STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Interlex Insurance Company as of December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of Interlex Insurance Company for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, 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 Interlex 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 February 15, 2008.

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

INTERLEX INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND

PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Springfield, Missouri
January 4, 2008

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

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

Gentlemen:

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

Interlex Insurance Company

hereinafter referred to as such, as Interlex, or as the Company. Its administrative office is located at 909 East Republic Road, Building G – Suite 100, Springfield, Missouri 65807, telephone number 417-889-1010. This examination began on July 16, 2007, onsite fieldwork was completed on October 11, 2007 and the examination report was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Interlex was made as of December 31, 2002, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2003, through December 31, 2006, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was conducted concurrently with the examination of its parent company, Intermed Insurance Company (Intermed).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, PricewaterhouseCoopers, LLP, of St. Louis, Missouri, for its audit covering the period from January 1, 2006, through December 31, 2006. Information relied upon included cash and investment account confirmations, attorney letters, tests of controls, and narrative descriptions of processes and controls.

Comments - Previous Examination

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 2002, and the subsequent response or action taken by the Company.

Conflict of Interest Statements

Comment: The examination noted that conflict of interest disclosure statements were not completed by officers and members of the board of directors during the examination period. The Company was advised to ensure that its officers and members of the board of directors complete a conflict of interest disclosure statement annually.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The Company provided completed conflict of interest disclosure statements from all its officers and members of the board of directors during the current period under examination.

Acquisitions, Mergers and Major Corporate Events

Comment: The Company sold its insurance operations effective December 1, 2002, and entered into a non-competition agreement with the buyer, which forbade the Company from writing new business until January 1, 2006. Given this scenario, the Company was directed to develop a business plan, which should discuss its long-term plans. It was also recommended that the Company submit any such long-term business plan to the DIFP.

Company's Response: The Company stated that it would continue to participate in the intercompany reinsurance pool arrangement by which it generates business. The Company further indicated a willingness to continue to review its options with respect to future business plans with the proviso that any substantive plans that is developed would be submitted to the DIFP.

Current Findings: The Company has not developed any new plan of operations other than its continuing participation in the intercompany reinsurance pool. See the Insurance Products and Related Practices section of this report for more detailed review of the Company's operations.

Intercompany Transactions – Management Contract with ISI

Comment: The Management Contract between Intermed, Interlex and Insurance Services, Inc. (ISI) required Interlex to reimburse ISI for its share of expenses paid by ISI. However, Intermed was paying for all the expenses and receiving reimbursement from Interlex on a quarterly basis contrary to the terms and provisions of the underlying agreement. Both Intermed and Interlex were directed to either operate by the terms of the contract or file a form D with the DIFP to amend the terms of the contract.

Company's Response: Intermed and Interlex agreed to operate in accordance with the terms of the contract or amend the contract if deemed necessary.

Current Findings: The parties executed an amendment to the Management Contract with ISI whereby, all expenses are now paid by Intermed to ISI on behalf of all affiliates to the agreement, and the affiliates (Tenere and Interlex) reimburse Intermed on a quarterly basis.

Intercompany Transactions – Tax Allocation Agreement

Comment: The consolidated tax return prepared pursuant to the tax allocation agreement between the Company's parent and the ultimate controlling person included Intermed and Interlex, however, Intermed and Interlex were not specifically identified as parties to the tax allocation agreement. It was recommended that the tax allocation agreement should be amended to include Intermed and Interlex as parties to the agreement.

Company's Response: The Company agreed to review the tax allocation agreement and file for an amendment if deemed necessary.

Current Findings: The current tax allocation agreement includes all the entities that are represented in the consolidated tax return, including Interlex.

Intercompany Transaction – Arrangement with FIG

Comment: FPIC Insurance Group, Inc. (FIG) was noted to be providing services and sharing costs with Interlex without a written agreement. The Company was directed to enter into a written agreement with FIG for the services provided and the cost sharing arrangement.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The Company is now party to an intercompany agreement with FIG, which covered the areas listed in the prior examination.

Fidelity Bond

Comment: The Company was directed to increase the limit of liability on its fidelity bond coverage to comply with the NAIC suggested minimum amount.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The current fidelity bond policy limit carried by the Company was determined to be within the acceptable NAIC suggested minimum amount.

