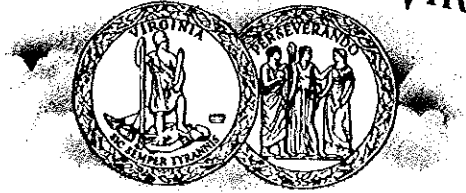


EXAMINATION REPORT
of
DENTAQUEST VIRGINIA, INC.
Boston, Massachusetts
as of
December 31, 2009

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
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<http://www.state.va.us/sec>

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of DentaQuest Virginia, Inc. as of December 31, 2009, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 29th day of December, 2010

A handwritten signature in cursive script that reads "Alfred W. Gross".

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
November 5, 2010

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

DENTAQUEST VIRGINIA, INC.

Boston, Massachusetts

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation became licensed in Virginia as a limited health care services health maintenance organization (HMO) pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on October 8, 1997. The Corporation was re-licensed as a dental plan organization (DPO) pursuant to Chapter 61 of Title 38.2 of the Code of Virginia on February 18, 2005. The Corporation was last examined by representatives from the State Corporation Commission's Bureau of Insurance (the Bureau) as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia effective December 18, 1996 and commenced business on November 1, 1997. The Corporation was formed to assume the Virginia enrollees of Consumer Dental Care Company, a Maryland non-profit dental plan, which was reorganized at the request of the Maryland Insurance Department and dissolved effective November 24, 1997.

Effective October 18, 2001, the Corporation was purchased by DentaQuest Ventures, Inc., a wholly owned subsidiary of Dental Service of Massachusetts, Inc. (d/b/a Delta Dental Plan of Massachusetts). On November 8, 2001, the Corporation's name was changed from Consumer Dental Care of Virginia, Inc. to DentaQuest Virginia, Inc.

In May 2002, DentaQuest Ventures, Inc., the Corporation's parent, issued 12,000 shares of Series A Preferred Stock to FdG Associates (FdG), a private investment firm. Holders of Series A Preferred Stock had the same voting rights as the holders of Common Stock and the two groups voted as a single class at stockholders meetings. As a result of this transaction, FdG owned approximately 20% of the voting shares of DentaQuest Ventures, Inc. FdG's acquisition of the preferred stock of DentaQuest Ventures, Inc. created a presumption of control under Code of Virginia Section 38.2-1322.

On February 24, 2005, FdG filed a Disclaimer of Affiliation rebutting the presumption of control of the Corporation pursuant to Code of Virginia Section 38.2-1329 I. On March 22, 2005, the disclaimer of affiliation was accepted by the Bureau.

Effective January 9, 2006, the corporate structure was reorganized resulting in DentaQuest Management, Inc. (DQM), a wholly owned subsidiary of newly formed DentaQuest, Inc., replacing DentaQuest Ventures, Inc. (now known as DentaQuest Ventures, LLC (DQVL)) as 100% owner of the Corporation's issued and outstanding common stock. After the reorganization, Dental Service of Massachusetts, Inc. and FdG owned 76% and 24%, respectively, of the voting shares of DentaQuest, Inc.

On February 2, 2007, DentaQuest, Inc. repurchased the shares of preferred stock owned by FdG. As a result, Dental Service of Massachusetts, Inc. owns 100% of the issued and outstanding shares of stock of DentaQuest, Inc. On January 5, 2009, DentaQuest, Inc. change its name to DentaQuest Group, Inc.

CAPITAL AND SURPLUS

At December 31, 2009, the Corporation's capital and surplus was \$1,762,347. According to the Articles of Incorporation, the Corporation has the authority to issue 10,000 shares of common stock with a par value of \$.10 per share. At December 31, 2009, 3,010 shares of common stock were issued and outstanding, with gross paid in and contributed surplus of \$303,163 and unassigned funds of \$1,458,883.

CAPITAL AND SURPLUS REQUIREMENT

Code of Virginia Section 38.2-6103 requires that a DPO licensed in Virginia shall have and maintain a minimum capital and surplus in an amount equal to the greater of \$750,000 or 45 days of anticipated operating expenses and incurred claim expenses. The Corporation's minimum capital and surplus requirement at December 31, 2009 was determined to be \$750,000.

MANAGEMENT AND CONTROL

The Corporation's bylaws provide that the Board of Directors shall be responsible for the management of the business of the Corporation. The number of directors shall be three. The directors shall be elected at the annual meeting of the stockholders and each director elected shall serve until the next succeeding annual meeting of the stockholders and until his successor shall have been elected and qualified.

