



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

ORDER

After full consideration and review of the report of the financial examination of Missouri Doctors Mutual Insurance Company for the period ended December 31, 2016, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, management and control, territory and plan of operations, growth of the company, loss experience, reinsurance, financial statements, analysis of examination changes, comments on financial statement items and general comments and/or recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Missouri Doctors Mutual Insurance Company as of December 31, 2016 be and is hereby ADOPTED as filed and for Missouri Doctors Mutual 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 Comments on the Financial Statement Items and/or General Comments and/or Recommendations section of such report; and (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 02nd day of July, 2018.



Chlora Lindley-Myers

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF
**MISSOURI DOCTORS MUTUAL INSURANCE
COMPANY**

AS OF
DECEMBER 31, 2016

FILED
JUL 12 2018
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



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

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St. Joseph, Missouri
April 10, 2018

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

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

Missouri Doctors Mutual Insurance Company

hereinafter referred to as Mo Docs or as the Company. Its administrative office is located at 601 Francis Street, St. Joseph, Missouri 64501, telephone number (816) 901-9950. The fieldwork for this examination began on May 18, 2017, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a single-state examination of Missouri Doctors Mutual Insurance Company. The prior full-scope financial examination covered the period of January 1, 2010, through December 31, 2013. The current full-scope financial examination covers the period of January 1, 2014, through December 31, 2016. The examination also included the material transactions and/or events occurring subsequent to December 31, 2016.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook), 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 Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of this examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examiners relied upon information supplied by the Company's independent auditor, John W. Gillum, CPA, LLP of Kirksville, Missouri, for its audit covering the period from January 1, 2016, through December 31, 2016. Areas in which testing and results from the CPA workpapers were relied upon in our examination included journal entry testing, cash and investment confirmations, subsequent disbursement testing, and fraud inquiries.

SUMMARY OF SIGNIFICANT FINDINGS

The DIFP contracted a consulting actuary, Merlinos & Associates, Inc., to evaluate the reserves of Mo Docs. The consulting actuary determined the unpaid loss and loss adjustment expense reserves reported by the Company at December 31, 2016, were \$1,205,000 less than the minimum necessary to be within the range of reasonable estimates. This deficiency, when applied as an examination change, resulted in a surplus per examination of (\$1,127,366) at December 31, 2016.

SUBSEQUENT EVENTS

Surplus as regard policyholders, as reported by the Company, decreased from \$77,634 as of December 31, 2016, to (\$62,731) as of December 31, 2017. As a result and in accordance with Section 383.035 RSMo. (Association subject to certain laws), on March 5, 2018, the Director of the DIFP issued an order requiring Mo Docs to submit a voluntary plan to restore its surplus to at least zero dollars.

COMPANY HISTORY

General

Missouri Doctors Mutual Insurance Company was issued a certificate of incorporation by the Missouri Secretary of State on February 24, 2004, which stated that “it is entitled to all rights and privileges granted corporations under the Missouri Nonprofit Corporation Law.” The Company was issued a Certificate of Authority by the DIFP on March 16, 2004, to operate as an assessable malpractice insurance corporation pursuant to Chapter 383 RSMo. (Malpractice Insurance Law) and commenced business on April 2, 2004.

In accordance with its Articles of Association, Mo Docs is a not-for-profit corporation and operates as a mutual benefit corporation. The Company is owned by its physician member-insureds.

Dividends & Capital Contributions

Mo Docs is organized as an assessment association and is not authorized to issue capital stock. Each member is required to pay an initial assessment of \$100 upon admission to the Company and is liable for subsequent assessments in accordance with the Company’s Articles of Association and Bylaws.

The Company has not declared any dividends or made any cash dividend distributions since its inception.

