STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

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

ORDER

After full consideration and review of the report of the financial examination of Intermed 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 Intermed 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

INTERMED 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

Intermed Insurance Company

hereinafter referred to as such, as Intermed, 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 Intermed 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 one wholly owned subsidiary, Interlex Insurance Company (Interlex).

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.

Intercompany Transactions – Management Contract with ISI

Comment: The Company was found to be operating contrary to the terms of its management contract with Insurance Services, Inc. (ISI), a non-insurer subsidiary. The Company was 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: The Company agreed to operate in accordance with the terms of the contract or amend the contract if deemed necessary.

Current Findings: The Company amended the terms of the management contract with ISI wherein, all expenses are paid by Intermed to ISI on behalf of all affiliates to the contract, 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 amended tax allocation agreement includes all the entities that are represented in the consolidated tax return, including Intermed and Interlex.

Intercompany Transaction – Arrangement with FIG

Comment: FPIC Insurance Group, Inc. (FIG) was noted to be providing services and sharing costs with Intermed 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 expense allocation 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 its 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: Other than some minor exceptions which have been communicated to the Company under separate cover, all securities on deposit or otherwise encumbered were properly reported on the Schedule of Special Deposits section of the Annual Statement as of December 31, 2006.

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.

Accruals for ISI

Comment: It was noted that the Company improperly reported amounts due to its subsidiary, ISI, as part of the Other Expenses on the Annual Statement. The Company was directed to report amounts due to ISI as part of intercompany payable line of the Annual Statement.

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

Current Findings: The Company has complied with the recommendation based on the review of reporting of related party transactions during the course of the current examination.

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

Intermed Insurance Company was originally known as the Risk Control Associates, Inc., and was formed as an assessable malpractice insurance company on November 16, 1976, under the provisions of Chapter 383 RSMo. (Malpractice insurance). In August 1991, the Company reorganized as a nonassessable mutual property and casualty company under Chapter 379, RSMo, (Insurance Other Than Life). At the time, the Company changed its name to RCA Mutual Insurance Company (RCA).

Effective April 27, 1995, RCA demutualized and reorganized as a stock property and casualty insurance company known as Intermed Insurance Company. Effective the same day, Intermed became a wholly owned subsidiary of the Tenere Group, Inc. (Tenere), an insurance holding company organized under the laws of the State of Missouri. Consequently, the policyholders of RCA became the stockholders of 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 Intermed's ultimate parent. In 2001, Florida Physicians Insurance Company, Inc. (FPIC) changed its name to First Professionals Insurance Company, Inc.

Capital Stock

Intermed Insurance Company is one hundred percent owned by Tenere Group, Inc. As of December 31, 2006, the Company had authority to issue 800,000 shares of $1.50 par value common stock. All 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 Intermed 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.
Gary O. Baker, DDS	Chesterfield, Missouri	Oral Surgeon Southwest Oral Surgery, Inc.
Michael D. Hoeman, MD	Springfield, Missouri	Physician Diagnostic Clinic, P.C
Marcus D. McCorcle, MD	Springfield, Missouri	Physician and President Primrose OBGYN, P.C
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
Robert L. Wortelboer, Jr.	Ponte Vedra Beach, Florida	General Counsel, Vice President & Secretary First Professionals Insurance Company, Inc.

Article III, Section 13 of the Company's Bylaws stipulate that the board of directors may designate two or more members to constitute an executive committee and any other committees. The board of directors did not designate any committees during the period under examination.

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

Intermed 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

On May 23, 2002, the Company's board of directors approved a moratorium on writing new business. Under the moratorium, current insurance policies in effect were renewable; however, new policies were only issued to physician-insureds who were additions to groups currently insured by the Company. The moratorium was lifted in August of 2004. During the period the moratorium was in effect, the Company suffered a significant decrease in its number of policyholder-insureds.

Surplus Debentures

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

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

Intermed 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 on behalf of itself and its insurance company subsidiary, Interlex Insurance Company, for each year of the examination period.