The officers of the Corporation shall consist of a President, a Secretary, and a Treasurer. The Board may also choose one or more Assistant Secretaries or other officers if such officers are deemed necessary. The President shall serve for a term of five years while the remaining officers of the Corporation shall serve for a term of one year or until a successor is appointed. At December 31, 2009, the Board of Directors and Officers were as follows:

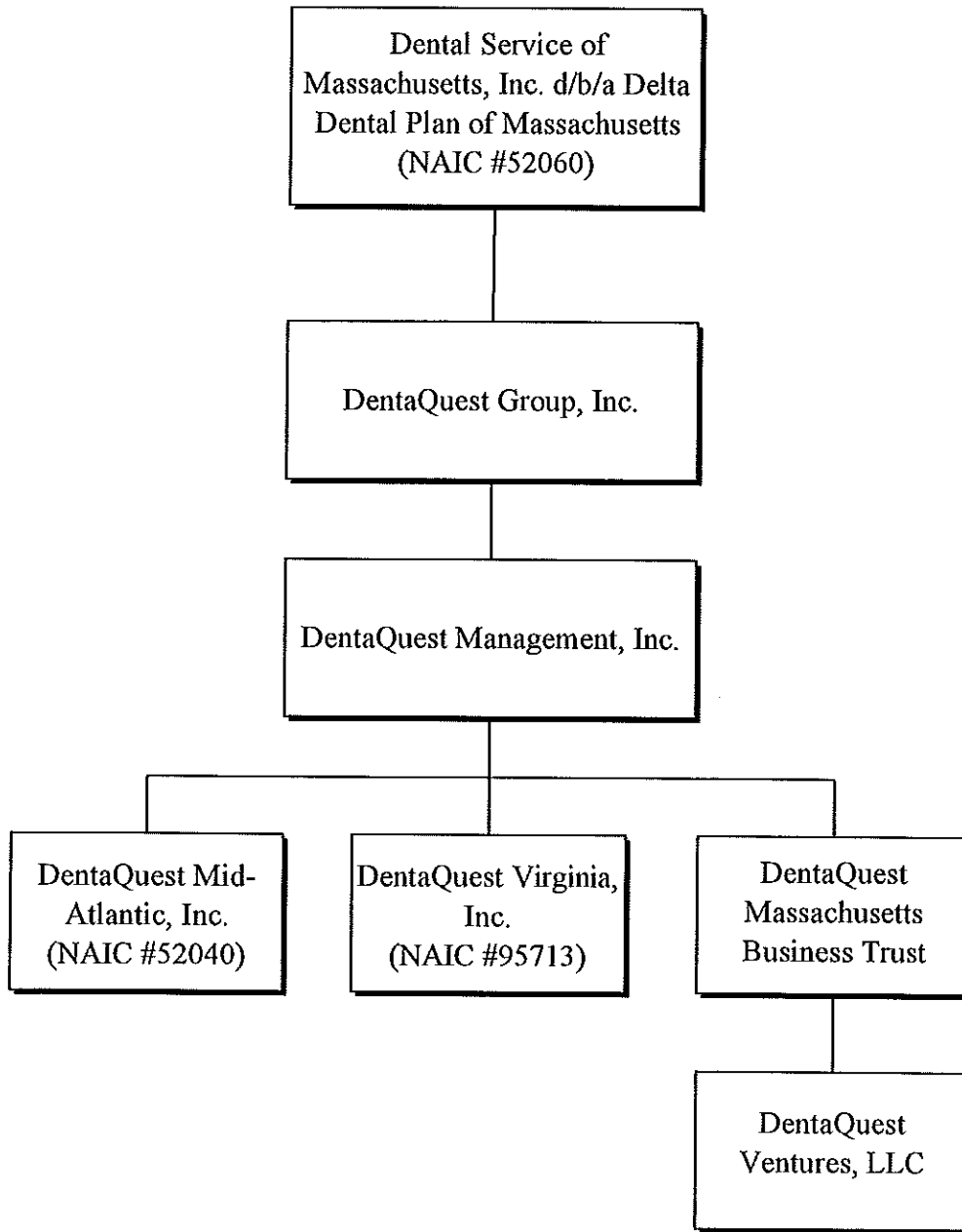
| <u>Directors</u> | <u>Principal Occupation</u> |
|-------------------|---|
| Fay Donohue | President and Chief Executive Officer Dental Service of Massachusetts, Inc. Boston, Massachusetts |
| Dennis J. Leonard | President, Commercial Business DentaQuest Ventures, LLC Boston, Massachusetts |
| Ian Belinsky | Chief Financial Officer Dental Service of Massachusetts, Inc. Boston, Massachusetts |