Mergers and Acquisitions

No mergers or acquisitions involving Mo Docs occurred during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors which is comprised of three directors elected by the membership. The Company’s Bylaws specify that the Board of Directors shall consist of three directors and requires that a majority of the directors be members of the Company. The Directors elected and serving as of December 31, 2016 were as follows:

<u>Name and Address</u>	<u>Primary Occupation and Business Affiliation</u>
Martin M. Bauman Ballwin, Missouri	President, Missouri Doctors Mutual Insurance Company Private Practice Attorney
Robert O. Schaaf, MD St. Joseph, Missouri	Secretary/Treasurer, Missouri Doctors Mutual Insurance Company Missouri State Senator, 34 th District Private Practice Physician
James F. Conant, MD St. Joseph, Missouri	Medical Director, Missouri Doctors Mutual Insurance Company Private Practice Physician

Committees

Pursuant to the Bylaws, Chairman of the Board may appoint committees for such purposes as circumstances warrant. Committee assignments as of December 31, 2016, were as follows:

<u>Claims Committee</u>
Martin M. Bauman Deborah D. Stoner-Bryan James F. Conant Robert O. Schaaf

The Company does not currently have an audit committee, compensation committee, or any other committees in place.

Officers

The officers elected and serving as of December 31, 2016, were as follows:

<u>Name</u>	<u>Office</u>
Martin M. Bauman	President
Robert O. Schaaf, MD	Secretary-Treasurer

Corporate Records

A review was made of Mo Doc’s Articles of Association and By-laws for the period under examination. No amendments were made to these organizational documents during the examination period.

The minutes of the Board of Directors meetings, membership meetings and claims committee meetings were reviewed. The minutes, in general, appear to properly reflect and approve the Company’s major transactions and events for the period under examination.

Organizational Structure

Mo Docs is a single entity, owned by the membership with no equity holdings of its own. The Company is not subject to the insurance holding company requirements of traditional insurers prescribed under Chapter 382 RSMo (Insurance Holding Companies). The Company is party to a management agreement with Robert Martin, Ltd., which is co-owned by the President and Secretary-Treasurer of Mo Docs.

Intercompany Transactions

The following agreements with related parties were in effect at December 31, 2016:

- 1. Type:** Management Agreement
- Parties:** Mo Docs and Robert Martin Ltd. (RML)
- Effective:** July 27, 2004 and amended June 23, 2008
- Terms:** The agreement contains provisions for the complete management of the operations of Mo Docs by RML, including leasing of employees, sales, underwriting, legal, accounting, and any other functions deemed necessary to operate the Company. In exchange for the services, Mo Docs is to pay RML the greater of 25% of the gross sales of the Company, or all expenses necessary to carry out the terms of the agreement plus 10% of such expenses. While RML was reimbursed for all expenses necessary to carry out the terms of the agreement, the additional fee of 10% of such expenses or fee of 25% of gross sales was partially waived for the years 2014 through 2016. Fees paid in excess of expenses during the examination period were as follows:

<u>Year</u>	<u>Fees Paid</u>
2014	\$ 5,000
2015	4,000
2016	5,000

- 2. Type:** Sublease Agreement
- Parties:** Mo Docs and Bauman Law Firm, PC.
- Effective:** June 1, 2012 (replaced a prior sublease agreement dated June 1, 2008)
- Terms:** The agreement provides the Company with periodic use of office space and equipment in the Chesterfield, Missouri office of Bauman Law Firm, PC. This includes use of the conference room and office common areas as well as high-speed internet service and video conferencing equipment. The Company pays rent of \$1,000 per month for use of the facilities. The agreement was executed, in part, to support the Company's satellite office located in Chesterfield, Missouri.
- 3. Type:** Legal Services
- Parties:** Mo Docs and Bauman Law Firm, PC.
- Effective:** As needed.
- Terms:** Mo Docs primarily engages Bauman Law Firm, PC to investigate and defend claims. Other legal services are also provided on occasion. The Company executes a letter of direction or other retainer as needed in order to engage Bauman Law Firm, PC, which charges the Company attorney fees of \$150 per hour.

