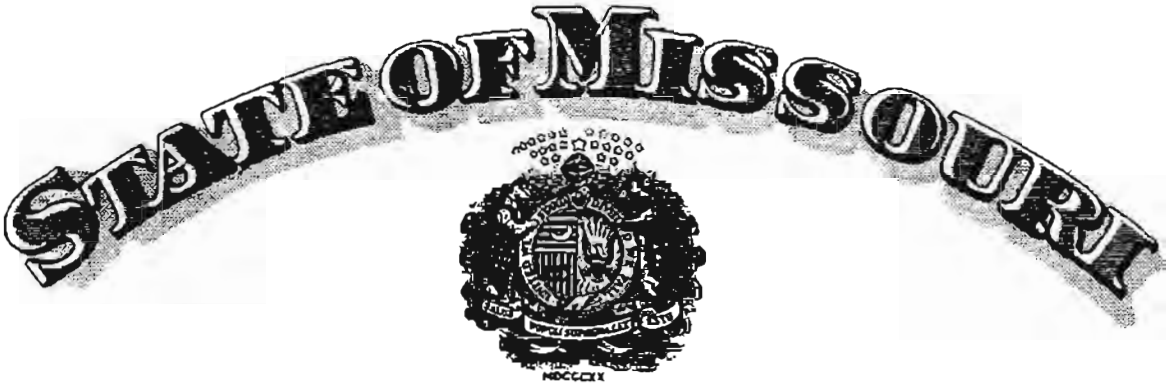


DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Galen Insurance Company as of December 31, 2008

ORDER

After full consideration and review of the report of the financial examination of Galen Insurance Company for the period ended December 31, 2008, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Galen Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this November 2, 2009.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

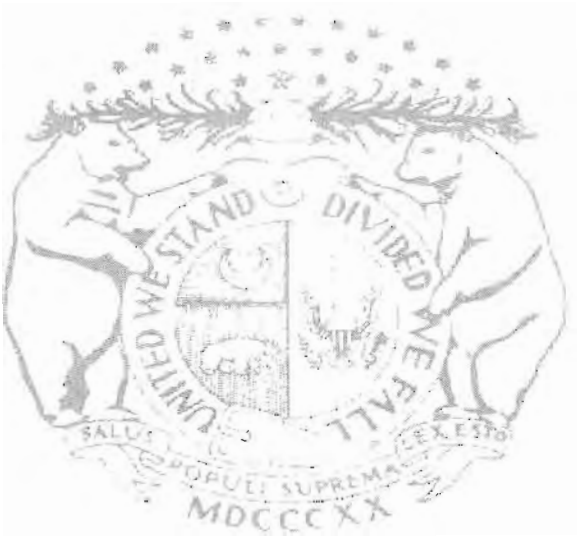
REPORT OF

FINANCIAL EXAMINATION

Galen Insurance Company

As of:
DECEMBER 31, 2008

FILED
NOV 12 2009
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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September 28, 2009
St. Louis, MO

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Virginia State Corporate Commission
Chairman, Financial Condition (E) Committee, NAIC

Honorable Merle D. Scheiber, Director
Division of Insurance
State of South Dakota
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Galen Insurance Company

hereinafter referred to as the "Company." The Company's office is located at 7165 Delmar Blvd., Suite 215; St. Louis, Missouri 63130-4304; telephone number (314) 721-2366. Examination fieldwork began on June 8, 2009, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

This is the first full scope financial examination of this Company. This examination covers the period from December 14, 2005 (the date the Company was granted a certificate of authority) through December 31, 2008, and was conducted by examiners from the state of Missouri. This examination also included material transactions or events occurring subsequent to December 31, 2008.

Procedures

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by

obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Key activities included: Investments, Treasury, Premiums, Reinsurance, Claims and Actuarially Determined Liabilities, Affiliated Parties, Debt and Surplus, Taxes, Expenses, and Management and Control.

The examiners relied upon information and workpapers provided by the Company's independent auditor, Brown Smith Wallace, LLC, St. Louis, Missouri, for its audit covering the period from January 1, 2008 through December 31, 2008. Such reliance included fraud risk analysis, internal control narratives, and test of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

Overall, the Company has grown in a stable fashion since its inception. An experienced management team has produced positive income, and the reserving methodology at December 31, 2008, was determined to be reasonable. However, some deficiencies were noted during the examination.

- The Company needs to further enhance its controls over the underwriting process in order to better manage the information received.