Officers

| | |
|---------------------|-------------------------|
| Fay Donohue | Chief Executive Officer |
| Dennis J. Leonard | President |
| Margaret A. Baldwin | Secretary |
| Ian Belinsky | Treasurer |
| Judith C. Muse | Assistant Secretary |
| Scott R. Frock | Assistant Treasurer |

AFFILIATED COMPANIES

According to its Articles of Incorporation, the Corporation has the authority to issue 10,000 shares of common capital stock with a par value of \$.10 per share. At December 31, 2009, 3,010 shares of common capital stock were outstanding and owned by DQM. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2009:



TRANSACTIONS WITH AFFILIATES

Management Services Agreement

Effective January 1, 2004, the Corporation entered into a management services agreement with DQVL. This agreement shall continue indefinitely unless either party provides 120 days prior written notice of its intent to terminate the agreement or both parties mutually agree to terminate the agreement. Pursuant to the terms of the agreement, DQVL shall provide the Corporation management services that include data processing, advertising, marketing, actuarial, claims adjustment and payment, underwriting, investment management, regulatory compliance and governmental affairs, accounting, premium billing and collection, and tax compliance. As compensation for these services, the Corporation shall reimburse DQVL for costs solely attributable to the Corporation and pay DQVL for its apportioned share of overhead expenses based on the Corporation's percentage of premium revenue. During 2009, the Corporation's apportioned share of overhead expenses pursuant to this agreement was included as part of the \$134,000 that was paid to DQMA pursuant to the Management and Administrative Services Agreement described below.

Administrative Services Agreement

Effective January 1, 2005, the Corporation entered into an administrative services agreement with DQM. This agreement shall continue indefinitely unless either party provides 120 days prior written notice of its intent to terminate the agreement or both parties mutually agree to terminate the agreement. Pursuant to the terms of the agreement, DQM shall provide the Corporation administrative services that include premium billing and collection, capitation payments, commission payments, maintenance of records, accounting, corporate and legal. As compensation for these services, the Corporation shall reimburse DQM for all costs and expenses directly incurred by DQM in the provision of services to the Corporation. During 2009, the Corporation reimbursed DQM \$191,000 related to this agreement.

Tax Sharing Agreement

Effective January 1, 2007, the Corporation entered into a tax sharing agreement with and among DentaQuest Group, Inc. ("DQ Group") and its subsidiaries. Pursuant to the agreement, the Corporation is included in the consolidated federal income tax return filed by DQ Group. The Corporation's federal income tax liability or refund is determined as if it was filing its own separate federal income tax return. If the Corporation's tax benefits (i.e. losses or credits) are used to reduce the consolidated federal tax liability, DQ Group will pay the Corporation the amount equal to the reduction in the consolidated federal income tax liability. If the Corporation's tax liabilities are

used to increase the consolidated federal tax liability, the Corporation will pay DQ Group the amount equal to the increase in the consolidated federal income tax liability. Final settlement for a tax year shall be paid within 90 days after the filing of the consolidated federal income tax return.

Management and Administrative Services Agreement

Effective December 31, 2007, the Corporation entered into a management and administrative services agreement with DentaQuest Mid-Atlantic, Inc. (DQMA). The agreement had an initial one-year term and thereafter automatically renews for successive one-year terms unless either party provides 120 days prior written notice of its intent to terminate the agreement or both parties mutually agree to terminate the agreement. Pursuant to the agreement, DQMA shall provide the Corporation employee payroll services, office space and equipment usage and provider claim payments. As compensation for these services, the Corporation shall reimburse DQMA for costs solely attributable to the Corporation and pay DQMA for its apportioned share of overhead expenses based on the Corporation's percentage of premium revenue. During 2009, the Corporation paid DQMA \$134,000 for its apportioned share of overhead expenses pursuant to this agreement and the Management Services Agreement with DQM.