TERRITORY AND PLAN OF OPERATIONS

Mo Docs is licensed as an assessable malpractice association and has the authority to write medical malpractice insurance under Chapter 383 RSMo. The Company writes business in the state of Missouri only. Coverage is issued primarily on a claims-made basis with a maximum incident/aggregate coverage limit of \$1 million/\$3 million. Members can purchase retroactive reporting (nose) coverage to protect against claims that occurred prior to the issuance date of their policy. An extended reporting (tail) endorsement, which provides coverage on an occurrence basis, can be purchased by members to protect against claims reported after their claims-made policy has expired. Free tail coverage is provided in the event of a member's death, disability, or retirement.

The Company produces the majority of its business through two licensed captive agents. Business is also produced through an insurance agency agreement with Medical Liability Specialists, LLC.

GROWTH OF THE COMPANY

The table below includes various indicators of the Company's growth during the examination period.

	2013	2014	2015	2016
Gross Written Premiums	\$4,322,590	\$3,731,960	\$3,881,130	\$3,821,802
Total Admitted Assets	7,226,691	6,845,503	6,323,129	5,554,373
Other Underwriting Expenses Incurred	2,494,338	2,712,198	2,377,117	2,450,925
Total Capital and Surplus	306,357	(1,024,912)	216,899	77,634
Expense Ratio	55.2%	68.6%	61.8%	64.1%

Written premiums declined in 2014 and subsequently remained fairly stable as a result of declines in membership and lack of growth due to increased competition and other market conditions. Total admitted assets have declined steadily due to negative cash flow from operations in all years under examination. Underwriting expenses remained relatively flat throughout the examination period. The Company's expense ratio is high compared with benchmarks for property and casualty companies in general and medical malpractice insurers in particular. The majority of underwriting expenses consist of payroll and payroll-related items.

Total surplus fell to negative \$1,024,912 as of year-end 2014. As a result and in accordance with Section 383.035 RSMo. (Association subject to certain laws), on March 25, 2015, the Director of the DIFP issued an order requiring Mo Docs to submit a voluntary plan to restore its surplus to at least zero dollars. The Company complied with the order by submitting a plan on June 22, 2015. In the 2015 annual statement, the Company reported positive surplus of \$216,899 as of December 31, 2015, which terminated the authority and jurisdiction of the Director under subsections 5 and 6 of Section 383.035 RSMo.

LOSS EXPERIENCE

The following exhibit illustrates the Company's underwriting results for the last four years.

	2013	2014	2015	2016
Premiums Earned	\$4,520,460	\$3,955,331	\$3,846,449	\$3,823,470
Losses Incurred	415,033	1,355,808	(370,754)	467,607
Loss Adjustment Expenses Incurred	1,918,461	1,423,060	738,061	1,127,519
Net Underwriting Gain	(307,372)	(1,535,735)	1,102,025	(222,581)
Net Income	(252,048)	(1,343,013)	1,155,863	(186,848)

Operating performance has been mixed in recent years, as the Company reported net underwriting losses and negative net income in two of the three years of the examination period. Losses incurred have historically been low in comparison to premiums earned. The negative losses incurred figure for 2015 is largely the result of favorable prior year loss development reported by the Company. Loss adjustment expenses have remained somewhat high due to the Company's philosophy that claims against its policyholders should be vigorously defended.

REINSURANCE

Mo Docs does not have a reinsurance program and has not assumed or ceded any reinsurance since its inception. Companies licensed under Chapter 383 RSMo. are not required to maintain reinsurance coverage.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the DIFP and present the financial condition of Missouri Doctors Mutual Insurance Company for the period ending December 31, 2016. The accompanying “Comments on Financial Statement Items” section reflects any examination adjustments to the amounts reported in the 2016 Annual Statement and should be considered an integral part of the financial statements.