- Board meeting minutes should document the appointment of the consulting actuary each year.

- The Company should increase its fidelity coverage to meet the minimum amount suggested by the National Association of Insurance Commissioners.

SUBSEQUENT EVENTS

There have been no significant subsequent events since December 31, 2008.

COMPANY HISTORY

General

Galen Insurance Company was organized as a corporation on August 25, 2004, for the purpose of providing medical malpractice insurance to physicians, medical professionals

and stand-alone surgical centers on a claims-made basis. The Department of Insurance, Financial Institutions and Professional Registration (the Department) granted a certificate of authority to the Company on December 14, 2005.

Capital Stock

The Company is authorized to issue 1,000,000 shares of stock with a par value of $2.50 per share. As of December 31, 2008, the Company had 445,000 shares outstanding totaling $1,112,500 of common capital stock with an additional $1,112,500 of paid in and contributed surplus. All stock is owned by the parent, Galen Insurance Management Company, Inc.

Dividends

The Company has not paid any dividends since its inception.

Mergers and Acquisitions

There have been no mergers or acquisitions by the Company.

CORPORATE RECORDS

Minutes of the meetings of the board of directors and annual meetings of the stockholder were reviewed. Major corporate decisions and resolutions were sufficiently documented in the minutes. The minutes for the December 14, 2006 meeting showed that the Company's actuary was appointed at that time. No subsequent appointments were noted in any of the minutes. The Company should document, each year, the appointment of its actuary.

Directors serving at December 31, 2008 were:

George R. Schoedinger, M.D.
St. Louis, MO

Martin J. Zaegel
St. Louis, MO

Ashok Kumar, M.D.
St. Louis, MO

Ravindra Shitut, M.D.
St. Louis, MO

Matthew P. McCauley
St. Louis, MO

Dale E. Doerr, M.D.
St. Louis, MO

Forbes A. McMullin, M.D.
St. Louis, MO

Robert H. Sigmund, M.D.
St. Louis, MO

Jan C. Vest
Glen Carbon, IL

Dennis A. Dusek, M.D.
St. Louis, MO

Robert G. Medler, M.D.
St. Louis, MO

John B. Weltmer, M.D.
St. Louis, MO

Officers serving at December 31, 2008 were:

Name	Position
Matthew P. McCauley	President
Thomas Zorumski	Vice President and Chief Operations Officer
Jan C. Vest	Vice President, Secretary
Martin Zaegel	Vice President, Treasurer
Russell Oldham	Vice President, Claims
Scott Perhacs	Sales Vice President and Chief Underwriter

The only committee officially approved by the board of directors is the audit committee. The members of that committee are: Martin Zaegel, Matthew McCauley and Kriete Hollrah. The committee plans to meet at least annually.

The Company provided signed conflict of interest disclosures for all officers and directors. Those disclosures were adequate based on the results of the examination.

A review of the Company's policies and procedures found that there was no policy regarding privacy act compliance or administration of unclaimed properties. These issues were brought to the attention of management and policies were developed. The policies were adopted by the board of directors during the onsite examination.