Dividends

On June 11, 2007, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of \$500,000 to DQM. The Bureau approved the Corporation's request on August 13, 2007 and the dividend was paid on October 3, 2007.

TERRITORY AND PLAN OF OPERATION

At December 31, 2009, the Corporation's service area, as reported in its 2009 Annual Statement, included the Virginia cities of Alexandria, Colonial Heights, Fairfax, Falls Church, Fredericksburg, Hopewell, Manassas, Manassas Park, Petersburg, Richmond, and Winchester and the Virginia counties of Arlington, Caroline, Chesterfield, Culpeper, Fairfax, Fauquier, Hanover, Henrico, King George, Loudoun, Prince William, Spotsylvania and Stafford.

Services are provided by dentists in independent practice within the Corporation's service area. The Corporation markets Preferred Provider Organization (PPO) plans offered in a variety of plan designs. Choice PPO is offered with benefits payable both in-network and out-of-network. Access PPO is offered with benefits payable both in-network and out-of-network but is also marketed as Access ePPO with benefits payable on an in-network basis only. Depending on the plan, each member may utilize participating general dentists and specialists in order to take advantage of discounts

provided by the dentists or, in the case of Access or Choice PPO plans, members may seek care out of network. Access ePPO members may use only participating in-network dentists but may move freely throughout the network. No selection of a dentist is required. Members may also go to a specialist without a referral.

CONFLICT OF INTEREST

The Corporation has adopted a code of conduct and ethics applicable to its directors, officers and employees. The code of conduct and ethics relating to conflicts of interest states that relationships with prospective or existing suppliers, contractors, customers, competitors or regulators must not affect independent and sound judgment on behalf of the Corporation. Business decisions and actions must be based on the best interests of the Corporation and must not be motivated by personal considerations or relationships. All directors, officers and employees are required to disclose any situation that may be, or appear to be, any conflict of interest.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, the Corporation was listed as a named insured on a fidelity bond with a \$5,000,000 limit of liability, subject to a \$50,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Corporation was listed as a named insured on a property insurance policy, a general liability policy, an automobile liability policy, an umbrella liability policy, a workers compensation and employers liability policy, a managed care liability policy, a directors and officers liability policy, a fiduciary liability policy and a employed lawyers professional liability policy.

PROVIDER AGREEMENTS

The Corporation has entered into agreements with numerous participating general dentists and specialists to provide dental services to members. PPO participating general dentists and specialists are paid on a discounted fee-for-service arrangement. At December 31, 2009, the Corporation had established agreements with general dentists, endodontists, oral surgeons, orthodontists, pediatric dentists, periodontists and prosthodontists.

CONTRACT FORMS

Contracts are available on a group basis. Basic contract services include office visits, oral examinations and diagnosis, complete series x-rays, certain treatments and routine teeth cleaning. The above are abbreviated descriptions of the coverages and each contract may vary.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation, at year-end, for the ten-year period ending December 31, 2009. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

| <u>Year</u> | <u>Total Admitted Assets</u> | <u>Total Liabilities</u> | <u>Capital And Surplus</u> | | |
|-------------|--------------------------------------|------------------------------|------------------------------------|--|--|
| 2000 | \$808,968 | \$68,647 | \$740,321 | | |
| 2001 | 918,270 | 59,701 | 858,569 | | |
| 2002 | 1,408,415 | 477,266 | 931,149 | | |
| 2003 | 1,331,652 | 272,532 | 1,059,120 | | |
| 2004 | 1,566,354 | 385,789 | 1,180,565 | | |
| 2005 | 1,790,329 | 619,656 | 1,170,673 | | |
| 2006 | 1,737,440 | 405,551 | 1,331,889 | | |
| 2007 | 1,188,197 | 194,253 | 993,944 | | |
| 2008 | 1,632,753 | 318,476 | 1,314,277 | | |
| 2009 | 2,143,745 | 381,398 | 1,762,347 | | |