Statutory Deposits

Comment: The Company's securities on deposit with FIG, its ultimate parent, pursuant to an intercompany pooling agreement were not reported on the Schedule of Special Deposits section of the Annual Statement. The Company was directed to comply with this requirement in the future.

Company's Response: The Company agreed to comply with this recommendation.

Current Findings: All securities on deposit were properly reported on the Schedule of Special Deposits section of the Annual Statement as of December 31, 2006. The security deposit with FIG pursuant to the intercompany reinsurance pooling agreement was released after the Company became licensed in the State of Florida, where it maintains a statutory deposit.

Custodial Agreements

Comment: The Company was directed to amend its custodial agreement with SunTrust Bank to comply with the requirements of the NAIC with respect to custodial agreements.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The Company changed its custodian during the examination period from SunTrust Bank to Brown Brothers Harriman & Company. The custodial agreement entered into with the new custodian was noted to be deficient relative to the NAIC requirements in various aspects. See the Accounts and Records section of this report for more details.

Loss and LAE Reserves

Comments: It was recommended that the Company continue to diligently monitor its reserving methods to ensure that reserves for Losses and Loss Adjustment Expenses (LAE) were adequate.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The DIFP consulting actuary assessed the Company's Losses and LAE reserves at December 31, 2006, as being adequate.

HISTORY

General

Interlex Insurance Company was formed in April 1994, from the merger of two wholly owned subsidiaries of Intermed Insurance Company (Intermed). Insurance Risks Ltd., a Virgin Island corporation, was merged with Springfield Casualty Company, the surviving entity, whose name was changed to Interlex Insurance Company. Interlex is a wholly owned subsidiary of Intermed which in turn is wholly owned by Tenere Group, Inc. (Tenere).

Effective March 17, 1999, Florida Physicians Insurance Company, Inc., an insurance company domiciled in the State of Florida and a subsidiary of FPIC Insurance Group, Inc. (FIG) purchased the common stock of Tenere. Consequently, FIG became Interlex's ultimate controlling entity. In 2001, Florida Physicians changed its name to First Professionals Insurance Company, Inc. (FPIC).

Capital Stock

Interlex is one hundred percent owned by Intermed. As of December 31, 2006, the Company had authority to issue 800,000 shares of $1.50 par value common stock. All of the 800,000 shares were issued and outstanding for a balance of $1,200,000 in the Company's capital stock account at December 31, 2006.

Dividends

The Company did not declare or pay any dividends during the period under examination.

Management

The management of the Company is vested in a board of directors that are appointed by the Sole Shareholder. The Company's Articles of Incorporation specify that the number of directors shall be nine, but that number may be changed upon resolution of the board of directors to not less than nine or more than thirteen directors. The directors of Interlex Insurance Company elected and serving as of December 31, 2006, were as follows:

Name	Address	Business Affiliation
Robert E. White, Jr.	Jacksonville, Florida	President First Professionals Insurance Company, Inc.
Charles Divita, III	Jacksonville, Florida	Chief Financial Officer, FPIC Insurance Group, Inc.
Elizabeth A. Rominger	Ponte Vedra Beach, Florida	Senior Vice President - Claim First Professionals Insurance Company, Inc.
Samuel J. Pippin	Springfield, Missouri	Vice President – Accounting & Finance Intermed Insurance Company
Louis V. Sicilian, II	Jacksonville, Florida	Senior Vice President and Treasurer First Professionals Insurance Company, Inc.
Cynthia K. Stark	Nixa, Missouri	Vice President-Claims Intermed Insurance Company
Peter F. Spataro	St. Louis, Missouri	Principal & Attorney Moser & Marsalek, P.C.
Robert L. Wortelboer, Jr.	Ponte Vedra Beach, Florida	General Counsel, Vice President & Secretary First Professionals Insurance Company, Inc.
Robert A. Wulff	Chesterfield, Missouri	President & Attorney Amelung, Wulff & Willenbrock, P.C.

