securities	$ 2,256,704	$4,841,327	$1,788,614	$ —	$ 8,886,645
Corporate bonds	1,001,018	—	526,307	—	1,527,325
Mortgage-backed securities	—	—	—	1,524,500	1,524,500
Equity securities	—	—	—	5,139,732	5,139,732
Amortized cost	3,257,722	4,841,327	2,314,921	6,664,232	17,078,202
Gross unrealized gains	14,132	20,059	27,369	139,217	200,777
Gross unrealized losses	(22,556)	—	(3,164)	(265,631)	(291,351)
Market value	$ 3,249,298	$4,861,386	$2,339,126	$6,537,818	$16,987,628

Included in operating results for the years ended December 31, 1999, 1998, and 1997, are $917,505, $824,164, and $494,033 of interest income earned on investments, respectively.

3. Fixed Assets

A summary of fixed assets at the dates indicated follows:

	Cost	Accumulated Depreciation/ Amortization	Net Book Value
December 31, 1999			
Computer hardware and purchased software	$ 5,582,936	$1,700,896	$ 3,882,040
Internal use software development costs	1,288,886	152,662	1,136,224
Leasehold improvements	1,292,870	74,454	1,218,416
Furniture and equipment	2,446,104	871,886	1,574,218
Building	3,438,332	114,188	3,324,144
Land	1,033,093	—	1,033,093
Totals	$15,082,221	$2,914,086	$12,168,135
December 31, 1998			
Computer hardware and software	$ 3,406,540	$1,499,340	$ 1,907,200
Leasehold improvements	1,290,647	970,030	320,617
Furniture and equipment	1,205,587	578,659	626,928
Land	127,522	—	127,522
Totals	$ 6,030,296	$3,048,029	$ 2,982,267

4. Software Licensing Fees

In March 1999, LMG entered into a license agreement with a software vendor (the "Software Agreement"), pursuant to which LMG has the non-exclusive right to use certain computer software programs in administering policies on behalf of the carriers with whom the Company contracts. For this right, LMG incurred an initial licensing fee of $800,000 exclusive of taxes, of which the unpaid portion of $537,500 has been recorded as Software Licensing Fees Payable. This balance is due in March 2000. In addition, LMG agreed to pay licensing charges of $8,333 per month, increasing each year to $22,667 per month during the eighth year, plus cost of living adjustments each year. The monthly fees are being expensed as incurred. The term of the Software Agreement extends through March 2007, but may be terminated by LMG with six months written notice after March 2004. The $800,000 initial licensing fee has been recorded as Software Licensing Fees, net of amortization, in the accompanying consolidated balance sheets.

5. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31, 1999	December 31, 1998
Accrued compensation	$2,119,485	$2,595,760
Commissions payable	929,802	714,926
Investment purchase pending	—	500,000
Miscellaneous expenses	1,177,850	577,715
Totals	$4,277,137	$4,388,401

6. Margin Loan Payable

During 1999, the Company obtained margin loan advances in the amount of $3.5 million from its investment broker. The loan bears interest at ½% above the Call Rate, as published in the Wall Street Journal and is collateralized by the Company's investment portfolio. As of December 31, 1999, $3,088,918 remained payable under this arrangement. The margin loan was repaid in full during the first quarter of 2000.

7. Loan Payable

On May 7, 1999, the Company purchased for $4.3 million the building in Petaluma, California, which previously housed the Company's headquarters. In conjunction with the building acquisition, the Company paid $2.2 million of the purchase price in cash and entered into a loan payable for the remaining $2.1 million. The loan has a ten-year term and is payable in monthly installments plus one balloon payment of approximately $1.8 million, due on May 10, 2009. The loan bears interest at 0.5% per annum above the Prime Rate, as published in the West Coast Edition of the Wall Street Journal. The loan is fully guaranteed by each of the Company's subsidiaries. In addition, the loan agreement contains certain covenants with which the Company must comply, including restrictions on indebtedness or investments outside the ordinary course of business and restrictions on dividends or other changes in the Company's capital structure. One of the covenants requires management to obtain lender approval prior to repurchasing non-redeemable common stock. The Lender has waived this covenant through June 30, 2000, provided that such voluntary repurchases do not exceed $125,000 per quarter. Pursuant to the loan agreement, the Company was also required to place approximately $560,000 in reserve to cover loan payments in the event of default and to provide for certain repair costs. Such reserved amounts are classified as Other Assets in the accompanying consolidated balance sheet at December 31, 1999.

The Company's future principal payments are as follows:

Year Ended December 31,	Principal
2000	$ 27,166
2001	29,509
2002	32,053
2003	34,817
2004	37,820
Thereafter	1,962,768

8. Incentive Compensation Payable

Under the Company's Officer Incentive Bonus Plan (the "Plan"), each officer of the Company is allocated from 0.75% to 1.25% of annual net income in a given year (the "Bonus Year"), before officer incentive bonuses, as an incentive bonus (the "Bonus"). The payment of the Bonus occurs in equal amounts over the three years following the Bonus Year. The first payment is automatically paid immediately following the end of the Bonus Year. The remaining two payments are paid in the second and third years following the Bonus Year and are contingent upon the Company achieving targeted growth in net income during the first and second years following the Bonus Year, respectively. The Bonus payment is forfeited for any year during which the specified growth is not achieved. At December 31, 1999 and 1998, $596,506 and $798,062 respectively, are reflected as incentive compensation payable in the accompanying consolidated balance sheets of which $469,720 and $488,671, respectively, are classified as non-current liabilities. Such amounts primarily represent the deferred portion of the 1999 and 1998 Bonuses.

9. Deferred Compensation Payable

The Company sponsors a qualified defined contribution 401(k) plan (the "401(k) Plan"), which is available to all employees. The 401(k) Plan allows employees to defer, on a pretax basis, a portion of their compensation as contributions to the 401(k) Plan. Employees may elect to contribute up to 15% of their annual compensation (not to exceed $10,000 annually for 1999 and 1998) to the 401(k) Plan. The Company matches 50% of each employee's contributions, up to a maximum of 6% of annual compensation. The Company's matching contributions charged to operating expenses were $348,132, $272,658, and $181,443 for the years ended December 31, 1999, 1998, and 1997, respectively.

The Company also sponsors a non-qualified deferred compensation plan (the "Key Employee Deferred Compensation Plan"), which is available to certain employees who, because of Internal Revenue Code limitations, are prohibited from contributing the maximum percentage of salary to the 401(k) Plan. Under the Key Employee Deferred Compensation Plan certain employees may defer, on a pre-tax basis, a percentage of annual compensation, including bonuses. The Company matches 50% of each employee's contributions, up to a maximum of 6% of annual compensation, less amounts already matched under the 401(k) Plan. Deferrals under the Key Employee Deferred Compensation Plan began in the first quarter of 1999. Pursuant to the Key Employee Deferred Compensation Plan, the Company recorded $53,073 in matching expense during the year ended December 31, 1999. As of December 31, 1999, employee contributions and Company matching contributions, net of accumulated losses, totaled $213,045. Such amounts are reflected as a liability in the accompanying consolidated balance sheet.