| <u>Year</u> | <u>Total Revenue</u> | <u>Net Investment Gains</u> | <u>Medical & Hospital Expenses</u> | <u>Administrative Expenses</u> | <u>Pre-Tax Income (Loss)</u> |
|-------------|--------------------------|-------------------------------------|--|------------------------------------|--------------------------------------|
| 2000 | \$1,814,481 | | \$975,995 | \$670,721 | \$167,765 |
| 2001* | 1,861,666 | 19,557 | 1,014,380 | 715,502 | 151,341 |
| 2002 | 1,951,918 | 6,702 | 1,068,026 | 818,499 | 72,095 |
| 2003 | 1,908,068 | 6,381 | 1,039,090 | 617,913 | 257,446 |
| 2004 | 1,586,037 | 8,064 | 834,845 | 611,707 | 147,549 |
| 2005 | 1,313,813 | 2,206 | 790,949 | 443,164 | 81,906 |
| 2006 | 1,569,726 | 12,902 | 914,103 | 458,932 | 209,593 |
| 2007 | 1,705,803 | 17,467 | 1,021,700 | 473,226 | 228,344 |
| 2008 | 2,037,384 | 8,988 | 1,297,792 | 263,885 | 484,695 |
| 2009 | 2,679,034 | 1,085 | 1,631,096 | 386,744 | 662,279 |

*Prior to 2001, Net investment gains or losses were included in Total Revenue.

The Corporation's enrollment data at year-end is illustrated as follows:

| <u>Year</u> | <u>Number of Members</u> |
|-------------|------------------------------|
| 1997 | 11,766 |
| 1998 | 15,810 |
| 1999 | 19,816 |
| 2000 | 20,405 |
| 2001 | 19,684 |
| 2002 | 22,253 |
| 2003 | 16,357 |
| 2004 | 15,204 |
| 2005 | 13,442 |
| 2006 | 9,856 |
| 2007 | 10,428 |
| 2008 | 11,338 |
| 2009 | 13,060 |

SPECIAL RESERVES AND DEPOSITS

At December 31, 2009, the Bureau required the Corporation to maintain a minimum deposit of \$300,000 with the Treasurer of Virginia.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2007 through December 31, 2009. Assets were verified and liabilities established at December 31, 2009.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Corporation, assess corporate governance, identify and assess inherent risks within the Corporation, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2009; a statement of revenue and expenses for the year ending December 31, 2009; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2009. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

| | <u>Assets</u> | Nonadmitted <u>Assets</u> | Net Admitted <u>Assets</u> |
|--|---------------------------|------------------------------|-------------------------------|
| Cash and short-term investments | <u>\$1,982,472</u> | <u> </u> | <u>\$1,982,472</u> |
| Subtotals, cash and invested assets | \$1,982,472 | \$0 | \$1,982,472 |
| Investment income due and accrued | 26 | | 26 |
| Uncollected premiums and agents' balances in the course of collection | 53,437 | 19,849 | 33,588 |
| Net deferred tax asset | 6,965 | | 6,965 |
| Receivables from parent, subsidiaries, and affiliates | 120,694 | | 120,694 |
| Aggregate write-ins for other than invested assets | <u>49</u> | <u>49</u> | <u>0</u> |
| Total assets | <u><u>\$2,163,643</u></u> | <u><u>\$19,898</u></u> | <u><u>\$2,143,745</u></u> |

LIABILITIES, CAPITAL AND SURPLUS

| | |
|--|---------------------------|
| Claims unpaid | \$137,526 |
| Unpaid claims adjustment expenses | 8,591 |
| Aggregate health policy reserves | 3,596 |
| Premiums received in advance | 98,663 |
| General expenses due or accrued | 14,736 |
| Amounts due to parent, subsidiaries and affiliates | <u>118,286</u> |
| Total liabilities | <u>\$381,398</u> |
| Common capital stock | \$301 |
| Gross paid in and contributed surplus | 303,163 |
| Unassigned funds (surplus) | <u>1,458,883</u> |
| Total capital and surplus | <u>\$1,762,347</u> |
| Total liabilities, capital and surplus | <u><u>\$2,143,745</u></u> |

STATEMENT OF REVENUE AND EXPENSES

| | |
|--|-------------------------|
| Net premium income | <u>\$2,679,034</u> |
| Total revenues | <u>\$2,679,034</u> |
| Hospital and Medical | |
| Hospital/medical benefits | <u>\$1,631,096</u> |
| Total hospital and medical | \$1,631,096 |
| Claims adjustment expenses | 56,802 |
| General administrative expenses | <u>329,942</u> |
| Total underwriting deductions | <u>\$2,017,840</u> |
| Net underwriting gain | <u>\$661,194</u> |
| Net investment income earned | <u>\$1,085</u> |
| Net investment gains | <u>\$1,085</u> |
| Net income before federal income taxes | \$662,279 |
| Federal income taxes incurred | <u>231,798</u> |
| Net income | <u><u>\$430,481</u></u> |