The board of directors elects a President, one or more Vice Presidents, a Treasurer, a Secretary and other officers as deemed necessary. The officers elected and serving as of December 31, 2006, were as follows:

Name	**Title/Office**
Robert E. White, Jr.	President
Charles Divita, III	Vice President
Louis V. Sicilian, II	Treasurer
Robert L. Wortelboer, Jr.	Secretary

Conflict of Interest

Interlex requires its directors, officers, and key employees to annually complete a conflict of interest questionnaire. Completed questionnaires were reviewed for all directors and officers for the examination period. No material conflicts were noted.

Corporate Records

The Company's Articles of Incorporation and Bylaws were reviewed for the period under examination. Neither the Articles of Incorporation nor the Bylaws were amended during the examination period.

The minutes of the board of directors' meetings, various Unanimous Written Consent in Lieu of board of directors meetings and regular and annual meetings of the Sole Shareholder were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

Interlex entered into a definitive agreement dated October 3, 2002, to sell its legal professional malpractice liability operations to Professionals Direct Insurance Services, Inc., a Michigan corporation for $441,428 in cash. In accordance with the terms of the agreement, the Company stopped issuing new and renewal policies effective December 1, 2002. In an accompanying non-competition agreement, the Company and its affiliates agreed not to market lawyers' liability insurance in Missouri and Kansas for the period of October 23, 2002 through December 31, 2005.

As of December 31, 2006, and through the period up to the date of this examination report, the Company is not writing direct business. All premium activity is generated from the Company's participation in an intercompany reinsurance pooling agreement.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

Interlex Insurance Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the Company's parent, Intermed, on behalf of itself and its insurance company subsidiary, Interlex, for each year of the examination period.

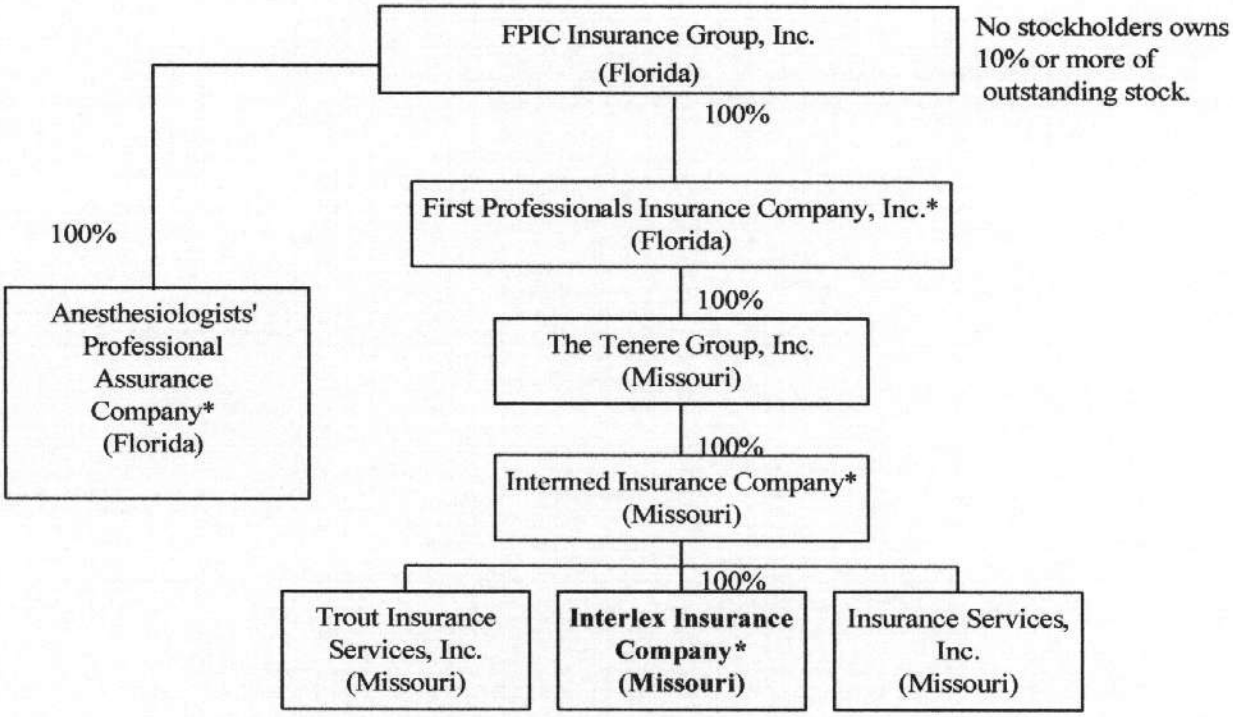
Intermed is a wholly owned subsidiary of Tenere Group, Inc., (Tenere), which in turn is wholly owned by First Professionals Insurance Company, Inc. (FPIC), which is wholly owned by FPIC Insurance Group, Inc. (FIG), the ultimate controlling entity within the holding company system.