The Company also sponsors a non-qualified deferred compensation plan under which producers may defer, on a pre-tax basis, up to 50% of annual commissions (the "Producer Commission Deferral Plan"). Producers who earn a minimum of $100,000 in annual commission are eligible to participate in the Producer Commission Deferral Plan. In addition, the Company will match producer contributions for those producers who earn over $250,000 in annual commissions at rates ranging from 1% to 5% of amounts deferred, depending on the level of annual commissions earned. Deferrals under the Producer Commission Deferral Plan began in the second quarter of 1999. During the year ended December 31, 1999, $55,710 in matching contributions were charged to operating expenses related to the Producer Commission Deferral Plan. As of December 31, 1999, producer contributions and Company matching contributions, net of accumulated losses, totaled $1,170,001. Such amounts are reflected as a liability in the accompanying consolidated balance sheet.

Assets held by the Company in the Key Employee Deferred Compensation Plan and the Producer Commission Deferral Plan are subject to the general creditors of the Company.

10. Commitments and Contingencies

The Company leases office and warehouse premises and certain office equipment under non-cancelable operating leases. Related rent expense of $875,971, $369,231, and $335,973 are included in occupancy costs for the years ended December 31, 1999, 1998, and 1997, respectively. Total rentals for and leases of equipment included in equipment expense were $416,770, $255,078, and $146,874 for the years ended December 31, 1999, 1998, and 1997, respectively.

In October 1998, the Company entered into a new lease for approximately 72,000 square feet of office space in Petaluma, California, into which the Company moved its headquarters in July 1999. This lease expires in July 2009, and includes an option to extend the term for two five-year periods. Pursuant to the lease, the Company pays monthly base rent of $71,612, plus a pro-rata share of property taxes and operating expenses based on leased square footage. The base rent increases to $75,193 per month in July 2000 and then increases by 6% every twenty four months thereafter. Effective March 2000, the Company also entered into a lease for approximately 5,700 square feet of warehouse space in Petaluma, California, at a rate of $4,500 per month. expiring in February 2006.

The Company also leases 18,200 square feet of office space in Des Moines, Iowa, at a monthly rate of $14,292, increasing to $26,179 per month in April 2000, and expiring in October 2004. In addition, the Company leases 30,500 square feet of office space in Rome, Georgia, at a rate of $11,438 per month, expiring December 2001.

The Company's future minimum annual lease commitments under all operating leases are as follows:

Year Ended December 31,	
2000	$1,905,151
2001	2,030,169
2002	1,864,285
2003	1,529,923
2004	1,373,880
Thereafter	5,108,888
Total minimum lease payments	$13,812,296

In May 1998, the Company entered into a Shareholder's Agreement with Lynda Regan, Chief Executive Officer of the Company and Chairman of the Company's Board of Directors, and certain other individuals. Under the terms of this agreement, in the event of the death of Ms. Regan, the Company shall repurchase from Ms. Regan's estate all shares of common stock that were owned by Ms. Regan at the time of her death, or were transferred by her to one or more trusts prior to her death. The purchase price to be paid by the Company shall be equal to 125% of the fair market value of the shares. The Company has purchased a life insurance policy with a face amount of $14.0 million for the purpose of funding this obligation in the event of Ms. Regan's death.

As a professional services firm engaged in marketing and servicing life insurance and annuity products, the Company encounters litigation in the normal course of business, including the activities relating to its former business of operating an insurance company. In December 1996, LMG and American National were named in a lawsuit filed in the Circuit Court of Jefferson County, Alabama, alleging misrepresentation and price discrimination in connection with the sale of certain annuity products issued by American National and marketed by LMG. American National and LMG have denied the allegations contained in the complaint as well as any wrongdoing with respect to the sale and issuance of annuities. However, on June 7, 1998, in order to avoid protracted litigation, American National and LMG entered into a settlement agreement with the plaintiffs and other class members. LMG's portion of the settlement, net of recovery under its Errors and Omissions insurance policy, was approximately $1.1 million, which was recorded as an expense in 1998.

Management is not aware of any material asserted or unasserted litigation which existed at December 31, 1999.

As part of the Company's agreements with certain of its insurance producers (the "Producers"), the Company may, under certain circumstances, be obligated to purchase the business of the Producers. At December 31, 1999, there were no outstanding commitments by the Company relating to such obligations.

11. Redeemable Common Stock

The following table summarizes transactions affecting redeemable common stock during the years ended December 31, 1999, 1998, and 1997:

	Series A Redeemable Common Stock		Series B Redeemable Common Stock		Total Redeemable Common Stock	
	Shares	Carrying Amount	Shares	Carrying Amount	Shares	Carrying Amount
Balance January 1, 1997	5,769,086	$10,512,023	610,326	$1,830,978	6,379,412	$12,343,001
Redemptions and retirement of common stock	(261,760)	(471,955)	(9,465)	(28,395)	(271,225)	(500,350)
Balance December 31, 1997	5,507,326	10,040,068	600,861	1,802,583	6,108,187	11,842,651
Redemptions and retirement of common stock	(335,879)	(612,021)	(1,733)	(5,199)	(337,612)	(617,220)
Balance December 31, 1998	5,171,447	9,428,047	599,128	1,797,384	5,770,575	11,225,431
Redemptions and retirement of common stock	(249,832)	(421,289)	(9,371)	(28,113)	(259,203)	(449,402)
Accretion to redemption value	—	787,256	—	—	—	787,256
Balance December 31, 1999	4,921,615	$ 9,794,014	589,757	$1,769,271	5,511,372	$11,563,285

Shares of Redeemable Common Stock are excluded from total shares issued and outstanding in the accompanying consolidated balance sheets.

12. Stock Options and Stock Awards

The Company currently sponsors two stock-based compensation plans, which are described below. Options were first granted under both plans during 1998. Under both plans, the exercise price of each option equals the estimated fair market value of the underlying common stock on the date of grant, as estimated by management (see Note 1) and as discounted for lack of marketability, except for incentive stock options granted to 10% shareholders where the exercise price equals 110% of the estimated fair market value. Both plans are administered by committees, which are appointed by the Company's Board of Directors.

Producer Option Plan — Under the Regan Holding Corp. Producer Stock Option and Award plan (the "Producer Option Plan"), the Company may grant to LMG producers and LFS registered representatives non-qualified stock options (the "Producer Options") to purchase the Company's common stock. 9,500,000 shares have been reserved for grant under the Producer Option Plan. The Producer Options granted through June 1999 vested ratably over the five years following grant. During the second quarter of 1999, however, the Company waived the Producer Options' vesting provisions, thereby converting the Producer Options from "variable" to "fixed" options pursuant to guidance proscribed in Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, as interpreted by Emerging Issues Task Force Issue 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees For Acquiring or in Conjunction With Selling Goods and Services. As a result, the Company recorded $2,867,000 of expense during 1999 representing management's estimate of the fair value of the Producer Options at the date that the vesting provisions were waived. The fair value of the options was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free interest rates ranging from

5.3% to 6.0%, expected volatility ranging from 27.7% to 39.5%, and expected lives ranging from one to five years. A dividend yield assumption was not applicable, as the Company's stock is not publicly traded nor does the Company pay dividends. All Producer Options granted after June 1999 were immediately vested upon grant. Producer Options generally expire in six years.