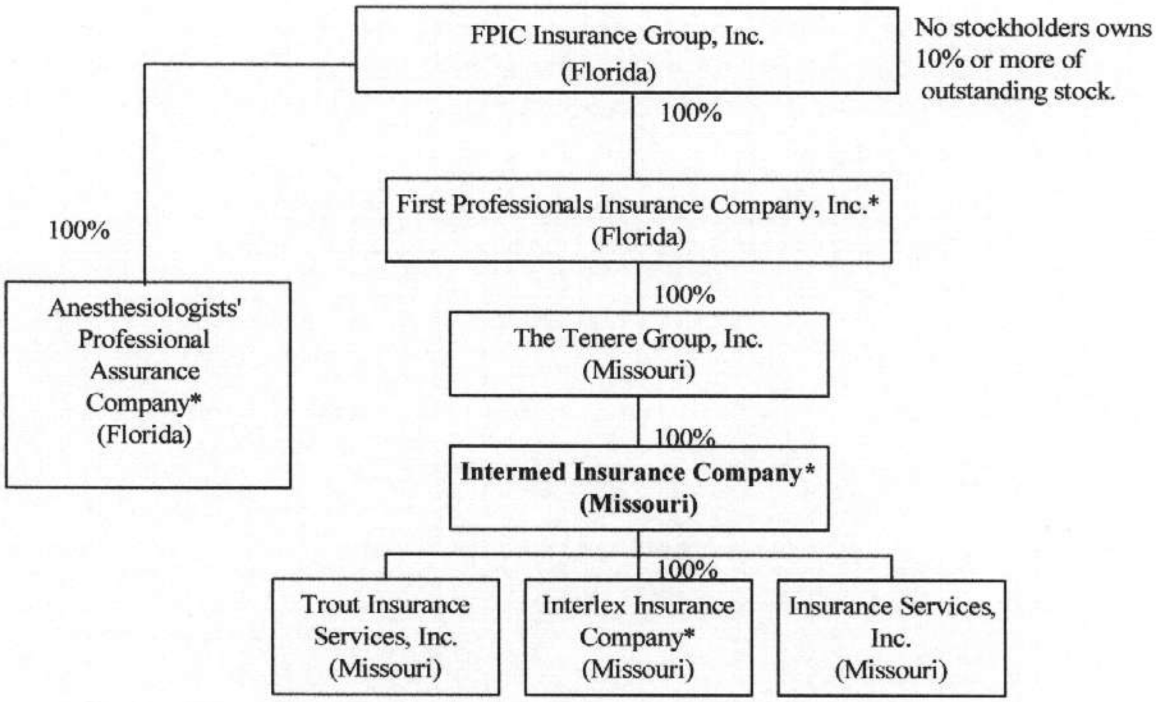
Intermed is a wholly owned subsidiary of The Tenere Group, Inc., (Tenere), which in turn is wholly owned by First Professionals Insurance Company, Inc. (FPIC), which is wholly owned by FPIC Insurance Group, Inc. (FIG), the ultimate controlling entity within the holding company system.

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 off, 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 Intermed and its wholly owned subsidiaries as of December 31, 2006:



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

<u>**Intercompany Transactions**</u>

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 Intermed (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 companies 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.

4. Type: Amended and Restated Reinsurance Trust Agreement

Affiliate: Intermed Insurance Company (Grantor), First Professionals Insurance Company, Inc. (FPIC) (Beneficiary) and Brown Brothers Harriman Trust Company, LLC (Trustee).

Effective: Originally entered into as of December 29, 1999 and was amended effective December 3, 2004, to reflect the change of the trustee-bank.

Terms: Intermed has funds in a trust account for the benefit of FPIC in the event of the Company not fulfilling its obligations under the intercompany reinsurance pooling agreement. All securities of Intermed in the custody of the Trustee are subject to this Reinsurance Trust Agreement. This Trust Agreement and trust account was established for the sole benefit of FPIC and does not extend to the other participants in the intercompany reinsurance pooling agreement.