FPIC Insurance Group, Inc. is a Florida holding company with various wholly owned insurer and non-insurer subsidiaries. FIG was formed in 1996 in connection with a reorganization pursuant to which it became the parent company of FPIC. In prior periods, FIG operated under three significant industry segments: insurance (primarily medical professional liability insurance), third-party administration services and reciprocal management. In June 2005 and September 2006 respectively, the third-party administration services and the insurance reciprocal management segments were disposed of, with insurance remaining the only segment of FIG's operations. FIG's shares are publicly traded on the NASDAQ system.

Intermed wholly owns Interlex Insurance Company, a Missouri property and casualty insurer that writes legal malpractice insurance business. Intermed also wholly owns Insurance Services, Inc. and Trout Insurance Services, Inc., both Missouri corporations.

Organizational Chart

The following organizational chart depicts the applicable portion of the holding company group, including Interlex as of December 31, 2006:



* These companies are participants in the intercompany reinsurance pooling agreement.

Intercompany Transactions

The Company is a party to the intercompany agreements outlined below.

1. **Type:** Management Contract and First Amendment

   Affiliate: Intermed Insurance Company, Interlex Insurance Company, The Tenere Group, Inc. and Insurance Services, Inc. (ISI), collectively known as the Companies

   Effective: August 19, 1998, and shall remain in effect through August 18, 2008. Thereafter, the term will be automatically extended for successive one-year periods. The First Amendment was effective January 1, 2005, however the Amendment does not affect the effective date of the original agreement.

   Terms: The Companies agree to employ ISI to take charge of the operations of the Companies and to have full authority and responsibility, subject to the general direction of the board of directors of the Companies, for formulating policies and administering the affairs of the Companies in all respects. Management of the Companies shall include, but not be limited to: arranging for actuarial services, providing claims management services, providing underwriting services, providing risk management facilities and services, providing complete accounting services, advising and acting as a consultant in the investment of funds and performance of all other acts and duties normally associated with the management of an insurance company.

The Companies shall pay ISI for the contracted services as follows: actual, identifiable expenses shall be paid when incurred and unidentifiable expenses shall be paid quarterly. ISI is charged with the responsibility of identifying and allocating unidentifiable expenses. Unidentifiable expenses shall be paid by allocating a percentage thereof to Intermed and Interlex based upon the following formula: direct written premium of each company divided by total direct written premiums of both companies. However, neither company shall pay less than five percent (5%). Any expenses incurred by Tenere relating to Intermed or Interlex shall be allocated to the affected party.

The First Amendment to the agreement allows Intermed to pay all expenses for all companies to ISI, as they are incurred. Tenere and Interlex shall reimburse Intermed on a quarterly basis for their actual identifiable expenses. All reimbursement payments under the agreement are to be made within ninety (90) days of the end of each calendar quarter.

2. **Type:** Expense Allocation Agreement

Affiliate: FIG, Intermed, Interlex, Tenere and ISI

Effective: January 1, 2006 through December 31, 2006, and shall automatically continue in force for subsequent calendar years.

Terms: To maximize efficiency and economies of scale, the above companies equitably allocate business expenses and operate by combining certain portions of their operations so that management and employees of one subsidiary may provide services on behalf of one or more other subsidiaries. This agreement establishes a method to allocate on a pre-pooled basis such expenses and services for accounting purposes and internal management analysis. The allocation of expenses shall be settled on a quarterly basis. This agreement does not amend any other agreements previously established between the parties.

3. **Type:** Amended and Restated Tax Allocation Agreement

Affiliate: FPIC Insurance Group, Inc. (FIG) and all the companies within the holding company system, including Interlex (Subsidiaries).