RECONCILIATION OF CAPITAL AND SURPLUS

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|--|-------------------------|---------------------------|---------------------------|
| Capital and surplus prior reporting year | <u>\$1,331,889</u> | <u>\$993,944</u> | <u>\$1,314,277</u> |
| GAINS AND LOSSES TO CAPITAL AND SURPLUS | | | |
| Net income | 148,424 | 315,052 | 430,481 |
| Change in net deferred income tax | (7,339) | (2,844) | (9,470) |
| Change in nonadmitted assets | 20,970 | 8,125 | 27,059 |
| Dividends to stockholders | <u>(500,000)</u> | | |
| Net change in capital and surplus | <u>(\$337,945)</u> | <u>\$320,333</u> | <u>\$448,070</u> |
| Capital and surplus end of reporting year | <u><u>\$993,944</u></u> | <u><u>\$1,314,277</u></u> | <u><u>\$1,762,347</u></u> |

CASH FLOW**Cash from Operations**

| | |
|--|--------------------|
| Premiums collected net of reinsurance | \$2,694,541 |
| Net investment income | <u>2,698</u> |
| Total | <u>\$2,697,239</u> |
| Benefit and loss related payments | \$1,553,691 |
| Commissions, expenses paid and aggregate write-ins for deductions | 382,481 |
| Federal income taxes paid | <u>241,268</u> |
| Total | <u>\$2,177,440</u> |
| Net cash from operations | <u>\$519,799</u> |

Cash from Financing and Miscellaneous Sources

| | |
|---|-------------------|
| Cash provided (applied): | |
| Other cash applied | <u>(\$11,915)</u> |
| Net cash from financing and miscellaneous sources | <u>(\$11,915)</u> |

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

| | |
|---|--------------------|
| Net change in cash and short-term investments | \$507,884 |
| Cash and short-term investments: | |
| Beginning of the year | <u>1,474,588</u> |
| End of the year | <u>\$1,982,472</u> |

RECOMMENDATION FOR CORRECTIVE ACTION

Management and Control

On February 2, 2007, DentaQuest, Inc. (currently DentaQuest Group, Inc.) was party to a \$200 million Credit Agreement and accompanying Guarantee and Collateral Agreement entered into with Bank of America. As part of the Guarantee and Collateral Agreement, DentaQuest, Inc and its subsidiaries, including the Corporation, granted a security interest in its assets as collateral security for the prompt and complete payment and performance of all obligations arising pursuant to the Credit Agreement. At December 31, 2009, \$135 million was outstanding under the Credit Agreement.

Section 38.2-1446 A of the Code of Virginia, in part, states, "Every domestic insurer subject to the provisions of this chapter shall at all times have and maintain free and unencumbered admitted assets in an amount equal to the sum total of its reserve liabilities and minimum capital and surplus, and no such insurer shall pledge, hypothecate or otherwise encumber its assets in an amount in excess of the amount of its surplus to policyholders; nor shall such insurer pledge, hypothecate, or otherwise encumber more than five percent of its admitted assets." Section 38.2-1446 B, in part, states that "Any such insurer which pledges, hypothecates or otherwise encumbers any of its assets shall within ten days thereafter report in writing to the Commission the amount and identity of the assets so pledged, hypothecated, or encumbered and the terms and conditions of such transaction."

As a result of DentaQuest, Inc. entering into the Guarantee and Collateral Agreement, the Corporation effectively pledged 100% of its assets as collateral for obligations owed pursuant to the Credit Agreement. Therefore, the Corporation did not maintain free and unencumbered admitted assets in an amount equal to its reserve liabilities and minimum capital and surplus as required by Code of Virginia Section 38.2-1446 A. In addition, the Corporation failed to notify the Commission in writing within 10 days of pledging such assets as required by Section 38.2-1446 B.

In addition, the Corporation erroneously reported that its stock, rather than its assets, was pledged in its 2007 and 2008 Form B Insurance Holding Company System Registration Statements filed with the Bureau. The Corporation also reported that its stock was pledged in the Notes to Financial Statements in the 2007, 2008 and 2009 Annual Statements.

It is recommended that the Corporation maintain free and unencumbered admitted assets in an amount equal to the sum total of its reserve liabilities and minimum capital and surplus as required in Section 38.2-1446 A of the Code of Virginia.