Under the Producer Option Plan, the Company may also award shares of its common stock to Producers. During 1998, no awards were made. During 1999, 330,634 shares of Series A common stock were awarded to producers, when the estimated fair market value of the shares was $1.27 per share. As a result, the Company recorded marketing and sales promotion expense of $419,905 during the year ended December 31, 1999.

Employee Option Plan — Under the Regan Holding Corp. 1998 Stock Option Plan (the "Employee Option Plan"), the Company may grant to employees and directors incentive stock options and non-qualified options to purchase the Company's common stock (collectively referred to herein as "Employee Options"). 5,500,000 shares have been reserved for grant under the Employee Option Plan. The Employee Options generally vest over four or five years and expire in ten years, except for incentive stock options granted to 10% shareholders, which expire in five years. The Company applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for the Employee Option Plan. Accordingly, no compensation expense has been recognized for options granted under the Employee Option Plan. Had the Company elected to recognize compensation expense in accordance with SFAS No. 123, the Company's net income and earnings per share for the year ended December 31, 1999 would have been reduced for options granted under the Employee Option Plan to the pro-forma amounts indicated below:

	Net Income	Earnings per Share-Basic	Earnings per Share-Diluted
December 31, 1999			
As reported	$4,467,834	$0.17	$0.16
Pro-Forma	$3,991,616	$0.15	$0.14
December 31, 1998			
As reported	$9,770,208	$0.37	$0.36
Pro-Forma	$9,727,809	$0.37	$0.36

For purposes of estimating the fair value of the Employee Options for the pro-forma amounts listed above, the Company applied the minimum value method, as proscribed in SFAS No. 123, with risk-free rate interest rate assumptions ranging from 4.7% to 6.3% and expected life assumptions ranging from five to seven years. Volatility and dividend yield assumptions were not applicable, as the Company's stock is not publicly traded nor does the Company pay dividends.

The following table summarizes transactions under both plans:

	Employee Option Plan		Producer Option Plan		Total	
	Shares	Weighted-average Exercise Price	Shares	Weighted-average Exercise Price	Shares	Weighted-average Exercise Price
Outstanding at January 1, 1998	—	$ —	—	$ —	—	$ —
Granted	1,513,000	$0.74	992,000	$0.76	2,505,000	$0.75
Forfeited	(23,000)	$0.73	(6,500)	$0.73	(29,500)	$0.73
Outstanding at December 31, 1998	1,490,000	$0.74	985,500	$0.76	2,475,500	$0.75
Granted	1,552,200	$1.29	4,921,250	$1.27	6,473,450	$1.27
Exercised	(8,350)	$0.79	(64,100)	$1.02	(72,450)	$0.99
Forfeited	(46,100)	$1.06	(20,750)	$1.17	(66,850)	$1.09
Outstanding at December 31, 1999	2,987,750	$1.02	5,821,900	$1.19	8,809,650	$1.13
Exercisable at December 31, 1999	343,650	$0.77	5,821,900	$1.19	6,165,550	$1.16

The following table summarizes information about stock options outstanding at December 31, 1999 under both plans:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$0.73 – $0.84	2,284,300	6.4	$0.73	1,170,300	$0.73
$1.03	129,750	4.4	$1.03	107,250	$1.03
$1.27 – $1.40	6,395,600	5.9	$1.27	4,888,000	$1.27
	8,809,650	6.0	$1.13	6,165,550	$1.16

During the first quarter of 2000, the Company granted 2,120,247 options to producers under the Producer Option Plan and 2,146,800 options to employees under the Employee Option Plan.

13. Income Taxes

Deferred tax assets and liabilities are recognized as temporary differences between amounts reported in the financial statements and the future tax consequences attributable to those differences that are expected to be recovered or settled.

The provisions for federal and state income taxes consist of amounts currently payable and amounts deferred which, for the periods indicated, are shown below:

	For the Year Ended December 31,		
	1999	1998	1997
Current income taxes:			
Federal	$3,481,693	$5,002,541	$1,262,317
State	926,890	1,375,980	572,332
Total current	4,408,583	6,378,521	1,834,649
Deferred income taxes:			
Federal	(1,094,714)	55,818	405,951
State	(225,605)	(8,417)	(45,576)
Total deferred	(1,320,319)	47,401	360,375
Provision for income taxes	$3,088,264	$6,425,922	$2,195,024

The Company's deferred tax assets (liabilities) consist of the following:

	December 31,	
	1999	1998
Alternative minimum tax credit carryforward	$ 319,236	$ 373,620
Sales incentive trip accrual	895,841	359,424
Fixed asset depreciation	(703,713)	130,115
Producer stock option expense	1,861,483	223,165
Capital loss, net of valuation allowance of $23,864 and $0, respectively	—	—
Other	553,987	178,071
Total deferred tax assets	$2,926,834	$1,264,395

The provisions for income taxes differ from the provisions computed by applying the statutory federal income tax rate (34%) to income before taxes, as follows:

	For the Year Ended December 31,		
	1999	1998	1997
Federal income taxes due at statutory rate (34%)	$2,569,076	$5,566,612	$1,817,462
Increases (reductions) in income taxes resulting from:			
State franchise taxes, net of federal income tax benefit	492,966	907,981	375,892
Other	26,222	(48,671)	1,670
Provision for income taxes	$3,088,264	$6,425,922	$2,195,024

As of December 31, 1999, the Company also has, for income tax purposes, $319,236, in alternative minimum tax credits which can be used to reduce income taxes in subsequent years to the extent regular tax exceeds tentative minimum tax. The credits generally have no expiration date.

14. Earnings per Share

Following is a reconciliation of the numerator and denominator of the basic and diluted earnings per share calculations. No potentially dilutive securities existed prior to January 1, 1998.

	Income (Numerator)	Shares (Denominator)	Per-share Amount
For the year ended December 31, 1999			
Basic earnings per share			
Income available to common shareholders	$4,467,834	26,393,679	$0.17
Effective of dilutive securities			
Employee and producer stock options	—	1,366,461	
Diluted earnings per share	$4,467,834	27,760,140	$0.16
For the year ended December 31, 1998			
Basic earnings per share			
Income available to common shareholders	$9,770,208	26,543,535	$0.37
Effective of dilutive securities			
Employee and producer stock options	—	643,901	
Diluted earnings per share	$9,770,208	27,187,436	$0.36

Options to purchase 76,900 shares of common stock at $1.39 per share were outstanding during the second half of 1999 and remained outstanding at December 31, 1999, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares during the year.