Effective: January 1, 1998 through December 31, 1998 and all subsequent tax years unless the parties mutually agree to terminate the agreement.

Terms: Current federal income taxes are charged or credited to operations of the affected entity based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. The method of allocation between the Subsidiaries is based upon separate return calculations on actual taxable prevailing rates. Intercompany balances are settled periodically. The Agreement was amended effective June 1, 2005, to specifically define Tenere as consisting of Intermed, Interlex, ISI and Trout Insurance Services, Inc.

The amounts paid to and (received) from affiliates during the period under examination under the above agreements were as follows:

	2006	2005	2004	2003
Management Contract:				
Paid to Intermed	$38,360	$263,258	$177,741	$479,344
Expense Allocation Agreement:		Not in	Not in	Not in
Paid to FIG	0	Effect	Effect	Effect
Tax Allocation Agreement:				
Payment to FIG	423,919	192,641	604,991	445,569
Net Amount Paid or (Received)	**$462,279**	**$455,899**	**$782,732**	**$924,913**

The Company is also a party to an intercompany Reinsurance Pooling Agreement with its parent, FPIC and other affiliated insurance companies. This agreement is discussed in detail in the Reinsurance section of this report.

FIDELITY BOND AND OTHER INSURANCE

Interlex Insurance Company is a named insured, along with the other members of the FPIC Insurance Group, Inc., on a financial institution bond with a limit of liability of $2,500,000 and a $100,000 single loss deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance, according to NAIC guidelines.

The Company is also a named insured on various other insurance policies of the ultimate parent, FPIC Insurance Group, Inc. These additional policies include, but are not limited to, workers compensation insurance, commercial property, directors and officers' liability, commercial general liability and umbrella general liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Interlex Insurance Company does not have any direct employees. All of the operational and administrative functions of the Company are performed by the employees of an affiliate, Insurance Services, Inc. (ISI). The Company is allocated a percentage of the payroll and benefit costs for ISI employees, pursuant to a Management Contract that is described in the Intercompany Transactions section of this report.

ISI provides a variety of standard benefits to its employees, which include, but are not limited to, health and dental coverage, life insurance, short and long-term disability insurance, vacation and sick leave, a money purchase pension plan, a stock purchase plan, and a 401(K) profit sharing plan.

The Company appears to have properly accounted for its liabilities for employee benefits.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institution and Professional Registration as of December 31, 2006, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098, RSMo (Securities to be deposited by all companies, kind and amount). The Company's required deposit for Missouri was $1,200,000. The funds on deposit as of December 31, 2006, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	$140,000	$149,737	$144,829
U.S. Treasury Bond	800,000	859,330	856,936
U.S. Index Notes	300,000	320,380	306,116
Total	**$1,240,000**	**$1,329,447**	**$1,307,881**

Deposits with Other States

The Company also has funds on deposit with the state of Florida. Those funds on deposit as of December 31, 2006, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Florida	U.S. Treasury Notes	$200,000	$201,266	$201,839

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Interlex Insurance Company is licensed by the State of Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 379 RSMo (Insurance other than life), to write the business of property and casualty. As of December 31, 2006, the Company was also licensed in Kansas and Florida.

The Company specializes in writing professional liability insurance for lawyers and judges. At this time the Company is not actively writing any direct business.

As indicated in the Acquisitions, Mergers and Major Corporate Events section of this report, on October 3, 2002, the Company sold its entire legal book of business to an unaffiliated insurance company. In accordance with the agreement, Interlex stopped issuing new or renewal policies effective December 1, 2002, and under an accompanying non-competition agreement, the Company agreed not to market lawyers' liability insurance in Missouri and Kansas for the period of October 3, 2002 through December 31, 2005.

