REPORT OF EXAMINATION
OF THE

THE DENTISTS INSURANCE COMPANY

AS OF
DECEMBER 31, 2005

Participating State
and Zone:

California

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San Francisco, California
October 12, 2006

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Gary L. Smith
Secretary, Zone IV-Western
Director of Insurance
Department of Insurance, State of Idaho
Boise, Idaho

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Director and Commissioner:

Pursuant to your instructions, an examination was made of

THE DENTISTS INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 1201 K Street Mall, Sacramento, California 95814.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The California Department of Insurance conducted this examination pursuant to the National Association of Insurance Commissioners' plan of examination. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; loss experience; business in force by states; and sales and advertising.

COMPANY HISTORY

The California Dental Association (CDA) companies underwent a holding company level corporate reorganization beginning in 2003, which resulted in significant changes to the Company's structure. The finance, legal, and marketing departments from the various CDA companies were merged and the Company's employees in these departments became CDA employees. The administrative, underwriting, claims, and risk management department employees remain with the Company. Additionally, the Company and its affiliate, 1201 Financial & Insurance Services, Inc., now have the same President, Chief Executive Officer, and Board of Directors.

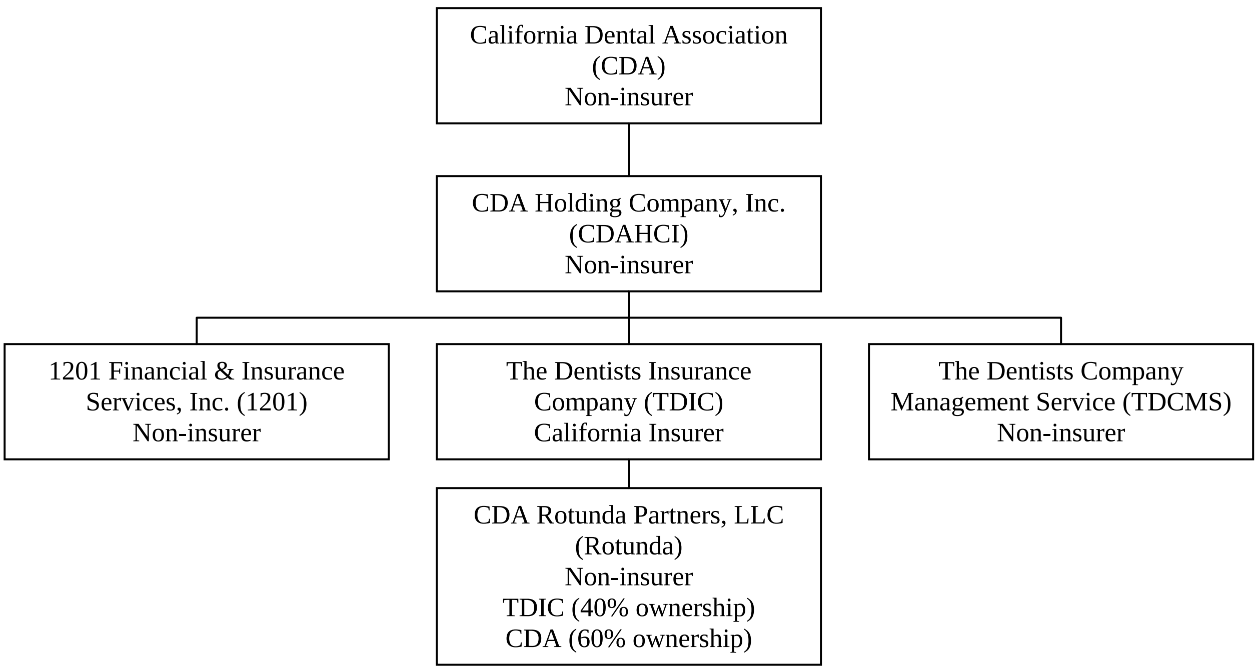
On October 27, 2005, the Company declared a dividend to CDA Holding Company, Inc. (CDAHCI) of $1,557,183 which was paid in January 2006.