15. Segment Information

The Company's reportable segments are those that are based on the Company's method of internal reporting, which desegregates its business into two primary reportable segments: Legacy Marketing Group, and Legacy Financial Services, Inc. The financial results of the Company's operating segments are presented on an accrual basis. There are no significant differences between the accounting policies of the segments as compared to the Company's consolidated financial statements. In addition to revenues and expenses recorded directly by each segment, the Company evaluates the performance of its segments and allocates resources to them based on estimates of salaries and other expenses attributed to each of the segments' operations. There are no material intersegment revenues.

The table below presents information about the Company's operating segments for the years ended December 31, 1999, 1998 and 1997:

	Legacy Marketing Group	Legacy Financial Services, Inc.	Other	Total
Year Ended December 31, 1999				
Total revenue	$48,117,700	$1,694,680	$ 218,237	$50,030,617
Total expenses	34,291,486	1,485,463	7,926,249	43,703,198
Operating income (loss)	13,826,214	209,217	(7,708,012)	6,327,419
Other income	1,202,854	3,155	22,670	1,228,679
Income (loss) before tax	15,029,068	212,372	(7,685,342)	7,556,098
Tax provision (benefit)	5,413,341	(55,514)	(2,269,563)	3,088,264
Net income (loss)	$ 9,615,727	$ 267,886	$(5,415,779)	$ 4,467,834
Year Ended December 31, 1998				
Total revenue	$45,113,652	$ 821,512	$ —	$45,935,164
Total expenses	27,649,023	861,486	2,449,557	30,960,066
Operating income (loss)	17,464,629	(39,974)	(2,449,557)	14,975,098
Other income (loss)	1,220,313	1,439	(720)	1,221,032
Income (loss) before tax	18,684,942	(38,535)	(2,450,277)	16,196,130
Tax provision (benefit)	6,880,139	(128,953)	(325,264)	6,425,922
Net income (loss)	$11,804,803	$ 90,418	$(2,125,013)	$ 9,770,208
Year Ended December 31, 1997				
Total revenue	$21,571,588	$ 311,894	$ —	$21,883,482
Total expenses	15,011,972	653,926	1,569,699	17,235,597
Operating income (loss)	6,559,616	(342,032)	(1,569,699)	4,647,885
Other income (loss)	715,168	—	(17,575)	697,593
Income (loss) before tax	7,274,784	(342,032)	(1,587,274)	5,345,478
Tax provision (benefit)	2,420,753	(230,335)	4,606	2,195,024
Net income (loss)	$ 4,854,031	$ (111,697)	$(1,591,880)	$ 3,150,454
Total assets				
December 31, 1999	$27,652,585	$1,300,153	$17,639,658	$46,592,396
December 31, 1998	$21,777,580	$ 823,714	$ 8,684,719	$31,286,013

The "Other" segment above includes Regan Holding Corp. (stand-alone) and its remaining subsidiaries, LifeSurance Corporation, Legacy Advisory Services, Inc., and Legacy Reinsurance Company. Such entities' operations do not currently factor significantly into management decision making and, accordingly, were not separated for purposes of this disclosure.

16. Related Party Transactions

The Company paid Ashley A. Penney, a director until August 1997, $133,113 for services provided as a human resources consultant during the year ended December 31, 1997.

17. Concentration of Risk

At December 31, 1999, the Company was contracted with over 19,000 independent insurance Producers to sell insurance products throughout the country in a majority of the fifty states. Production in no one state accounted for over 20% of insurance premiums to the Carriers nor of the corresponding revenue of the Company during 1999.

Prior to December, 1995, American National was the only insurance company with which the Company was contracted to market insurance products. This arrangement generated approximately 10.5%, 12.7%, and 36.2% of total revenues to the Company during 1999, 1998 and 1997, respectively. In December 1995, the Company contracted to provide marketing and administrative services for IL Annuity. This arrangement generated approximately 73.5% 79.9% and 57.0% of the Company's revenues during 1999, 1998 and 1997, respectively. In May 1998, the Company contracted to provide marketing and administrative services for Transamerica. These agreements generated approximately 11.3% and 1.7% of the Company's revenue during 1999 and 1998, respectively. However, neither the Marketing Agreements nor the Administrative Agreements prevent the Company from entering into similar arrangements with other insurance companies.

Although the Company markets and administers several annuity and life insurance products on behalf of the Carriers, the Company's revenues are derived primarily from sales and administration of certain annuity products, especially the VisionMark^{TM} annuity offered by IL Annuity. During 1999, 1998, and 1997, 56.2%, 70.6% and 52.4%, respectively, of the Company's consolidated revenue resulted from sales of the VisionMark^{TM} annuity.

At December 31, 1999, the Company's investment portfolio included a $12 million investment in Indianapolis Life Group of Companies ("Indianapolis Group"), an affiliate of IL Annuity, which represents 25.8% of the Company's total assets. In the first quarter of 2000, the Indianapolis Group repurchased the equity securities from the Company for $12,546,099, pursuant to the terms of the Investment Agreement.

18. Subsequent Events

In February 2000, LMG entered into an Agency Agreement with Bankers United Life Assurance Company ("Bankers") pursuant to which LMG is authorized to solicit, through its network of independent insurance producers, sales of long-term care products offered by Bankers. For this solicitation, LMG will receive commissions based on the volume of premiums sold and the age of the policyholder. The Agency Agreement may be terminated by either party with 15 days notice without cause, and may be terminated by either party immediately for cause. LMG is currently working to become licensed in several states to sell long-term care products. Accordingly, no sales of long-term care products have occurred to date.

During the first quarter of 2000, the Marketing and Administrative Agreements with American National were amended to extend the terms of the agreements to April 30, 2000. LMG and American National are in the process of negotiating a five year extension for both agreements.

REGAN HOLDING CORP. AND SUBSIDIARIES
Consolidating Balance Sheet
December 31, 1999