Although the non-competition agreement signed by the Company as part of the sale of its book of business has expired, the Company is yet to start writing new business and there are no articulated plans to return to writing direct business. At this time, the Company's only premium activity is derived from its participation in an intercompany reinsurance pooling agreement. The DIFP is interested in understanding the Company's future plan of operation. Accordingly, Interlex is directed to develop a business plan of operation, consisting of near-term and mid-range goals, with verifiable and quantifiable variables on how the goals inherent in the plan of operation will be achieved. Such plan of operation should be filed with the DIFP when completed.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff that performs a review of these issues and generates a separate market conduct report. There has not been a market conduct examination of the Company. A cursory review was made of several market conduct related areas of the Company during the period under examination, and no material problems were noted.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

Premiums:	2006	2005	2004	2003
Direct Business	$0	$0	$0	($45,843)
Reinsurance Assumed:				
Affiliates	8,555,776	10,170,983	7,804,841	9,316,246
Reinsurance Ceded:				
Affiliates	(0)	(0)	1,143	46,085
Non-Affiliates	(0)	(0)	(1,143)	(241)
Net Premiums Written	$8,555,776	$10,170,983	$7,804,841	$9,316,247

Pooling

Interlex Insurance Company is a participant in a reinsurance pooling agreement with three of its affiliates, Intermed Insurance Company (Intermed), Florida Professionals Insurance Company, Inc. (FPIC) and Anesthesiologists' Professional Assurance Company (APAC). Effective as of December 1, 2002, and pursuant to a non-competition clause in the sale agreement of Interlex business, Interlex no longer writes any direct business, and now only assumes business through the pooling arrangement. Pursuant to the provisions and terms of the pooling agreement, the direct premiums and losses of each participant are first ceded to FPIC, after any outside reinsurance, and then FPIC allocates to itself and the participating affiliates a pro-rata portion of the premiums, losses and underwriting expenses based on each participant's proportionate surplus to the total surplus of all the participants on a post-pooled basis.

The participation percentages for each of the pool members for the years under examination were as follows:

Participating Company	2006 Percentage	2005 Percentage	2004 Percentage	2003 Percentage
APAC	8.736%	7.448%	8.951%	13.114%
FPIC	72.837%	72.978%	70.897%	72.260%
Interlex	3.846%	4.039%	4.054%	6.509%
Intermed	14.581%	15.535%	16.098%	8.117%
Total	100%	100%	100%	100%

The original effective date of the agreement was January 1, 1999, for FPIC and APAC, while Intermed and Interlex began participation on April 1, 1999. Effective December 31, 2001, the four participants elected to amend the effective date of the pooling agreement to January 1, 1999, for all participants. During the current examination period, the only change to the pooling agreement was the change in the allocation criteria from pre-pooled surplus of participants to post-pooled surplus in determining each member company's pooling allocation percentage.

Assumed

Interlex does not assume any business other than the assumption from the reinsurance pooling agreement described above.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

As noted above, Interlex stopped writing new and renewal business in December 2002. Consequently, Interlex does not have any premium activity to cede to either the intercompany reinsurance pool or to unaffiliated entities.

ACCOUNTS AND RECORDS

General

The Company's financial statements were audited by the CPA firm, PricewaterhouseCoopers, LLP, of St. Louis, Missouri, for all years in the examination period.

Loss and Loss Adjustment Expense reserves were reviewed and certified by Ronald T. Kuehn, FACS, MAAA, FCA, for all years in the examination period. Mr. Kuehn is associated with the actuarial firm of Huggins Actuarial Services, Inc., of Media, Pennsylvania.

Custodial Agreement

During the period under examination, the Company changed its custodian from SunTrust Bank to Brown Brothers Harriman & Company (Brown Brothers). The custodial agreement entered into with Brown Brothers was noted to be deficient relative to the NAIC requirements as contained in the Financial Examiners Handbook Section 3 - Examination Administration as the agreement did not contain the following controls and safeguards, among others:

- If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.

- During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a

> representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company.

The Company is directed to amend its custodial agreement with Brown Brothers Harriman & Company to include all controls and safeguards listed in the NAIC Financial Examiners Handbook.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Interlex for the period ending December 31, 2006. 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." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

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 concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$27,816,201		$27,816,201
Cash and Short-term Investments	4,564,638		4,564,638
Investment Income Due and Accrued	379,855		379,855
Uncollected Premiums and Agents' Balances in of Collection **Note 1**	1,191,007		1,191,007
Amounts Recoverable from Reinsurers **Note 1**	3,490,195		3,490,195
Net Deferred Tax Asset	1,362,651	$894,234	468,417
TOTAL ASSETS	**$38,804,547**	**$894,234**	**$37,910,313**