On October 15, 2004, the Company declared a dividend to CDAHCI of $3,275,149 which was paid in January 2005.

On October 23, 2003, the Company declared a dividend to CDAHCI of $2,741,475 which was paid in January 2004.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system, of which the ultimate controlling entity is the California Dental Association (CDA). The following chart depicts the interrelationship of the companies within the holding company system as of December 31, 2005 (all ownership is 100% unless otherwise indicated):



Management of the Company is vested in a sixteen-member board of directors. As of December 31, 2005, the directors and principal officers were as follows:

Directors

Name and Residence	Principal Business Affiliations
Naomi L. Bement, DDS Santa Monica, California	General Dentist
Peter A. DuBois San Francisco, California	Executive Director, California Dental Association

Name and Residence	Principal Business Affiliations
James P. Green, DDS Valley Springs, California	General Dentist
Jeffrey R. Hazarian Santa Barbara, California	Chief Financial Officer, Green Hills Software, Inc.
Bettina M. Hooper Carmichael, California	Partner, H&H Claims Professionals
Steven J. Kend, DDS Palos Verdes Estates, California	General Dentist
Michael W. Lew, DDS Novato, California	General Dentist
William L. Marble, DDS Woodland, California	General Dentist
Ronald B. Mead, DDS San Luis Obispo, California	Oral Surgeon
Donald M. Schinnerer, DDS San Ramon, California	General Dentist, Secretary and Treasurer, The Dentists Insurance Company and 1201 Financial & Insurance Services, Inc.
Brian E. Scott, DDS Fremont, California	General Dentist
Andrew P. Soderstrom, DDS Modesto, California	Pediatric Dentist
Mark A. Soeth Davis, California	President and Chief Executive Officer, The Dentists Insurance Company and 1201 Financial & Insurance Services, Inc.
Thomas H. Stewart, DDS Bakersfield, California	General Dentist
Samuel R. Tarica, DDS Los Angeles, California	General Dentist
Walter G. Weber, DDS Monte Sereno, California	General Dentist

Principal Officers

Name	Position
Mark A. Soeth	President and Chief Executive Officer
Donald M. Schinnerer	Secretary and Treasurer
Robert F. Spinelli	Chief Financial Officer
Lisa M. Maas*	Assistant Secretary

**Resigned in July 2006 and replaced by Alison Sandman in September 2006.*

Intercompany Agreements

Agreement with CDA: Effective January 1, 2005, the Company entered into a service agreement with CDA. Under the terms of the agreement, CDA provides the Company with the following services: sponsorship, advertising, partnerships and scientific session exhibit opportunities; government relations services; legal; human resources, financial services, and investment; and information technology. The Company provides CDA with risk management and loss prevention services. Compensation for services provided is on an actual cost basis. This agreement was approved by the California Department of Insurance (CDI) on March 3, 2005. The Company paid net fees of $2,669,555 to CDA for the services provided under this agreement in 2005.

Agreement with 1201 Financial & Insurance Services, Inc. (1201): Effective January 1, 2005, the Company entered into a service agreement with 1201. Under the terms of the agreement, 1201 provides the Company with the following services: soliciting and procuring business for the Company; policyholder services (call center); sales; keying new application and policy changes; marketing; mailroom; print shop; website; and advertising. Compensation to 1201 for the above services is the actual cost of the services provided for business classified as dental professional liability and building and business personal property. In addition, the Company provides 1201 with the following services: risk management; executive; and business development and supervision for 1201's policyholder services department and administrative support. 1201 compensates the Company for the actual cost of services provided. This agreement was approved by the CDI on November 23, 2004. The Company paid net fees of $3,875,481 to 1201 for the services provided under this agreement in 2005.

Agreement with CDA Holding Company, Inc. (CDAHCI): On July 29, 1999, the Company entered into an administrative service agreement with CDAHCI. Under the terms of the agreement, CDAHCI provides the following services to the Company: payroll, accounting, human resources, mail and information technology. Compensation is based on the actual cost of the services provided. The agreement was approved by the CDI on September 9, 1999. The Company paid fees of $8,596 to CDAHCI for the services provided under this agreement in 2005.