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

	2006	2005	2004	2003
Management Contract:				
Paid to ISI	$2,710,335	$2,718,994	$3,079,902	$3,258,898
Management Contract:				
Reimbursements Received	(38,360)	(263,258)	(177,741)	(479,344)
Expense Allocation Agreement:		Not in	Not in	Not in
Paid to FIG	307,187	Effect	Effect	Effect
Tax Allocation Agreement:				
Payment to FIG	1,800,495	2,684,537	1,066,313	(628,007)
Net Amount Paid or (Received)	**$4,779,657**	**$5,140,273**	**$3,968,474**	**$2,151,547**

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

Intermed 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, directors and officers' liability, commercial property, commercial general liability and umbrella general liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Intermed Insurance Company does not have any direct employees. All of the operational and administrative functions of the Company are performed by the employees of a subsidiary, Insurance Services, Inc. (ISI). The Company is allocated a percentage of the payroll and benefit costs for ISI employees, pursuant to a Management Services 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 Institutions 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	$1,325,000	$1,296,539	$1,318,518

Deposits with Other States

The Company did not have funds on deposit with other states as of December 31, 2006.

Other Deposits

Pursuant to the provisions of a reinsurance trust agreement with the Company's parent, First Professionals Insurance Company, Inc. (FPIC), the Company has funds on deposit for the benefit of FPIC in the event of the Company not fulfilling its obligations under the intercompany reinsurance pooling agreement. The funds on deposit as of December 31, 2006 were as follows:

Type of Securities	Par Value	Fair Value	Statement Value
Various Securities and Cash	$77,234,242	$80,381,959	$81,176,347

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Intermed 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 insurance. As of December 31, 2006, the Company was also licensed in state of Kansas.

The Company specializes in writing professional liability insurance for physicians, surgeons, dentists, oral surgeons, and ancillary healthcare professionals. Approximately 80 percent of the Company's direct premiums written in 2006 were written in Missouri with the remaining 20% being written in Kansas.

The Company also generates premium through reinsurance assumed from an intercompany reinsurance pooling agreement entered into with three other related parties. See the reinsurance section of this report for more detailed summary of the intercompany reinsurance pooling arrangement.

The Company acquires and markets its business through agreements with independent agents. As of December 31, 2006, the Company had agreements with approximately 33 of such agents.

Over the last several years, the Company's direct written premium has declined from a high of close to $40 million to a low of $8 million as of December 31, 2006. Although the Company has continued to operate successfully by effectively and profitably managing the risks assumed from its participation in the intercompany reinsurance pooling agreement, the DIFP is concerned about the downward trend in the Company's direct written premium volume and the impact this trend could have in the fortunes of the Company going forward. The DIFP has a vested interest in understanding what plans the Company has in place for reversing the current trend in order to grow the Company towards a more solid financial future. Consequently, the Company is directed to provide a plan of operation to the DIFP, 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.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The last Market Conduct Examination [Report #0304/12/MED] dated February 1, 2005, reviewed the period from January 1, 2002 to December 31, 2002. A cursory review was made of this report and several market conduct related areas of the Company during the period under examination, 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	$8,454,314	$12,574,745	$15,360,973	$27,099,184
Reinsurance Assumed:				
Affiliates	32,430,565	39,118,570	30,993,444	11,617,567
Reinsurance Ceded:				
Affiliates	(6,554,141)	(9,740,339)	(11,626,520)	(18,624,325)
Non-Affiliates	(1,900,172)	(2,834,406)	(3,734,453)	(8,474,859)
Net Premiums Written	$32,430,566	$39,118,570	$30,993,444	$11,617,567

Pooling

Intermed Insurance Company is a participant in a reinsurance pooling agreement with three of its affiliates, Interlex Insurance Company (Interlex), 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

Intermed 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.