Liabilities, Surplus and Other Funds

Losses	$15,114,235
Loss Adjustment Expenses	6,205,271
Current Federal Income Taxes	298,859
Unearned Premiums	6,135,408
Ceded Reinsurance Premiums Payable	40,045
Payable to Parent, Subsidiaries and Affiliates	137,935
Total Liabilities	**$27,931,753**
Common Capital Stock	1,200,000
Gross Paid in and Contributed Surplus	2,460,937
Unassigned Funds (Surplus)	6,317,623
Surplus as Regards Policyholders	**$9,978,560**
Total Liabilities and Surplus	**$37,910,313**

Summary of Operations

Underwriting Income

Premiums Earned	**$8,730,473**
Losses Incurred	3,334,319
Loss Expenses Incurred	2,816,223
Other Underwriting Expenses Incurred	2,085,369
Total Underwriting Deductions	**$8,235,911**
Net Underwriting Gain/(Loss)	**$494,562**

Investment Income

Net Investment Income Earned	1,073,209
Net Realized Capital Gains or (Losses)	(15,329)
Net Investment Gain or (Loss)	**$1,057,880**

Other Income

Miscellaneous Other Income	1,931
Total Other Income	**$1,931**
Net Income Before Dividends to Policyholders and Federal Income Taxes	$1,554,373
Federal and Foreign Income Taxes Incurred	588,460
Net Income	**$965,913**

Capital and Surplus Account

Capital and Surplus, December 31, 2005	$9,128,588
Net Income	965,913
Change in Net Unrealized Capital Gains or (Losses)	84,202
Change in Non-Admitted Assets	(394,083)
Change in Net Deferred Income Tax	194,019
Aggregate Write-ins for Gains and (Losses) in Surplus	(79)
Net Change in Capital and Surplus	**$849,972**
CAPITAL AND SURPLUS, DECEMBER 31, 2006	**$9,978,560**

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Uncollected Premiums and Agents' Balances in Course of Collection $1,191,007
Amounts Recoverable from Reinsurers $3,490,195

The Company reported $4,681,202 in Uncollected Premiums and Agents' Balances in Course of Collection at December 31, 2006. This amount was the net amount after adjusting for other related items originating from the Company's participation in an intercompany reinsurance pool agreement. The DIFP examination reviewed the underlying transactions and determined appropriate reclassification to the Annual Statements pursuant to the guidance provided by the NAIC's Annual Statement instructions and Statements of Statutory Accounting Principles (SSAPs) as follows:

Item #	Description	Amount
	Amount Reported By Company for Uncollected Premiums	$4,681,202
#1	Reclassified to Amounts Recoverable from Reinsurers	(3,490,195)
#2	**Adjusted Uncollected Premiums**	**$1,191,007**

The amount reported by the Company for "**Amounts Recoverable from Reinsurers**"(Item #1 in the schedule above) was increased by $3,490,195 to recognize reinsurance recoverable from paid losses and loss adjustment expenses relative to the intercompany pooling agreement. At December 31, 2006, the reinsurance intermediary had provided the reinsurance proceeds from the reinsurance pool reinsurers, however, FPIC, the lead pool participant, had not allocated the proceeds to the other pool participants, including Interlex. Interlex did not report its share of the recoverable on the Schedule F of the Annual Statement; instead, its share of the recoverable was netted against other transactions and improperly reported in the Uncollected Premiums and

Agents' Balances account. Interlex and FPIC's attention is hereby directed to SSAP #63 (Underwriting Pools and Associations Including Intercompany Pools), paragraph 8, which states that "Underwriting results shall be accounted for on a gross basis whereby the participant's portion of premiums, losses, expenses, and other operations of the pools are recorded separately in the financial statements rather than netting against each other. Premiums and losses shall be recorded as direct, assumed, and/or ceded as applicable. If the reporting entity is a direct writer of the business, premiums shall be recorded as directly written and accounted for in the same manner as other business which is directly written by the entity. To the extent that premium is ceded to the pool, premium and losses shall be recorded in the same manner as any other reinsurance arrangement. A reporting entity who is a member of a pool shall record its participation in the pool as assumed business as in any other reinsurance arrangement". Accordingly, Interlex is directed to ensure that all transactions originating from its participation in the intercompany reinsurance pool are recorded and reported as if the reinsurance had been entered into with a non-related party. If at the end of any quarterly or year-end reporting period Interlex's share of the pool recoverable is yet to be allocated to Interlex, such an amount must be reported as reinsurance recoverable from FPIC in Interlex's books and on the Annual Statement Schedule F.