Tax Allocation Agreement: On January 25, 2000, the Company entered into a tax allocation agreement with CDAHCI, 1201, and The Dentists Company Management Services (TDCMS). Under the terms of the agreement, CDAHCI files a consolidated federal tax return for the group. The tax liability is allocated to each company on a separate federal income tax return basis. Additionally, each company is allocated any tax benefit due to its income tax losses or any other credits when utilized by the consolidated tax group. On January 18, 2000, the CDI authorized the Company to proceed with the tax allocation agreement.

Sublease Agreement: On January 1, 1990, the Company entered into a sublease agreement with the CDA. The sublease agreement covers the Company's main office at 1201 K Street, Sacramento, California. Under the terms of the agreement, the Company pays CDA a base rent plus a pro rata share of the operating costs for the premises. The base rent payment is $700,886 per year plus an operating cost of $6.50 per square foot. This agreement was approved by the CDI on December 22, 2004. Rent expense paid to CDA under the terms of the sublease agreement was $824,766 for 2005.

Commitments and Contingent Liabilities

The Company's subsidiary, CDA Rotunda Partners (Rotunda), has a ground lease with Health Property Associates (HPA), an unrelated third party. Under the terms of the HPA ground lease, the Company has guaranteed Rotunda's performance of obligations, covenants and agreements, including the future minimum lease payments to be paid under the lease. The minimum annual payments under the ground lease are $636,326. The other party to the Rotunda venture, the CDA, is not required to guarantee performance of Rotunda's obligations under the HPA ground lease.

TERRITORY AND PLAN OF OPERATION

The Company's principal line of business is medical malpractice insurance for dental professionals. The Company also offers commercial property coverage to its policyholders. Medical malpractice policies are issued on a claims-made basis. The Company offers an extended reporting endorsement when applicable, which extends the reporting period. In addition, the Company offers a premises liability coverage, which is issued on an occurrence basis. For 2005, the Company wrote direct premiums of $37.5 million with 89% written in California, followed by 2.9% in Minnesota, 2.8% in Hawaii, 2% in Pennsylvania, and 3.4% in all other states.

As of December 31, 2005, the Company was licensed to write property and casualty insurance in the following states:

Alaska	Indiana	Montana	South Carolina
Arizona	Iowa	Nebraska	South Dakota
Arkansas	Kansas	Nevada	Tennessee
California	Louisiana	New Jersey	Texas
Colorado	Maryland	New Mexico	Utah
Connecticut	Massachusetts	North Dakota	Vermont
Georgia	Michigan	Ohio	Washington
Hawaii	Minnesota	Oklahoma	West Virginia
Idaho	Mississippi	Oregon	Wisconsin
Illinois	Missouri	Pennsylvania	Wyoming

During 2005, the Company wrote business only in California, Alaska, Arizona, Georgia, Hawaii, Illinois, Minnesota, Nevada, New Mexico, North Dakota, and Pennsylvania. Business is acquired through direct underwriting and independent agents. Policies are written directly by the Company's underwriters in Arizona, Nevada and North Dakota. In California, Alaska, Georgia, Hawaii, Illinois, Minnesota, New Mexico and Pennsylvania business is produced by independent agents. In 2006, the Company started writing professional liability and property insurance in New Jersey.

During 2005, approximately 92% of all direct premiums written were produced by an affiliated broker, 1201 Financial & Insurance Services, Inc.

The Company is the endorsed dental medical malpractice insurance carrier for the California Dental Association, Alaska Dental Society, Inc., Georgia Dental Insurance Services, Inc., Hawaii Dental Association, Illinois State Dental Society, Minnesota Dental Association, New Jersey Dental Association, and Pennsylvania Dental Association.

On June 15, 2006, the Company received the endorsement of the Nevada Dental Association and contracted with Nevada Dental Association Insurance Agency to act as the independent agent for its business in Nevada. The Company was already writing business in Nevada prior to the endorsement.

REINSURANCE

Assumed

The Company does not assume reinsurance.