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

ASSETS
as of December 31, 2016

	Assets	Non- Admitted Assets	Net Admitted Assets
Bonds	\$2,779,224	\$ 0	\$2,779,224
Real Estate	658,276	52,648	605,628
Cash and Short-term Investments	1,163,768	0	1,163,768
Investment Income Due and Accrued	7,631	0	7,631
Deferred Premiums	1,000,195	6,670	993,525
Current federal income tax recoverable	2,328	0	2,328
Net Deferred Tax Asset	183,769	183,769	0
EDP equipment and software	2,270	0	2,270
Furniture and Equipment	27,936	27,936	0
Aggregate Write-In Assets	4,020	4,021	(1)
TOTAL ASSETS	\$5,829,417	\$275,044	\$5,554,373

LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2016

Losses (Note 1)	\$ 1,493,206
Loss Adjustment Expenses (Note 1)	1,849,134
Other Expenses (Excluding Taxes, Licenses and Fees)	195,092
Unearned Premiums	1,709,134
Advance Premium	115,532
Premium Deficiency Reserve	114,641
TOTAL LIABILITIES	\$ 5,476,739
Gross Paid In and Contributed Surplus	300
Unassigned Funds (Surplus) (Note 1)	77,334
Surplus as Regards Policyholders	\$ 77,634
TOTAL LIABILITIES AND SURPLUS	\$ 5,554,373

STATEMENT OF INCOME
For the Year Ended December 31, 2016

Premiums Earned	\$ 3,823,470
DEDUCTIONS:	
Losses Incurred	467,607
Loss Adjustment Expenses Incurred	1,127,519
Other Underwriting Expenses Incurred	2,450,925
Total Underwriting Deductions	<u>\$ 4,046,051</u>
Net Underwriting Gain (Loss)	\$ (222,581)
Net Investment Gain (Loss)	(4,637)
Other Income	40,370
Federal Income Taxes Incurred	0
Net Income (Loss)	<u>\$ (186,848)</u>
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2015	\$ 216,899
Net Income (Loss)	(186,848)
Change in Net Deferred Income Tax	46,096
Change in Non-Admitted Assets	1,487
Change in Surplus as Regards Policyholders for the Year	<u>\$ (139,265)</u>
Surplus as Regards Policyholders, December 31, 2016	<u>\$ 77,634</u>

ANALYSIS OF EXAMINATION CHANGES

Surplus as Reported by Company			\$77,634
	<u>Increase in Surplus</u>	<u>Decrease in Surplus</u>	
Losses (Note 1)		\$1,787,000	
Loss Adjustment Expenses (Note 1)	\$582,000		
Net Change in Surplus			<u>(1,205,000)</u>
Surplus Per Examination			<u>(\$1,127,366)</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1	Losses	\$3,280,206
	Loss Adjustment Expenses	\$1,267,134

The DIFP consulting actuary determined that total unpaid loss and loss adjustment expense reserves reported by the Company at December 31, 2016, were less than the minimum necessary to be within the range of reasonable estimates. The review resulted in a recommended increase to losses of \$1,787,000 and a decrease to loss adjustment expenses of \$582,000. As a result, examination changes were made to adjust these reserve items by the recommended amounts, with a corresponding decrease to unassigned funds (surplus) of \$1,205,000.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Analysis of Examination Changes

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The examination changes documented in the Analysis of Examination Changes section of this report resulted in a surplus per examination of (\$1,127,366) as of December 31, 2016. It is recommended that the Company develop a long-term strategic business plan with measurable goals to ensure that a positive level of surplus is maintained in the future. This recommendation is not an order of the director under Section 383.035.5 RSMo.

Subsequent Events

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The Company's surplus has remained low in recent years and dropped below \$0 as of December 31, 2017. As a result and in accordance with Section 383.035 RSMo., on March 5, 2018, the Director of the DIFP issued an order requiring Mo Docs to submit a voluntary plan to restore its surplus to at least zero dollars.

Management & Control

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It appears the current structure of the board of directors creates the potential for conflicts of interest. The Company should consider revising the bylaws to allow for additional independent members. In particular, the Company should strive to add new members who possess financial, actuarial, information technology and other relevant experience.