The amount reported by the Company for "**Uncollected Premiums and Agents' balances in Course of Collection**" (Items #2 in the schedule above) was decreased by $3,490,195 to recognize and reclassify the portion attributable to reinsurance recoveries as described in Item #1 above and to offset the unpaid assumed and ceded underwriting expenses payable to FPIC originating from the intercompany reinsurance pool.

In future Annual Statements, Interlex's presentation and reporting of the transactions originating from the intercompany reinsurance pool must be in compliance with the applicable SSAP and the guidance provided by the Annual Statement instructions. The Company is further advised that in any situation where the provisions of the reinsurance pool agreement are in conflict with a SSAP pronouncement with respect to reporting, the stipulations and guidance of the applicable SSAP must prevail and be reflective of the amounts reported on the appropriate lines of the Annual Statement.

EXAMINATION CHANGES

Capital and Surplus Per Company, December 31, 2006:	
Common Stock	$1,200,000
Gross Paid-in and Contributed Surplus	2,460,937
Unassigned Funds (Surplus)	6,317,623
Total Capital and Surplus Per Company	**$9,978,560**
Examination Changes	
Decrease Uncollected Premiums in Course of Collection **Note 1**	($3,490,195)
Increase Amount Recoverable from Reinsurers **Note 1**	3,490,195
Total Examination Changes	**$0**
Capital and Surplus Per Examination, December 31, 2006:	
Common Stock	$1,200,000
Gross Paid-in and Contributed Surplus	2,460,937
Unassigned Funds (Surplus)	6,317,623
Total Capital and Surplus Per Examination, December 31, 2006	**$9,978,560**

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Territory and Plan of Operation (page 13)

Interlex is not writing any business at this time and has not written direct business since its book of legal malpractice insurance business was sold in December 2002. At this time, the Company's only premium activity is derived from its participation in the intercompany reinsurance pooling agreement. The DIFP is interested in understanding the Company's future plan of operation. Accordingly, Interlex is directed to develop a business plan of operation, consisting of near-term and mid-range goals, with verifiable and quantifiable variables on how the goals inherent in the plan of operation will be achieved. Such plan of operation should be filed with the DIFP when completed.

Custodial Agreement (page 15)

The custodial agreement between the Company and its custodian, Brown Brothers Harriman & Company was found to be deficient relative to specific safeguards and controls required in the NAIC Financial Examiners Handbook. A copy of these safeguards and controls was provided to the Company during the course of the examination. The Company is directed to amend the custodial agreement with Brown Brothers Harriman & Company to include all the missing controls and safeguards.

Notes to the Financial Statements (pages 19-20)

This examination uncovered instances where the Company improperly netted various transactions and events on the Annual Statement originating from its participation in an intercompany reinsurance pooling agreement. These exceptions are documented in the "Notes to the Financial Statements" section of this report. Each of the reclassifications directs Interlex to prepare the Annual Statement in accordance with the NAIC's Annual Statements instructions and the applicable NAIC's Statements of Statutory Accounting Principles. The Company is hereby directed to implement these directives and ensure that its future Annual Statement is prepared in accordance with the applicable standards and procedures, especially with respect to transactions resulting from the intercompany reinsurance pooling arrangement.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Interlex Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Leslie Nehring, CFE, Larry Kleffner, CFE and Barbara Bartlett, CPA, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Angela Campbell CFE, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Glenn Tobleman, FSA, MAAA of Lewis & Ellis, Inc. also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, CPA, CFE 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.

Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 3rd day of January, 2008.

My commission expires: 03-17-2008

Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
Clay County
My Commission Expires March 17, 2008

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.

Frederick G. Heese, CFE, CPA
Chief Financial Examiner
Missouri Department of Insurance, Financial Institutions and Professional Registration