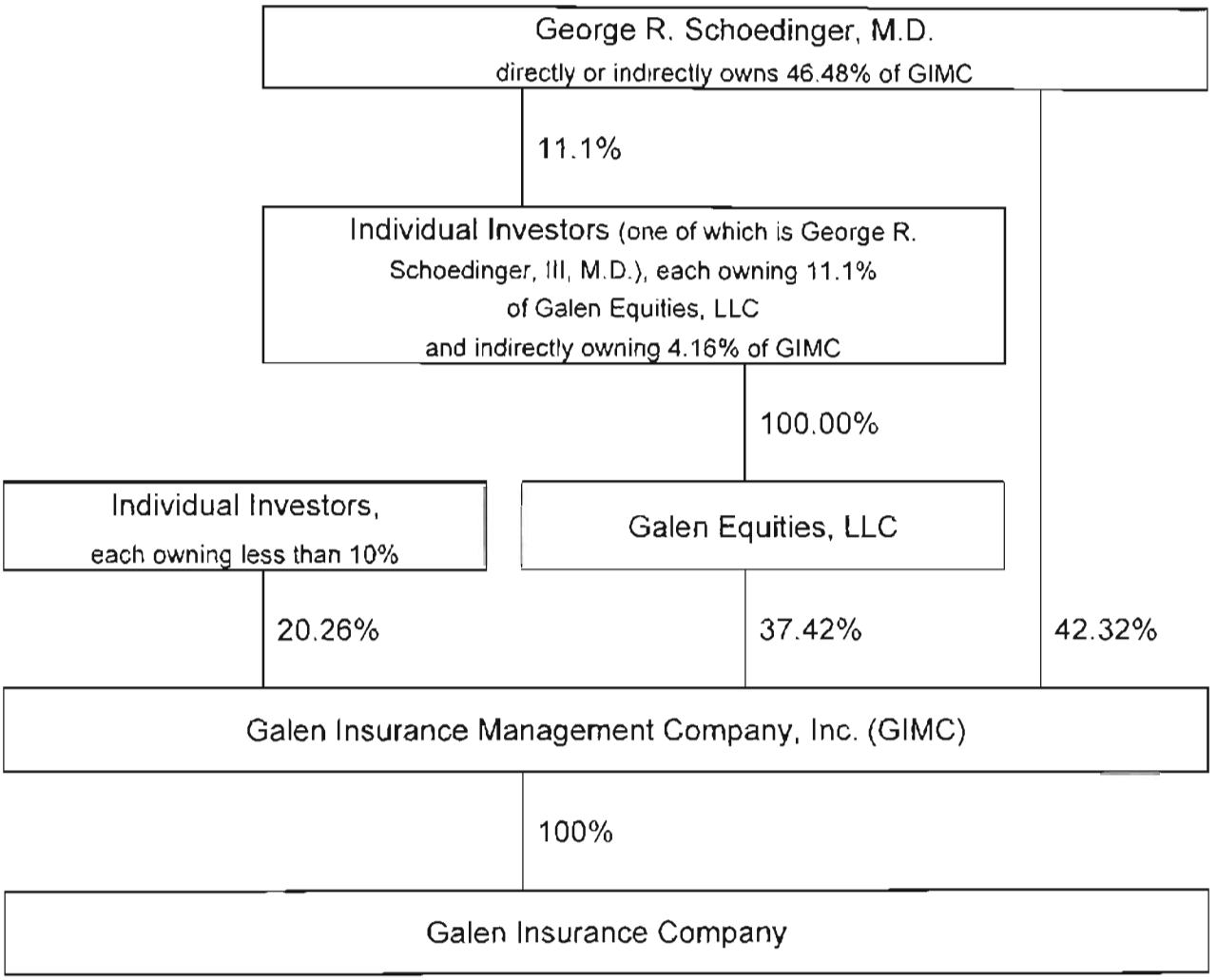
MANAGEMENT AND CONTROL

Holding Company, Subsidiaries and Affiliates

The Company's common capital stock is wholly-owned by Galen Insurance Management Company, Inc. (GIMC). That company is, in turn, owned by a number of other individual investors, either on a direct basis or via partnership in a limited liability company known as Galen Equities, LLC. The ultimate controlling person of Galen Insurance Company is Dr. George R. Schoedinger, who directly or indirectly owns almost half of GIMC.

The Company itself owns no other entities.

The following organizational chart shows the structure of the holding company system as of December 31, 2008:



Affiliated Transactions

The Company is a party to two intercompany agreements. One is the Intercompany Income Tax Allocation Agreement between Galen Insurance Company and GIMC. This agreement was signed on June 21, 2006, and requires the parties to file a consolidated tax return beginning with the tax year ending December 31, 2005. Each party's contribution to the return is to be made as if separate returns were filed. Obligations arising from this agreement are settled quarterly.

The second agreement is the Management Services Agreement, effective as of December 12, 2005. This agreement outlines the relationship between Galen Insurance Company and GIMC. The agreement calls for GIMC to provide the overall management of Galen Insurance Company including all aspects of underwriting and policy administration, investments, risk management, accounting and financial reporting, marketing, and claims administration.

The management company accrues the costs of providing these services each month and presents an invoice to the insurance company for reimbursement. This management service fee is to be paid by the twentieth of the month following the month for which the services were provided. The management company will not seek payment for services that exceed 20% of gross earned premium for a quarter. Any excess will be accrued and paid when payment would not exceed 20%. The management agreement automatically renews for one year periods. The agreement can be terminated by either party after giving 90 days notice of the intent not to renew. The Company paid $554,601 for these services during 2008.

FIDELITY BOND AND OTHER INSURANCE

The Company receives protection from various threats through policies maintained by the parent, Galen Insurance Management Company, Inc.