The Company, FPIC and APAC (pool participants) have an excess of loss reinsurance agreement, effective January 1, 2006, with various domestic and non-domestic companies and Lloyd's syndicates (reinsurers). The agreement covers claims made and occurrence policies for all companies for calendar year 2006. For Intermed only, the agreement also covers occurrence policies with limits of $1 million or less for losses occurring prior to 2000 but reported during calendar year 2006; and extended reporting endorsements on policies written for $1 million or less, issued prior to 2000, and reported during calendar year 2006.

The excess of loss agreement has different coverage limits and retention layers for each of the participants. For Intermed, the agreement has two layers. Under the first layer, policies are limited to a maximum of $2.5 million. The Company retains $500,000 of any claim or occurrence, as respects each insured and the reinsurers assume the excess, up to $2.5 million. The second layer provides 100% coverage for policies with limits in excess of the $1 million allowable under the first layer, with maximum cessions for individual insureds of $1 million any claim or occurrence, and maximum cessions of $4 million as respects to each insured, each claim or occurrence for health care facilities, clinics and corporations, dentists and their professional associations.

In addition to the two excess of loss coverages, the agreement includes a casualty "awards made" excess of loss coverage effective January 1, 2006, related to claims involving extra-contractual obligations and excess limits liability. The Company retains $500,000 in ultimate net loss on any one occurrence, and the various domestic and non-domestic companies and Lloyd's syndicates (reinsurers) participation is 90% of the remaining losses with a $15 million annual limit.

Finally, Intermed cedes 100% of premium and losses, net of other outside ceded reinsurance, under an intercompany reinsurance pooling agreement. See the Pooling section of the Company's reinsurance activity for more details.

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 Intermed 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	$85,402,160		$85,402,160
Common Stocks	9,978,560		9,978,560
Cash and Short-term Investments	18,333,581		18,333,581
Other Invested Assets	136,729		136,729
Investment Income Due and Accrued	1,158,375		1,158,375
Uncollected Premiums and Agents' Balances in Course of Collection **Note 1**	5,065,426		5,065,426
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and not Due	1,385,270		1,385,270
Amounts Recoverable from Reinsurers **Note 1**	9,199,967		9,199,967
Net Deferred Tax Asset	4,731,232	$2,919,419	1,811,813
Guaranty Funds Receivable or on Deposit	13,611		13,611
Receivable from Parent, Subsidiaries and Affiliates	120,507		120,507
Aggregate Write-Ins for other than Invested Assets:			
Miscellaneous Receivable	15,888		15,888
Premium Taxes Receivable	84,204	84,204	0
TOTAL ASSETS	**$135,625,510**	**$3,003,623**	**$132,621,887**

Liabilities, Surplus and Other Funds

Losses	$47,233,501
Loss Adjustment Expenses	20,259,997
Commissions Payable and Contingent Commissions	133,963
Current Federal Income Taxes	1,246,166
Unearned Premiums	18,078,204
Advance Premiums	698,213
Ceded Reinsurance Premiums Payable **Note 1**	1,205,797
Remittances and Items Not Allocated	19,340
Provision for Reinsurance	925,800
Payable to Parent, Subsidiaries and Affiliates	1,281,831
Aggregate Write-ins for Liabilities:	
Unearned Finance Charges	60,357
Total Liabilities	**$91,143,169**
Common Capital Stock	1,200,000
Gross Paid in and Contributed Surplus	26,565,180
Unassigned Funds (Surplus)	13,713,538
Surplus as Regards Policyholders	**$41,478,718**
Total Liabilities and Surplus	**$132,621,887**

Summary of Operations

Underwriting Income

Premiums Earned	**$33,092,751**
Losses Incurred	11,736,953
Loss Expenses Incurred	9,879,245
Other Underwriting Expenses Incurred	7,904,566
Total Underwriting Deductions	**$29,520,764**
Net Underwriting Gain/(Loss)	**$3,571,987**
Investment Income	
Net Investment Income Earned	3,351,021
Net Realized Capital Gains or (Losses)	(39,243)
Net Investment Gain or (Loss)	**$3,311,778**
Other Income	
Net Gain (Loss) from Agents' or Premium Balances Charged Off	(3,481)
Finance and Service Charges not Included in Premiums	186,573
Miscellaneous Other Income	20,182
Total Other Income	**$203,274**
Net Income Before Dividends to Policyholders and Federal Income Taxes	$7,087,039
Federal and Foreign Income Taxes Incurred	2,242,093
Net Income	**$4,844,946**