SUBSEQUENT EVENT

As described in the Recommendation for Corrective Action, the Corporation pledged 100% of its assets as a party to the Guarantee and Collateral Agreement, dated February 2, 2007, between DentaQuest, Inc. and Bank of America. To remedy this situation, the Corporation, on September 8, 2010, filed an application with the Bureau requesting approval to deposit \$1.6 million with the Treasurer of Virginia in a restricted account in which the Corporation already maintains a \$328,000 balance. The funds deposited in the restricted account would not be subject to the pledge under the Guarantee and Collateral Agreement and would allow the Corporation to maintain free and unencumbered admitted assets in an amount equal to its reserve liabilities and minimum capital and surplus as required by Section 38.2-1446 A of the Code of Virginia. The Corporation additionally requested the Bureau's approval to increase its allowable percentage of pledged assets from the permitted 5% or less of admitted assets required by Section 38.2-1446 A of the Code of Virginia to no more than 40% of its admitted assets. On September 8, 2010, the Corporation also filed a Form D – Prior Notice and Application for Approval of Certain Transactions requesting the Bureau to approve a \$550,000 subordinated surplus note issued by Dental Service of Massachusetts, Inc. to the Corporation for additional working capital.

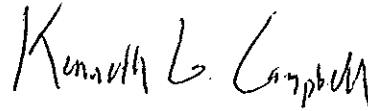
Section 38.2-1446 A of the Code of Virginia states, in part, that "...the Commission, upon written application, may approve the hypothecation or encumbrance of any of the assets of such an insurer in any amount upon a determination that such hypothecation or encumbrance will not adversely affect the solvency of such insurer." Pursuant to the aforementioned, on September 23, 2010, the Bureau approved the Corporation's request to deposit \$1.6 million in the Corporation's restricted account with the Treasurer of Virginia. As a result of the transaction, no more than 40% of the Corporation's admitted assets are pledged pursuant to the Guarantee and Collateral Agreement and the Corporation has free and unencumbered admitted assets in an amount significantly in excess of its reserve liabilities and minimum capital and surplus. On September 23, 2010, the Bureau additionally approved the Corporation's Form D filing and the issuance of a \$550,000 subordinated surplus note by Dental Service of Massachusetts, Inc. to the Corporation. The Corporation deposited \$1.6 million in securities in its restricted account with the Treasurer of Virginia on November 5, 2010. The Corporation executed the \$550,000 subordinated surplus note on September 24, 2010 and received the funds on October 8, 2010. Interest on the subordinated surplus note is stated at 3.25%.

The Credit Agreement and the Guarantee and Collateral Agreement with Bank of America expire in February 2012.

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Milton Parker participated in the work of the examination.

Respectfully submitted,



Kenneth G. Campbell, CFE
Assistant Chief Examiner

DentaQuest

December 16, 2010

Virginia Bureau of Insurance
PO Box 1157
Richmond, VA 23218

Attention: David H. Smith
Chief Examiner

Re: DentaQuest Virginia, Inc. Examination Report as of December 31, 2009

Mr. Smith,

We agree with the findings of the Virginia Bureau of Insurance ('Virginia BOI') Examination Report as of December 31, 2009 and therefore do not request a hearing before the Commission.

The recommendation was:

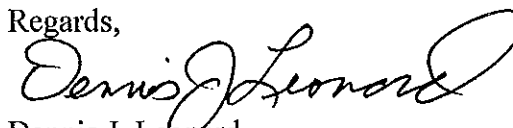
"It is recommended that the Corporation maintain free and unencumbered admitted assets in an amount equal to the sum total of its reserve liabilities and minimum capital and surplus as required in Section 38.2-1446 A of the Code of Virginia."

The Company's response is as follows:

Subsequent to the examination, the Corporation filed an application to the Virginia BOI requesting approval to deposit \$1.6 million with the Treasurer of Virginia in a restricted account. On November 5, 2010 the funds were moved into a restricted account, allowing the Corporation to maintain free and unencumbered assets in excess of the sum total of its reserve liabilities and minimum capital surplus in accordance with Section 38.2- 1446 A.

Prospectively, management will monitor the financial position of the Corporation and take the appropriate action to ensure that it maintains the required amount of unencumbered assets.

Regards,



Dennis J. Leonard
President