	Regan Holding Corp.	Legacy Marketing Group	Legacy Financial Services, Inc.	LifeSurance Corporation	Legacy Advisory Services, Inc.	Legacy Reinsurance Company	Combined December 31, 1999	Eliminations	Consolidated December 31, 1999
Assets									
Cash and cash equivalents	$ 450,749	$ (138,068)	$ 416,243	$ 348,090	$ 13,115	$ 4,630	$ 1,094,759	$ —	$ 1,094,759
Investments	—	20,861,973	—	—	—	—	20,861,973	—	20,861,973
Accounts receivable	448,657	1,551,644	625,708	(146)	4	—	2,625,867	—	2,625,867
Prepaid expenses	122,033	397,346	78,667	43,713	—	—	641,759	(125,000)	516,759
Income taxes receivable (payable)	5,430,529	(3,034,756)	(41,409)	533,624	5,713	—	2,893,701	—	2,893,701
Intercompany receivable (payable)	(15,962,012)	15,996,961	18,136	—	(28,429)	(24,656)	—	—	—
Deferred income taxes—current	—	895,841	—	—	—	—	895,841	—	895,841
Marketing supplies inventory	—	691,559	14,859	—	—	—	706,418	—	706,418
Total current assets	(9,510,044)	37,222,500	1,112,204	925,281	(9,597)	(20,026)	29,720,318	(125,000)	29,595,318
Net fixed assets	8,097,314	3,980,657	—	90,164	—	—	12,168,135	—	12,168,135
Investment in subsidiaries	35,701,393	—	—	—	—	—	35,701,393	(35,701,393)	—
Deferred income taxes—non-current	1,283,011	739,218	8,764	—	—	—	2,030,993	—	2,030,993
Prepaid software licensing fees	—	779,375	—	—	—	—	779,375	—	779,375
Other assets	562,730	927,796	197,321	120,739	—	209,989	2,018,575		2,018,575
Total non-current assets	45,644,448	6,427,046	206,085	210,903		209,989	52,698,471	(35,701,393)	16,997,078
Total assets	$ 36,134,404	$43,649,546	$ 1,318,289	$ 1,136,184	$ (9,597)	$189,963	$82,418,789	$(35,826,393)	$46,592,396
Liabilities									
Accounts payable	$ 42,865	$ 338,859	$ 23,059	$ 31,216	$ —	$ —	$ 435,999	$ —	$ 435,999
Accrued sales convention costs	—	2,248,913	—	—	—	—	2,248,913	—	2,248,913
Accrued liabilities	354,628	3,111,976	611,744	273,789	—	—	4,352,137	(125,000)	4,227,137
Software licensing fees payable	—	537,500	—	—	—	—	537,500	—	537,500
Other current liabilities	—	107,384	—	—	—	—	107,384	—	107,384
Margin loan payable	—	3,088,918	—	—	—	—	3,088,918		3,088,918
Total current liabilities	397,493	9,433,550	634,803	305,005		—	10,770,851	(125,000)	10,645,851
Loan payable	2,124,133	132,285	—	—	—	—	2,256,418	—	2,256,418
Incentive compensation payable	—	469,720	—	—	—	—	469,720	—	469,720
Deferred compensation payable	—	1,364,713	—	—	—	—	1,364,713	—	1,364,713
Other liabilities	—	167,641	—	—	—	—	167,641	—	167,641
Total non-current liabilities	2,124,133	2,134,359	—	—	—	—	4,258,492	—	4,258,492
Total liabilities	2,521,626	11,567,909	634,803	305,005	—	—	15,029,343	(125,000)	14,904,343
Commitments and contingencies	—	—	—	—	—	—	—	—	—
Redeemable common stock	11,563,285	—	—	—	—	—	11,563,285	—	11,563,285

	Regan Holding Corp.	Legacy Marketing Group	Legacy Financial Services, Inc.	LifeSurance Corporation	Legacy Advisory Services, Inc.	Legacy Reinsurance Company	Combined December 31, 1999	Eliminations	Consolidated December 31, 1999
Shareholders' equity (deficit)									
Common stock	3,659,367	100,000	50,000	—	—	100,000	3,909,367	(250,000)	3,659,367
Paid-in capital from retirement of common stock	927,640	510,753	1,650,000	9,277,919	—	100,000	12,466,312	(11,538,672)	927,640
Paid-in capital from producer stock options	2,870,000	—	22,000	—	—	—	2,892,000	—	2,892,000
Retained earnings (accumulated deficit)	14,592,486	32,042,988	(1,038,514)	(8,446,740)	(9,597)	(10,037)	37,130,586	(23,912,721)	13,217,865
Accumulated other comprehensive income-net	—	(572,104)	—	—	—	—	(572,104)	—	(572,104)
Total shareholders' equity...........	22,049,493	32,081,637	683,486	831,179	(9,597)	189,963	55,826,161	(35,701,393)	20,124,768
Total liabilities, redeemable common stock & shareholders' equity (deficit)	$ 36,134,404	$43,649,546	$ 1,318,289	$ 1,136,184	$ (9,597)	$189,963	$82,418,789	$(35,826,393)	$46,592,396

REGAN HOLDING CORP. AND SUBSIDIARIES
Consolidating Income Statement
For the Year Ended December 31, 1999

	Regan Holding Corp.	Legacy Marketing Group	Legacy Financial Services, Inc.	LifeSurance Corporation	Legacy Advisory Services, Inc.	Legacy Reinsurance Company	Combined Year Ended December 31, 1999	Eliminations	Consolidated Year Ended December 31, 1999
Income									
Marketing allowances	$ —	$25,363,487	$ 113,857	$ —	$ —	$ —	$25,477,344	$ —	$25,477,344
Commission income	—	13,900,907	1,491,835	—	2,517	—	15,395,259	—	15,395,259
Administrative fees	—	8,637,245	—	—	—	—	8,637,245	—	8,637,245
Intercompany management fee income	1,643,532	213,800	—	—	—	—	1,857,332	(1,857,332)	—
Seminar income	—	179,330	—	201,989	—	—	381,319	—	381,319
Other income	12,921	36,731	88,988	705	105	—	139,450	—	139,450
Total Income	1,656,453	48,331,500	1,694,680	202,694	2,622	—	51,887,949	(1,857,332)	50,030,617
Expenses									
Salaries and related benefits	—	20,620,054	979,325	617,518	—	—	22,216,897	—	22,216,897
Sales promotion and support	449,118	6,602,008	234,422	449,089	360	—	7,734,997	—	7,734,997
Producer stock options	2,845,000	—	22,000	—	—	—	2,867,000	—	2,867,000
Professional fees	640,170	1,498,873	63,791	142,151	13,504	14,595	2,373,084	—	2,373,084
Occupancy	363,750	1,692,601	36,318	100,963	—	—	2,193,632	—	2,193,632
Depreciation and amortization	1,341,603	337,642	7,723	67,897	—	—	1,754,865	—	1,754,865
Equipment	354,498	637,097	25,415	2,065	—	—	1,019,075	—	1,019,075
Courier and postage	20,534	882,157	61,078	44,733	—	—	1,008,502	—	1,008,502
Stationery and supplies	1,335	882,978	3,489	66,436	120	—	954,358	—	954,358
Travel and entertainment	774	590,044	35,550	81,408	—	—	707,776	—	707,776
Insurance	68,481	336,425	(8,984)	4,007	—	—	399,929	—	399,929
Miscellaneous	212,713	211,607	25,336	23,404	—	23	473,083	—	473,083
Intercompany management fees	—	1,500,000	357,332	—	—	—	1,857,332	(1,857,332)	—
Total expenses	6,297,976	35,791,486	1,842,795	1,599,671	13,984	14,618	45,560,530	(1,857,332)	43,703,198
Income before income from subsidiaries	(4,641,523)	12,540,014	(148,115)	(1,396,977)	(11,362)	(14,618)	6,327,419	—	6,327,419
Income from subsidiaries	7,360,176	—	—	—	—	—	7,360,176	(7,360,176)	—
Operating income	2,718,653	12,540,014	(148,115)	(1,396,977)	(11,362)	(14,618)	13,687,595	(7,360,176)	6,327,419
Other income									
Investment income-net	17,201	1,202,854	3,155	839	—	4,630	1,228,679	—	1,228,679
Income before income taxes	2,735,854	13,742,868	(144,960)	(1,396,138)	(11,362)	(9,988)	14,916,274	(7,360,176)	7,556,098
Provision for income taxes	(1,731,980)	5,413,341	(55,514)	(533,636)	(3,997)	50	3,088,264	—	3,088,264
Net income (loss)	$ 4,467,834	$ 8,329,527	$ (89,446)	$ (862,502)	$ (7,365)	$(10,038)	$11,828,010	$(7,360,176)	$ 4,467,834