The Company maintains fidelity coverage of $30,000 with a $500 deductible. This is below the recommended minimum amount needed as suggested by the the National Association of Insurance Commissioner's Financial Condition Examiners Handbook. It is recommended that a company of this size and complexity maintain at least $100,000 of fidelity coverage. The Company's management agreed to increase the coverage.

The Company receives adequate protection through various other policies. Coverages exist for business personal property, business general liability, employment practices liability, workers compensation, umbrella liability, and directors' and officers' liability.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees; therefore, it has no pension plan or insurance benefits for employees.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to provide medical malpractice insurance in the state of Missouri. Policies are written on a claims-made basis with typical limits of $1,000,000 per claim and $3,000,000 in aggregate. During 2008, the Company received a license to write in the state of Illinois.

Business is primarily placed directly. A significant portion of the Company's business is with Signature Health Group, in which several of the investors in this Company are members. Examiners evaluated the policies issued and found no evidence of preferential treatment.

The Company should strengthen controls over the underwriting process in order to better manage the information received. Currently, data is obtained and entered into a spreadsheet used to help determine if the potential policyholder meets the Company's underwriting standards. However, data within the spreadsheet is not maintained on a consistent basis, thereby limiting the Company's ability to aggregate the data into detailed information. The information would be useful in evaluating the underwriting and pricing decisions as the business evolves.

GROWTH OF COMPANY

The Company began writing business in 2006. Premiums written in 2008 totaled over $2.8 million. The Company incurred a net loss in 2006 but has generated positive net income each subsequent year.

LOSS EXPERIENCE

The Company has yet to incur an indemnity loss payment. All payments to date have been loss adjusting expenses. Loss and loss adjustment expense reserves were reviewed and determined to be adequate as of December 31, 2008.

REINSURANCE

Premiums reported for the period under examination were as follows:

	2006	2007	2008
Direct Premiums Written	$2,038,422	$2,621,485	$2,855,371
Ceded Premiums	881,683	902,341	872,426
Net Premiums Written	$1,156,739	$1,719,144	$1,982,945

As of December 31, 2008, the Company was covered by an excess of loss agreement placed through John B. Collins Associates. This coverage provides for $800,000 in excess of $200,000 coverage for each loss. Clash coverage is provided at $600,000 in excess of $400,000 when two or more insureds are involved in a claim. The reinsurance agreement was reviewed and no deficiencies were noted.

ACCOUNTS AND RECORDS

General

The Company's financial statements are prepared based on statutory accounting principles. Quarterly and annual statements are produced using a software program from Eagle Technology Management, Inc.

Independent Auditor

The Company is audited by the accounting firm of Brown Smith Wallace, LLC. Workpapers from the most recent audit were used in the course of this examination as deemed appropriate.

Independent Actuaries

Reserves and related actuarial items reported in the financial statements were certified by Russel L. Sutter, FCAS, MAAA, of Tillinghast Towers Perrin.

Consulting actuary Jon W. Michelson, FCAS, MAAA, with Expert Actuarial Services, LLC, was retained by the Department to review the adequacy of reserves and other related liabilities. His report concluded that the Company's reserves at December 31, 2008 were adequate.

Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Missouri Department of Insurance, Financial Institutions and Professional Registration conducted a review of the Company's information systems. No significant issues were identified.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department as of December 31, 2008, as reflected below, were deemed sufficient in par and market value to meet the deposit requirements for the state of Missouri in accordance with Section 379.098 RSMo.

Security	Par Value	Statement Value	Market Value
US Treasury Note	$350,000	$341,647	$374,063
US Treasury Note	425,000	423,115	450,186
Totals	$775,000	$764,762	$824,249

Deposits with Other States

The Company also has funds on deposit for the state of Illinois. Those funds on deposit as of December 31, 2008, were as follows:

Security	Par Value	Statement Value	Market Value
US Treasury Note	$350,000	$360,609	$387,079
US Treasury Note	390,000	399,014	436,402
Totals	$740,000	$759,623	$823,481

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2008, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