Ceded

The following is a summary of reinsurance agreements in effect as of December 31, 2005:

Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer's Limits
1st Layer Property Per Risk Excess of Loss	Authorized Lloyd's Syndicate #2001 AML – 20% Hannover Ruckversicherung AG – 20% Odyssey America Reinsurance Corporation – 17.5% QBE Reinsurance Corporation – 12.5% Unauthorized Montpelier Reinsurance Ltd – 30%	$500,000 per risk	$500,000 excess of $500,000 per risk, occurrence limit of $1.5 million any one occurrence
2nd Layer Property Per Risk Excess of Loss	Authorized Lloyd's Syndicate #2001 AML – 20% Hannover Ruckversicherung AG – 20% Odyssey America Reinsurance Corporation – 10% QBE Reinsurance Corporation – 20% Unauthorized Montpelier Reinsurance Ltd – 30%	$1 million per risk	$1 million excess of $1 million per risk, occurrence limit of $1 million any one occurrence

Type of Contract	Reinsurer(s)	Company's Retention	Reinsurer's Limits
1st Layer Property Catastrophe Excess of Loss	Authorized Lloyd's Syndicate #2001 AML – 20% Hannover Ruckversicherung AG – 20% QBE Reinsurance Corporation – 25% Unauthorized Montpelier Reinsurance Ltd – 35%	5% of $3.5 million excess of $1.5 million per occurrence	95% of $3.5 million excess of $1.5 million per occurrence
2nd Layer Property Catastrophe Excess of Loss	Authorized Lloyd's Syndicate #2001 AML – 12.5% Hannover Ruckversicherung AG – 20% Odyssey America Reinsurance Corporation – 12.5% QBE Reinsurance Corporation – 20% Unauthorized Montpelier Reinsurance Ltd – 35%	5% of $10 million excess of $5 million per occurrence	95% of $10 million excess of $5 million per occurrence
1st Layer Liability Excess of Loss	Authorized Lloyd's Syndicate #0623 AFB – 2.25% Lloyd's Syndicate #2001 AML – 10% Lloyd's Syndicate #2623 AFB – 5.25% Hannover Ruckversicherung AG – 30% Platinum Underwriters Reinsurance, Inc. – 20% Odyssey America Reinsurance Corporation – 20% QBE Reinsurance Corporation – 12.5%	$750,000 per occurrence	$750,000 excess of $750,000 per occurrence, maximum aggregate limit of $3.75 million
2nd Layer Liability Excess of Loss	Authorized Lloyd's Syndicate #0623 AFB – 2.25% Lloyd's Syndicate #2001 AML – 10% Lloyd's Syndicate #2623 AFB – 5.25% Hannover Ruckversicherung AG – 30% Platinum Underwriters Reinsurance, Inc. – 20% Odyssey America Reinsurance Corporation – 20% QBE Reinsurance Corporation – 12.5%	10% of $5 million excess of $1.5 million per occurrence	90% of $5 million excess of $1.5 million per occurrence, maximum aggregate limit of $9.9 million

The Company's First and Second Property Per Risk Excess of Loss and the First and Second Property Catastrophe Excess of Loss reinsurance contracts do not comply with Statement of Statutory Accounting Principle (SSAP) Number 62, paragraph 8b, because the contracts are vague regarding recoveries due to the ceding entity. SSAP No. 62, paragraph 8b requires that recoveries due the ceding entity must be available without delay for payment of losses and claim obligations incurred under the agreement, in a manner consistent with orderly payment of incurred policy obligations by the ceding entity. It is recommended that the First and Second Property Per Risk Excess of Loss and the First and Second Property Catastrophe Excess of Loss reinsurance contracts be amended to comply with SSAP No. 62, paragraph 8b. In response to this finding, the Company modified the contracts to comply with SSAP No. 62, paragraph 8b.