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

PART III

Item 10. ***Directors and Executive Officers of the Registrant***

Directors

The Company's Board of Directors are elected annually at a meeting of Shareholders. The following Directors were elected at the Shareholder Meeting which was held on May 21, 1999:

Name	Principal Occupation	Director Since
Lynda L. Regan	Ms. Regan, born in 1948, has served as Chairman and Chief Executive Officer of the Company since 1992. She was Senior Vice President and Treasurer from 1990 to 1992.	1990
Steven C. Anderson, CLU, ChFC, LUTCF	Mr. Anderson, born in 1948, has been a partner in Hoalst Anderson, an independent insurance agency, since 1983. He is a member of the National Association of Life Underwriters and Society of Financial Service Professionals.	1990
R. Preston Pitts	Mr. Pitts, born in 1951, has served as Chief Financial Officer of the Company since 1994, as President and Secretary of the Company since February 1997, and as Chief Operating Officer of the Company since April, 1998. Prior to joining the Company, he owned Pitts Company, a CPA firm specializing in services for insurance companies, served as financial officer for United Family Life Insurance Company and American Security Insurance Group, both Fortis-owned companies, and was Audit Manager for Ernst & Young.	1995
Ute Scott-Smith	Ms. Scott-Smith, born in 1960, served as Senior Vice-President of the Company from 1990 to April of 1997.	1997

Executive Officers

In addition to the Directors who serve as executive officers of the Company and who are identified above, the following individuals serve as executive officers of the Company:

H. Lynn Stafford, born in 1957, has served as Vice President of Operations of the Company from 1995 to July, 1997, and as Chief Information Officer since August, 1997. Prior to that time, he served as Chief Operating Officer for Lincoln Liberty Life Insurance Company and First Delaware Life Insurance Company.

Gregory C Egger, born in 1949, serves as Officer of Strategic Development and served as Chief Marketing Officer of the Company from 1997 to April 2000. Prior to that time, Mr. Egger was Executive Vice President for American Security Group.

David A. Skup, born in 1952, has served as Chief Financial Officer of the Company since July, 1997. Previously, Mr. Skup was Vice President in Charge of Internal Audit for Independent Insurance Group, Inc. and was Senior Audit Manager for Deloitte, Haskins & Sells.

Family Relationships

Lynda L. Regan, Chairman and Chief Executive Officer of the Company, is married to R. Preston Pitts, President, Chief Operating Officer and Director of the Company.

Item 11. ***Executive Compensation***

Summary Compensation Table

The following Summary Compensation Table sets forth the compensation of the Company's Chief Executive Officer and the four most highly compensated executive officers (the "named executive officers") for services in all capacities to the Company and its subsidiaries during 1999, 1998, and 1997.

	Annual Compensation				
Name and Position	Year	Annual Salary	Annual Bonus(1)	Other	All Other Compensation
Lynda L. Regan	1999	$548,462	$192,562	$ 5,000(2)	
Chief Executive Officer				21,750(5)	
				16,825(4)	
	1998	435,781	249,612	5,000(2)	—
				16,824(4)	
	1997	407,712	167,916	4,750(2)	—
				16,825(4)	
R. Preston Pitts	1999	$425,883	$157,562	$ 2,105(2)	
President and Chief Operating Officer				16,540(5)	
	1998	336,211	205,175	5,000(2)	—
	1997	300,000	149,916	4,750(2)	—
Gregory C. Egger(3)	1999	$243,309	$104,154	$ 5,000(2)	
Officer of Strategic Development				4,572(5)	
	1998	232,788	124,868	5,000(2)	—
	1997	77,885	52,046	—	—
David A. Skup(3)	1999	$183,442	$ 67,987	$ 5,000(2)	
Administrative Services Officer, Chief				3,231(5)	
Financial Officer and Treasurer	1998	167,254	95,426	5,000(2)	—
	1997	60,577	20,661	—	—
H. Lynn Stafford	1999	$190,521	$ 65,274	$ 5,000(2)	
Chief Information Officer				2,730(5)	
	1998	155,192	109,835	5,000(2)	—
	1997	139,231	73,416	4,750(2)	—

(1) Includes bonuses in the year in which they were earned.

(2) The Company matches contributions made to its 401(k) Plan at a rate of $.50 for every $1.00 deferred, up to 6% of total annual compensation.

(3) Mr. Skup and Mr. Egger were elected officers of the Company in July, 1997, and August, 1997, respectively.

(4) The Company pays interest on debt related to a split dollar life insurance policy under which Ms. Regan is the beneficiary.

(5) The Company matches contributions made by certain employees to the Company's non-qualified deferred compensation plan at a rate of $0.50 for every $1.00 deferred, up to 6% of total annual compensation less amounts already matched under the Company's 401(k) Plan.

Directors' Compensation

The Company provides compensation to outside Directors of $1,500 per meeting, plus an annual retainer of $10,000. Also, outside Directors of the Company are eligible to receive stock options. Currently, Steven C. Anderson and Ute Scott-Smith are the only outside Directors of the Company. The other Directors are otherwise employed by the Company and are not compensated for serving as Directors or attending Board or committee meetings.

Options/SAR Grants in Last Fiscal Year

The following table sets forth grants of stock options to the named executive officers during the fiscal year ended December 31, 1999. No SARs were granted during the fiscal year ended December 31, 1999.

Name	Number of Securities Underlying Options/SARs Granted	Individual Grants % of Total Options/SARs Granted to Employees in Fiscal Year(3)	Exercise or Base Price ($/Share) (1)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
					5%($)	10%($)
Lynda L. Regan	125,000	8.1%	$1.40	12/31/03(4)	$ 37,714	$ 81,218
R. Preston Pitts	225,000	14.5%	1.27	12/31/08(5)	157,543	388,034
Gregory C Egger	175,000	11.3%	1.27	12/31/08(5)	122,533	301,804
David A. Skup	125,000	8.1%	1.27	12/31/08(5)	87,524	215,575
H. Lynn Stafford	125,000	8.1%	1.27	12/31/08(5)	87,524	215,575

(1) All options set forth in this table were granted at fair market value on the date of the grant as determined by the Board of Directors of the Company.