As additional members are added, the Company should consider forming additional board committees. Committees to consider would be an audit committee to communicate with the external auditor and review the results of the annual audit and a compensation committee to determine salaries paid to senior management.

Growth of Company

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The Company's expense ratios are high when compared with its competitors and are well above industry benchmarks for property and casualty companies and medical malpractice insurers. The Company's expense ratio in 2016 was 64%. Per the NAIC Financial Regulatory Services Division, the general expense ratio benchmark for property and casualty insurers is less than 30%. In particular, salaries appear high for the Company's size and premium volume. The Company should perform a thorough review and analysis of all operating expense items to identify any potential areas of improvement.

Reinsurance

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Mo Docs does not currently have reinsurance coverage. Given the current level of policyholder surplus, a single claim approaching the policy limits of \$1 million could threaten the ongoing viability of the Company. The Company should continue to work with reinsurance intermediaries in an effort to obtain reinsurance at a reasonable cost, which provides adequate protection for its members.

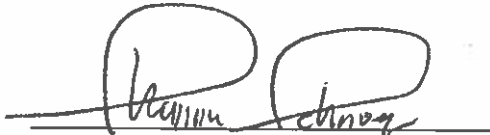
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Missouri Doctors Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Kim Dobbs CFE and Emily Pennington, AFE, examiners for the Missouri DIFP, participated in this examination. Robert Daniel, ACAS, MAAA, of Merlino & Associates, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
County of Cole)

I, Shannon W. Schmoeger, 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 Missouri Doctors Mutual Insurance 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.



Shannon W. Schmoeger, CFE, ARe
Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 2nd day of May, 2018.

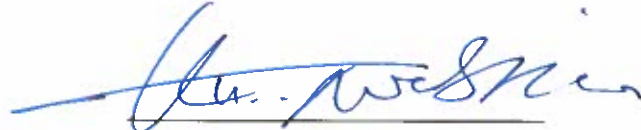
My commission expires: March 30, 2019


Notary Public

HAILEY LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: March 30, 2019
Commission Number: 15634366

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, except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.



Levi Nwasoria, CPA, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration

June 28th, 2018

Chlora Lindley-Myers, Director
Department of Insurance Financial Institutions and
Professional Registration
301 West High Street
Room 530
Jefferson City, MO 65102

**Re: Response to Report of the Financial Examination of Missouri Doctors Mutual
Insurance Company as of 12.31.2016**

Dear Ms. Lindley-Myers,

Pinnacle Actuarial Resources, Inc. has been in property/casualty actuarial consulting since 1984. Today they have a total staff of approximately 50, including 22 professional consultants. This staff serves clients that include insurers, captive insurers, risk retention groups, state regulators (including the Missouri Insurance Department), insurance trade organizations, and self-insured businesses.

Robert Walling III, FCAS, MAAA, CERA, a principal and consulting actuary for Pinnacle Actuarial Resources, Inc., serves as Project Leader for MoDocs' actuarial opinion. Robert Walling has been in the insurance industry since 1989 and consulting since 1997. He provides consulting services to over 20 state insurance departments and government insurance programs (including the Missouri Department of Insurance). Mr. Walling's services include captive application review, loss reserve analysis and risk-focused financial, regulator and examination support, assistance developing or managing government insurance programs, legislative costing, industry studies, expert testimony and rate filing reviews. Mr. Walling has completed actuarial work for the Missouri Department of Insurance and the Missouri Workers Compensation Division; however, the actuarial firm engaged to work on MoDocs' financial examination suggests that the very actuary that the Department hires to work on other matters for the State of Missouri has underestimated the reserve needs of MoDocs by \$1,127,366.

The management of MoDocs finds the conclusions of the examination actuary to be in error in light of the fact it completely discounts the credibility of Robert Walling, who the Department has deemed to be credible in other matters in which the Department has engaged Mr. Walling.

Respectfully,



Martin M. Bauman
President