Additionally, the Company's First and Second Property Per Risk Excess of Loss and the First and Second Property Catastrophe Excess of Loss reinsurance contracts do not comply with SSAP No. 62, paragraph 8d because the reporting requirements for premiums, losses, and loss payments are on a less frequent basis than that allowed under SSAP No. 62, paragraph 8d. SSAP No. 62, paragraph 8d requires that the reinsurance agreement must provide for reports of premiums, losses, and loss payments no less frequently than on a quarterly basis, unless there is no activity during the period. It is recommended that these reinsurance contracts be amended to comply with SSAP No. 62, paragraph 8d. In response to this finding, the Company modified the above contracts to comply with SSAP No. 62, paragraph 8d. The signed copies of the new contracts were provided on July 27, 2006.

ACCOUNTS AND RECORDS

During the course of the examination, a review was made of the Company's general controls over its information systems and weaknesses were noted in the areas of information systems policies and procedures, logical security, disaster recovery/business continuity planning, and data backup procedures. The weaknesses noted were presented to the Company and it was recommended that the Company take measures to strengthen its information system controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Underwriting and Investment Exhibit for the Year Ended December 31, 2005

Reconciliation of Surplus as Regards Policyholders from December 31, 2002
through December 31, 2005

Statement of Financial Condition
as of December 31, 2005

	Ledger and Nonledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Assets				
Bonds	$ 157,078,025	$	$ 157,078,025	
Common stocks	40,092,520		40,092,520	
Cash and short-term investments	10,787,062		10,787,062	(1)
Other invested assets	(2,236,607)		(2,236,607)	(2)
Aggregate write-ins for investments	56,302		56,302	
Investment income due and accrued	2,172,581		2,172,581	
Premiums and agents' balances in course of collection	4,658,880		4,658,880	
Reinsurance recoverables	175,362		175,362	
Electronic data processing equipment	3,532,139	3,532,139	-	
Furniture and equipment	145,241	145,241	-	
Receivable from parent, subsidiaries and affiliates	96,425		96,425	
Aggregate write-ins for other than invested assets	1,501,110	1,501,110		
Total assets	$ 218,059,040	$ 5,178,490	$ 212,880,550	
Liabilities, Surplus and Other Funds				
Losses			$ 22,210,860	(3)
Loss adjustment expenses			23,343,427	(3)
Other expenses			503,874	
Federal and foreign income taxes			283,056	
Net deferred tax liability			2,034,028	
Unearned premiums			15,060,648	
Unearned premiums – death, disability and retirement			13,900,000	(4)
Advance premiums			2,121,584	
Stockholders dividends payable			1,557,183	
Policyholders dividends payable			2,457,869	
Ceded reinsurance premiums payable			297,728	
Provision for reinsurance			881,000	
Payable to parent, subsidiaries and affiliates			1,584,933	
Aggregate write-ins for liabilities			235,625	
Total liabilities			86,471,815	
Common capital stock		$ 5,000,000		
Gross paid-in and contributed surplus		1,000,000		
Unassigned funds		120,408,735		
Surplus as regards policyholders			126,408,735	
Total liabilities, surplus and other funds			$ 212,880,550	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2005

Statement of Income

Underwriting Income		
Premiums earned		$ 32,368,869
Deductions:		
Losses incurred	$ 2,894,853	
Loss expenses incurred	13,691,397	
Other underwriting expenses incurred	10,377,986	
Change in unearned premium – death, disability and retirement	900,000	
Total underwriting deductions		27,864,236
Net underwriting gain		4,504,633
Investment Income		
Net investment income earned	$ 8,231,440	
Net realized capital gains	399,121	
Net investment gain		8,630,561
Other Income		
Loss on sale of fixed assets	$ (20,022)	
Total other income		(20,022)
Net income before dividends to policyholders and federal income taxes		13,115,172
Dividends to policyholders		2,653,313
Federal income taxes incurred		2,157,316
Net income		$ 8,304,543

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2004		$116,329,076
Net income	$ 8,304,543	
Change in unrealized capital gains	522,362	
Change in deferred income tax	(2,287,186)	
Change in nonadmitted assets	5,712,923	
Change in provision for reinsurance	(290,047)	
Dividends to stockholders	(1,557,183)	
Partnership equity	(325,753)	
Change in surplus as regards policyholders for the year		10,079,659
Surplus as regards policyholders, December 31, 2005		$126,408,735