BALANCE SHEET
As of December 31, 2008

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$5,373,093	$0	$5,373,093
Cash and short-term investments	824,852	0	824,852
Investment income due and accrued	66,734	0	66,734
Deferred premiums	123,594	0	123,594
Net deferred tax asset	123,826	42,957	80,869
Total assets	$6,512,099	$42,957	$6,469,142
Losses			$1,158,041
Loss adjustment expenses			706,322
Other expenses **Note 1**			0
Taxes, licenses and fees			17,784
Current federal and foreign income taxes			566,140
Unearned premiums			530,527
Advance premium			188,641
Payable to parent, subsidiaries and affiliates **Note 1**			23,384
Funds held by company under reinsurance treaties			158,228
Total liabilities			3,349,067
Common capital stock			1,112,500
Gross paid in and contributed surplus			1,112,500
Unassigned funds (surplus)			895,075
Surplus as regards policyholders			3,120,075
Totals			$6,469,142

INCOME STATEMENT
For Year Ending December 31, 2008

Premiums earned		$1,905,328
Losses incurred	$431,572	
Loss adjustment expenses incurred	387,689	
Other underwriting expenses incurred	573,103	
Total underwriting deductions		1,392,364
Net underwriting gain (loss)		512,964
Net investment income earned	219,704	
Net realized capital gains (losses) less capital gains tax	(14,426)	
Net investment gain (loss)		205,278
Net income, after dividends to policyholders, capital gains tax and before all other federal income taxes		718,242
Less: Federal and foreign income taxes incurred		281,629
Net income		$436,613

CAPITAL AND SURPLUS
Changes for 2008

Surplus as regards policyholders, December 31, 2007		$2,441,005
Net income	$436,613	
Change in net deferred income tax	37,427	
Change in nonadmitted assets	(19,969)	
Capital changes paid in	112,500	
Surplus adjustments paid in	112,500	
Change in surplus as regards policyholders for the year		$679,071
Surplus as regards policyholders, December 31, 2008		$3,120,076

COMMENTS ON FINANCIAL STATEMENTS

Note 1

Other expenses	**$0**
Payable to parent, subsidiaries and affiliates	**$23,384**

The Company originally showed the balance owed for its management fee under *other expenses*. The appropriate reporting is to show the balance in *payable to parent, subsidiaries and affiliates*. This reclassification has no impact on the Company's surplus.

SUMMARY OF RECOMMENDATIONS

Corporate Records, page 3
The minutes of the board of directors meetings should reflect the appointment of the Company's actuary each year. The Company acknowledged the appointment in 2006 and retained the same actuary for subsequent years. This should be an annual appointment.

Fidelity Bond and Other Insurance, page 6
A company of this size and complexity should maintain at least $100,000 of fidelity coverage as recommended by the the National Association of Insurance Commissioner's Financial Condition Examiners Handbook.

Territory and Plan of Operation, page 7
The Company needs to strengthen controls over the underwriting process in order to better manage the information obtained.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and staff of Galen Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Doug Daniels, AFE, CPA and Andy Balas, CFE, CPA, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration, participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Robert P. Jordan, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Robert P. Jordan

Robert P. Jordan, CFE
Examiner-in-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 31ST day of August, 2009
My commission expires:
May 4, 2012

Vicky L Barteau
Notary Public

VICKY L. BARTEAU
Notary Public, Notary Seal
State of Missouri
Jefferson County
Commission # 08381745
My Commission Expires May 04, 2012

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael R. Shadowens

Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial Institutions and Professional Registration

GALEN
Insurance Management Company, Inc.

7165 Delmar Blvd.
Suite 215
St. Louis, MO 63130
314-721-2366

29 October 2009

Tammy Rodieck
Exam Coordinator
Missouri Department of Insurance,
Financial Institutions and Professional Registration
Division of Insurance Company Regulation
301 W. High Street, Room 530
Jefferson City Mo. 65102-0690

Dear Ms. Rodieck:

This letter is in response to the invitation we received from the Department to comment of the Examination Report of Galen Insurance Company for the three years ending 31 December 2008. We have the following comments which, although they are not controversial, address the examiners' findings and might as well be included in the report as a public document.

1. Since the examiners left Galen has moved. The new office is at 6822 Delmar, St.Louis, Missouri 63130. The telephone numbers have not changed.

2. Shortly after the examiners presented their preliminary report Galen increased the fidelity insurance coverage on employees to $100,000. We understand this meets the standard suggested by the National Association of Insurance Commissioners.

3. We plan to have Galen's Board re-appoint the company actuary before the end of the year and we are continuing to address the matter of making underwriting information more easily managed. These are the two remaining recommendations from the examiners.

We appreciate the professional manner in which the examination was conducted and look forward to continued good relations with the Department.

Very truly yours,

Matthew P. McCauley
President