(2) Amounts reported in these columns represent amounts that may be realized upon exercise of the options immediately prior to the expiration of their term assuming the specified compound rates of appreciation (5% and 10%) on the market value of the Common Stock on the date of option grant over the term of the options. These numbers are calculated based on rules promulgated by the SEC and do not reflect the Company's estimate of future stock price growth. Actual gains, if any, on stock option exercises and Common Stock holdings are dependent on the timing of such exercise and the future performance of the Common Stock. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the individuals.

(3) Based on options to purchase an aggregate of 1,552,200 shares of Common Stock granted to all employees of the Company in fiscal 1999.

(4) The dates of exercisability are as follows: (i) 25% on January 1, 2000; (ii) 25% on January 1, 2001; (iii) 25% on January 1, 2002; and (iv) 25% on January 1, 2003.

(5) The dates of exercisability are as follows: (i) 20% on January 1, 2000; (ii) 20% on January 1, 2001; (iii) 20% on January 1, 2002; (iv) 20% on January 1, 2003; and (v) 20% on January 1, 2004.

Aggregated Options/SAR Exercises in Last Fiscal Year And Fiscal Year-end Options/SAR Values

The following table sets forth certain information concerning the exercise of options by each of the named executive officers during fiscal 1999 and the number and value of unexercised options held by each of the named executive officers as of December 31, 1999.

Name	Shares Acquired on Exercise(#)	Value Realized($)	Number of Securities Underlying Unexercised Options/SARs at Fiscal year End(#) Exercisable/Unexercisable	Value of Unexercised in-the-money Options/SARs at Fiscal Year End(1) ($) Exercisable/Unexercisable
Lynda L. Reagan	—	—	$ 81,250/$143,750	$40,563/$ 48,688
R. Preston Pitts	—	—	125,000/ 300,000	75,700/142,800
Gregory C Egger	2,000	$1,320	113,000/ 260,000	71,500/132,400
David A. Skup	100	54	104,900/ 220,000	70,420/122,000
H. Lynn Stafford	—	—	105,000/ 220,000	70,500/122,000

(1) Calculated on the basis of the difference between the closing price of the underlying securities on December 31, 1999 and the exercise price of the option.

Compensation Committee Interlocks and Insider Participation

As noted above, the Company does not have a compensation committee. The compensation of executive officers is determined by the Board of Directors. Lynda Regan, who is Chief Executive Officer of the Company, is also Chairman of the Board of Directors and R. Preston Pitts, who is President and Chief Operating Officer, is also a Director. None of the executive officers of the Company serve as a Director or member of the compensation committee of an entity, any of whose executive officers serves as a Director of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during the year ended December 31, 1999, and Forms 5 and amendments thereto furnished to the Company with respect to the year ended December 31, 1999, no reports required by Section 16(a) of the Exchange Act with respect to the Company were delinquent except as follows: Steven C. Anderson failed to timely file a Form 4 with respect to one transaction in 1998. This delinquency was cured in February of 2000.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The following table shows the number of shares and the percentage of the shares of the Company's Class A Stock beneficially owned by each of the Directors and executive officers of the Company as of April 28, 2000. No Director or officer owns any Series B Common Stock.

Name	Position	Total	Percent
Lynda L. Regan	Director, Chairman & Chief Executive Officer	11,428,432.4(1)	43.4%
R. Preston Pitts	Director, President & Chief Operating Officer	908,110.0(2)	3.4%
Ute Scott-Smith	Director	451,739.0(3)	1.7%
Steven C. Anderson	Director	79,716.0(3)	*
Gregory C Egger	Officer of Strategic Development	115,000.0(4)	*
David A. Skup	Administrative Services Officer and Chief Financial Officer	105,000.0(5)	*
H. Lynn Stafford	Chief Information Officer	105,000.0(6)	*
Directors and officers as a group		13,193,898.0(7)	50.1%

(1) Includes 81,250 shares issuable pursuant to stock options that are exercisable within 60 days.

(2) Includes 125,000 shares issuable pursuant to stock options that are exercisable within 60 days.

(3) Includes 10,000 shares issuable pursuant to stock options that are exercisable within 60 days.

(4) Includes 113,000 shares issuable pursuant to stock options that are exercisable within 60 days.

(5) Includes 104,900 shares issuable pursuant to stock options that are exercisable within 60 days.

(6) Includes 105,000 shares issuable pursuant to stock options that are exercisable within 60 days.

(7) Includes 549,150 shares issuable pursuant to stock options that are exercisable within 60 days.

* Indicates that the percentage of the outstanding shares beneficially owned is less than one percent (1%).

Certain Shareholders

The Company knows of no person who is the beneficial owner of more than five percent of any class of the Company's outstanding Common Stock other than Lynda L. Regan, Chairman and Chief Executive Officer of the Company, whose ownership is listed above.

Item 13. ***Certain Relationships and Related Transactions***

Pursuant to a Shareholder's Agreement with Lynda Regan, Chief Executive Officer of the Company and Chairman of the Company's Board of Directors, and certain other individuals, in the event of the death of Ms. Regan, the Company shall repurchase from Ms. Regan's estate all of the shares of the Company's common stock that were owned by Ms. Regan at the time of her death, or that were transferred by her to one or more trusts prior to her death. The purchase price to be paid by the Company shall be equal to 125% of the fair market value of the shares. The Company has purchased a life insurance policy with a face amount of $14.0 million for the purpose of funding this obligation in the event of Ms. Regan's death.

PART IV

Item 14. ***Exhibits, Financial Statement Schedules, and Reports on Form 8-K***

(a) Index to Exhibits and Financial Statement Schedules:

1. The following financial statements are included in Item 8:

(i) Independent Accountants Report.
(ii) Consolidated Balance Sheets as of December 31, 1999 and 1998.
(iii) Consolidated Income Statements for the years ended December 31, 1999, 1998 and 1997.
(iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 1999, 1998 and 1997.
(v) Consolidated Statements of Cash Flows for the years ended December 31, 1999, 1998 and 1997.
(vi) Notes to Consolidated Financial Statements.
(vii) Supplemental Consolidating Data

2. Financial statement schedules are omitted because the information is not required or has been included in the financial statements and related notes.

3. The following exhibits are included in response to Item 14(c):

3(a)	Restated Articles of Incorporation.[(1)]
3(b)	Amended and Restated Bylaws of the Company.[(1)]
4	Certificate of Determination of Preferences of Series C Common Stock of Regan Holding Corp.[(2)]
10(a)	Administrative Services Agreement effective January 1, 1991, as amended, between Allianz Life Insurance Company of North America and the Company.[(2)]
10(b)(1)	Marketing Agreement effective June 1, 1993, as amended, between American National Insurance Company and the Company.[(2)]
10(b)(2)	Amendment Three to Marketing Agreement with American National Insurance Company.[(3)]
10(b)(3)	Amendment Four to Marketing Agreement with American National Insurance Company.[(3)]
10(b)(4)	Amendment Five to Marketing Agreement with American National Insurance Company.[(4)]

(1) Incorporated herein by reference from the Company's quarterly Form 10-Q for the three months ended September 30, 1996.