Capital and Surplus Account

Capital and Surplus, December 31, 2005	$34,601,802
Net Income	4,844,946
Change in Net Unrealized Capital Gains or (Losses)	1,056,543
Change in Non-Admitted Assets	(216,813)
Change in Provision for Reinsurance	996,000
Change in Net Deferred Income Tax	197,754
Aggregate Write-ins for Gains and (Losses) in Surplus	(1,514)
Net Change in Capital and Surplus	**$6,876,916**
CAPITAL AND SURPLUS, DECEMBER 31, 2006	**$41,478,718**

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Uncollected Premiums and Agents' Balances in Course of Collection $5,065,426
Amounts Recoverable from Reinsurers $9,199,967
Ceded Reinsurance Premiums Payable $1,205,797

The Company reported $12,547,691 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	$12,547,691
#1	Reclassified to Amounts Recoverable from Reinsurers	(8,688,062)
#2	Reclassified to Ceded Reinsurance Premiums Payable	1,205,797
#3	**Adjusted Uncollected Premiums**	**$5,065,426**

The amount reported by the Company for "**Amounts Recoverable from Reinsurers**"(Item #1 in the schedule above) was increased by $8,688,062 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 Intermed. Intermed 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. Intermed 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, Intermed 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 Intermed's share of the pool recoverable is yet to be allocated to Intermed, such an amount must be reported as reinsurance recoverable from FPIC in Intermed's books and on the Annual Statement Schedule F.

The amount reported by the Company for "**Ceded Premiums Payable**"(Item #2 in the schedule above) was increased by $1,205,797 to recognize unpaid reinsurance premiums of the Company that are paid through FPIC. At year-end 2006, the Company improperly reported $0 for this account, as the actual liability as indicated, was netted against other reinsurance pool related transactions. The Company should follow the guidance provided by SSAP #63 above by not netting reinsurance pool transactions.

The amount reported by the Company for "**Uncollected Premiums and Agents' balances in Course of Collection**" (Items #3 in the schedule above) was decreased by $7,482,265 to: 1), recognize and reclassify the portion attributable to reinsurance recoveries as described in Item #1 above, 2), to recognize and reclassify the portion attributable to ceded reinsurance premiums payable as described in Item #2 above and finally, to offset the unpaid assumed and ceded underwriting expenses payable to FPIC originating from the intercompany reinsurance pool.

In future Annual Statements, Intermed'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	26,565,180
Unassigned Funds (Surplus)	13,713,538
Total Capital and Surplus Per Company	**$41,478,718**
Examination Changes	
Decrease Uncollected Premiums in Course of Collection **Note 1**	($7,482,265)
Increase Amount Recoverable from Reinsurers **Note 1**	8,688,062
Increase Ceded Reinsurance Premiums Payable **Note 1**	(1,205,797)
Total Examination Changes	**$0**
Capital and Surplus Per Examination, December 31, 2006:	
Common Stock	$1,200,000
Gross Paid-in and Contributed Surplus	26,565,180
Unassigned Funds (Surplus)	13,713,538
Total Capital and Surplus Per Examination, December 31, 2006	**$41,478,718**

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Territory and Plan of Operation (page 13)

The volume of the Company's direct written business over the last several years has fallen significantly. Naturally, the DIFP is concerned about this downward trend in the Company's direct written premium business and the impact this trend could have in the fortunes of the Company in the future. Consequently, the Company is directed to provide a plan of operation to the DIFP, consisting of near-term and mid-range goals on what Intermed plans to do to reverse the current decline in direct written premium.

Custodial Agreement (page 16)

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 21-22)

This examination uncovered numerous 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 Intermed 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 Intermed 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