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

Surplus as regards policyholders, December 31, 2002, per Examination			$101,448,021
	Gain in Surplus	Loss in Surplus	
Net income	$29,270,773	$	
Change in unrealized capital gains	9,388,963		
Change in net deferred income tax		1,105,107	
Change in nonadmitted assets		3,796,342	
Change in provision for reinsurance		881,000	
Dividends to stockholders		7,573,807	
Aggregate write-ins for losses in surplus		342,766	
Totals	$38,659,736	$13,699,022	
Net increase in surplus as regards policyholders			24,960,714
Surplus as regards policyholders, December 31, 2005, per Examination			$126,408,735

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash and Short-term Investments

It was noted that although the Company escheats unclaimed checks to the California State Controller on an annual basis in accordance with the Unclaimed Property Law (commencing with Section 1500 of the California Code of Civil Procedure), there were still several checks that have been outstanding for an extended period of time that should have been escheated but were not. It is recommended that the Company establish formal procedures to ensure that all unclaimed checks and cash items are escheated to the State in accordance with the Unclaimed Property Law.

(2) Other Invested Assets

The other invested assets account consists solely of the Company's negative equity in the CDA Rotunda Partners, LLC (Rotunda) as of December 31, 2005.

The Company was a member of the Esquire Partners, LLC (Esquire), a real estate joint venture between the Company and an unrelated party, whereby the Company held a 70% ownership interest. In March 2004, the Company sold its ownership interest in Esquire to an unrelated party for $17.8 million, resulting in a net gain of $16.9 million.

The Company was a member of the Lot A Landholders, LLC (Lot A), a real estate joint venture between the Company and an unrelated party, whereby the Company held a 75% ownership interest. In August 2005, the Company sold its ownership interest in Lot A to an unrelated party for $7.97 million, resulting in a net gain of $1.2 million.

(3) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Statement of Actuarial Opinion and Analysis of Loss and Loss Adjustment Expense Reserves reports prepared by the Company's independent actuary and concurred with the conclusion that the reserves as of December 31, 2005 are reasonable.

During the review of these accounts, it was noted that the Company is not in compliance with Statement of Statutory Accounting Principles (SSAP) 55, paragraph 4. SSAP No. 55, paragraph 4 requires insurers to establish liabilities for any unpaid claims, unpaid losses and unpaid loss adjustment expenses when a covered or insured event occurs. SSAP No. 55, paragraph 4 also states that for claims made type policies, the covered or insured event is the reporting to the entity of the incident that gives rise to a claim. During completeness testing on claims-made policies, instances were noted where incidents that gave rise to a covered claim were reported to the Company but the necessary liability was not established timely. Although this finding did not have a material affect on the actuarial analysis, it is recommended that the Company comply with SSAP 55, paragraph 4.

(4) Unearned Premiums – Death, Disability and Retirement

A Casualty Actuary from the California Department of Insurance reviewed the Reserve for Future Utilization of Death, Disability, and Retirement (DD&R) Benefit report prepared by the Company's independent actuary and concurred with the conclusion that the reserve as of December 31, 2005 is reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 10): It is recommended that the Company take measures to strengthen its information system controls.

Comments on Financial Statement Items – Cash and Short-term Investments (Page 15): It is recommended that the Company establish formal procedures to ensure that all unclaimed checks and cash items are escheated to the State in accordance with the Unclaimed Property Law.

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 16): It is recommended that the Company comply with SSAP 55, paragraph 4.

Previous Report of Examination

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 14): It was recommended that the Company prepare the Annual Statement in accordance with the Annual Statement Instructions. The Company is now in compliance.

Comments on Financial Statement Items – Provision for Reinsurance (Page 16): It was recommended that the Company comply with CIC Sections 922.4 and 922.5. A provision for reinsurance has been properly established for the unauthorized reinsurance.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

/S/

Ber Vang, CFE
Associate Insurance Examiner
Examiner-In-Charge
Department of Insurance
State of California