(2) Incorporated herein by reference from the Company's annual report on Form 10-K for the year ended December 31, 1994.

(3) Incorporated herein by reference from the Company's quarterly Form 10-Q for the three months ended June 30, 1998.

(4) Incorporated herein by reference from the Company's annual report on Form 10-K for the year ended December 31, 1998.

10(b)(5)	Amendment Six to Marketing Agreement with American National Insurance Company.[1]
10(b)(6)	Amendment Seven to Marketing Agreement with American National Insurance Company.[2]
10(b)(7)	Amendment Eight to Marketing Agreement with American National Insurance Company.[3]
10(b)(8)	Amendment Nine to Marketing Agreement with American National Insurance Company.[3]
10(b)(9)	Amendment Ten to Marketing Agreement with American National Insurance Company.[4]
10(b)(10)	Amendment Eleven to Marketing Agreement with American National Insurance Company.[10]
10(b)(11)	Amendment Twelve to Marketing Agreement with American National Insurance Company.[10]
10(c)(1)	Insurance Processing Agreement effective June 1, 1993, as amended, between American National Insurance Company and the Company.[5]
10(c)(2)	Amendment to Insurance Processing Agreement with American National Insurance Company.[6]
10(c)(3)	Amendment Two to Insurance Processing Agreement with American National Insurance Company.[7]
10(c)(4)	Amendment Three to Insurance Processing Agreement with American National Insurance Company.[8]
10(c)(5)	Amendment Four to Insurance Processing Agreement with American National Insurance Company.[9]
10(c)(6)	Amendment Five to Insurance Processing Agreement with American National Insurance Company.[9]
10(c)(7)	Amendment Six to Insurance Processing Agreement with American National Insurance Company.[2]
10(c)(8)	Amendment Seven to Insurance Processing Agreement with American National Insurance Company.[3]
10(c)(9)	Amendment Eight to Insurance Processing Agreement with American National Insurance Company.[3]
10(c)(10)	Amendment Nine to Insurance Processing Agreement with American National Insurance Company.[4]

---

[1] Incorporated herein by reference from the Company's annual report on Form 10-K for the year ended December 31, 1998.
[2] Incorporated herein by reference from the Company's quarterly Form 10-Q for the three months ended March 31, 1999.
[3] Incorporated herein by reference from the Company's quarterly Form 10-Q for the three months ended June 30, 1999.
[4] Incorporated herein by reference from the Company's quarterly Form 10-Q for the three months ended September 30, 1999.
[5] Incorporated herein by reference from the Company's annual report on Form 10-K for the year ended December 31, 1994.
[6] Incorporated herein by reference from the Company's quarterly Form 10-Q for the three months ended March 31, 1998.
[7] Incorporated herein by reference from the Company's quarterly Form 10-Q for the three months ended June 30, 1998.
[8] Incorporated herein by reference from the Company's quarterly Form 10-Q for the three months ended September 30, 1998.
[9] Incorporated herein by reference from the Company's annual report on Form 10-K for the year ended December 31, 1998.
[10] Incorporated herein by reference from the Company's annual report on Form 10-K for the year ended December 31, 1999.

10(c)(11)	Amendment Ten to Insurance Processing Agreement with American National Insurance Company.[5]
10(c)(12)	Amendment Eleven to Insurance Processing Agreement with American National Insurance Company.[5]
10(d)	Form of Producer Agreement.[1]
10(e)	Lease Agreement dated September 26, 1996, for 1179 North McDowell Blvd., Petaluma, California 94954.[1]
10(f)	Settlement Agreement dated June 18, 1993, among the State of Georgia as receiver for and on behalf of Old Colony Life Insurance Company, other related parties and the Company.[1]
10(g)	401(K) Profit Sharing Plan & Trust dated July 1, 1994.[1]
10(h)	Marketing Agreement effective January 1, 1996 between IL Annuity and Insurance Company and the Company.[2]
10(i)	Insurance Processing Agreement effective January 1, 1996 between IL Annuity and Insurance Company and the Company.[2]
10(j)	Marketing Agreement effective January 1, 1996 between Indianapolis Life Insurance Company and the Company.[2]
10(k)	Insurance Processing Agreement effective January 1, 1996 between Indianapolis Life Insurance Company and the Company.[2]
10(l)	Marketing Agreement effective May 29, 1998 between Transamerica Life Insurance and Annuity Company and Legacy Marketing Group.[3]
10(m)(1)	Administrative Services Agreement effective May 29, 1998 between Transamerica Life Insurance and Annuity Company and Legacy Marketing Group.[3]
10(m)(2)	Amendment to the Administrative Services Agreement with Transamerica Life Insurance and Annuity Company.[5]
10(m)(3)	Amendment Two to the Administrative Services Agreement with Transamerica Life Insurance and Annuity Company.[5]
10(n)(1)	Agreement of purchase and sale, dated March 8, 1999, by and among Regan Holding Corp., North McDowell Investments and Jane Crocker.[4]
10(n)(2)	Business Loan Agreement, dated May 6, 1999, by and between Regan Holding Corp. and National Bank of the Redwoods.[4]
10(n)(3)	Promissory Note, dated May 6, 1999, by and between Regan Holding Corp. and National Bank of the Redwoods.[4]
21	Subsidiaries of the Company.[2]
27	Financial Data Schedule

(b) Reports on Form 8-K filed during the quarter ended December 31, 1999.

No reports on Form 8-K were filed during the quarter ended December 31, 1999.

(1) Incorporated herein by reference from the Company's annual report on Form 10-K for the year ended December 31, 1994.

(2) Incorporated herein by reference from the Company's annual report on Form 10-K for the year ended December 31, 1995.

(3) Incorporated herein by reference from the Company's Form 8-K, dated June 1, 1998.

(4) Incorporated herein by reference from the Company's quarterly Form 10-Q for the three months ended March 31, 1999.

(5) Incorporated herein by reference from the Company's annual report on Form 10-K for the year ended December 31, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGAN HOLDING CORP.

By: /s/ R. PRESTON PITTS — Date: May 1, 2000

R. Preston Pitts
President and Chief Operating Officer

By: /s/ DAVID A. SKUP — Date: May 1, 2000

David A. Skup
Chief Financial Officer

Pursuant to the requirements of the securities Exchange act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ LYNDA L. REGAN — Date: May 1, 2000

Lynda L. Regan
Chairman

By: /s/ R. PRESTON PITTS — Date: May 1, 2000

R. Preston Pitts
Director

By: /s/ UTE SCOTT-SMITH — Date: May 1, 2000

Ute Scott-Smith
Director