



**THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

DIVISION OF INSURANCE

***REPORT OF EXAMINATION OF*
DENTAL SERVICE OF MASSACHUSETTS, INC.**

Boston, Massachusetts

As of December 31, 2010

NAIC GROUP CODE 4512

NAIC COMPANY CODE 52060

EMPLOYERS ID NO. 04-6143185

For Informational Purposes Only

DENTAL SERVICE OF MASSACHUSETTS, INC.

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

January 9, 2012

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street
Boston, MA 02110-2208

Honorable Commissioner,

Pursuant to your instructions and in accordance with Massachusetts General Law, Chapter 176E,
an examination has been made of the financial condition and affairs of

Dental Service of Massachusetts, Inc.

d/b/a

Delta Dental of Massachusetts, Inc.

Its home office located at 465 Medford Street, Charlestown, Massachusetts 02129. The
following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Dental Service of Massachusetts, Inc., d/b/a Delta Dental of Massachusetts, Inc. ("Company" or "DSM") was last examined as of December 31, 2007 under the association plan of the National Association of Insurance Commissioners (NAIC) by the Massachusetts Division of Insurance ("Division"). The current single state examination was conducted by the Division and covers the three year period from January 1, 2008, through December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

The examination was conducted in accordance with standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating 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 company were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, conflict of interest disclosure statements, fidelity bond and other insurance, employees' pension and benefit plans, disaster recovery plan, treatment of policyholders, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules, and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by PricewaterhouseCoopers LLP ("PwC") an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2008 through 2010. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. The Division did not retain an independent actuarial consulting firm. This assessment was based on previous examinations which used the work of the Company's independent actuary who prepared the Actuarial Opinion and the work performed by PricewaterhouseCoopers, LLP. Additionally, the Division reviewed the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on summary information generated by the data processing systems.

For a summary of findings contained within this Report, refer to the "Notes to Financial Statements" and "Comments and Recommendations" sections.

Status of Findings from the Prior Examination

This examination included a review to verify the current status of exception conditions commented upon in the Report of Examination as of December 31, 2007. That Report contained the following Recommendations:

- The Company failed to follow SSAP #97, with regards to obtaining audited financial statements for subsidiary holdings. These statements are necessary for statutory admitted asset valuation purposes. The examination non-admitted \$3,162,314, the value of DSM Investments Inc. and subsidiaries to comply with SSAP #97 because DSM Investments did not have a separate audited financial statement. The Company has chosen to non-admit the valuation of DSM Investment during the current examination period.
- The Company did not collect \$976,950 in billed group deposits as of December 31, 2007 resulting in an overstatement of Uncollected Premium and an understatement in Amount Withheld for Account of Others; therefore the examination reversed the original group deposit receivable and adjusted the liability accordingly, with no effect on statutory surplus.
- The Company failed to report any paid claim adjustment expenses in the Annual Statement for the years under examination.

This examination verified that DSM has addressed the recommendations and has implemented the proper corrective actions as recommended in the prior Report of Examination.

HISTORY

Dental Service of Massachusetts, Inc. is a non-profit dental service company which initially was incorporated as the Massachusetts Dental Service Company. It was sponsored by the Massachusetts Dental Society ("Dental Society") through introduction of enabling legislation, MGL Chapter 176E, enacted in July 1962. The Dental Society voted in January 1966 to provide \$25,000 for the Company's start up expenses and reserves and the Company was chartered in September 1966.

In March 1969, the Company entered into an agreement with Blue Cross and Blue Shield of Massachusetts, Inc. ("Blue Cross") by which Blue Cross provided enrollment, claims processing and other administrative services for the Company.

The Company's name was changed on September 3, 1974, to Dental Service of Massachusetts, Inc. The Company's enabling legislation was amended on July 17, 1981, and the amendment changed the requirements for the bylaws of a dental service company by limiting the Dental Society's involvement in selecting members and Directors. The amendment separated DSM from the Dental Society. In March 1985, Blue Cross terminated the services agreement and the Company began to perform all administrative functions on its own.

SUBSIDIARIES

In 1998, the Company established a wholly-owned holding company, DSM Investments, Inc. ("DSM Investments"). DSM Investments has two wholly-owned subsidiaries, DSM Insurance Services, Inc. and DentaQuest Oral Health Center, Inc. ("DQHC") f/k/a Dental Health Center, Inc., which are operated on a for-profit basis for activities which do not come under specific provisions of MGL Chapter 176E. The Company and DSM Insurance Services, Inc. share facilities and the services of certain members of management. DQHC is a dental clinic located in Westborough, Massachusetts, with activities focused on treating the causes and risk factors of dental disease.

In 2000, the DentaQuest Foundation, Inc. ("Foundation"), f/k/a Oral Health Foundation, Inc. was established under MGL Chapter 180. The mission of the Foundation is to award grants that promote oral health by enhancing access to appropriate dental care, promoting models of preventive care, and gathering and disseminating data on new dental technologies. Cumulative contributions to the Foundation by the Company were \$87,298,000 as of December 31, 2010. The Foundation made donation payments of \$3,712,000 and \$3,990,000 in 2010 and 2009, respectively. The results of the Foundation are not consolidated into the Company as the Company does not have an economic interest in the Foundation and a majority of the Directors of the Foundation do not participate on the Board of the Company.

In October 2006, the DentaQuest Institute, Inc. ("Institute"), f/k/a the Catalyst Institute was established under the same laws as the Foundation. The Institute operates under a similar mission as the Foundation with the Company contributing to the Institute for the sole purpose of helping the Institute fulfill its mission. Cumulative contributions to the Institute by the Company were \$9,802,000 and \$7,100,000 in 2010 and 2009, respectively.

During 2001, DentaQuest Ventures, Inc. ("DQV") was established as a direct subsidiary of the Company. DQV, operated on a for-profit basis, was created to acquire and run dental insurance businesses outside of Massachusetts.

On April 2, 2004, DQV acquired substantially all of the assets of Doral Dental USA, LLC ("Doral"), including certain assets of its subsidiaries for approximately \$114,356,000. Doral, now known as DentaQuest, LLC ("DQ LLC") is a third-party administrator of government dental benefits. The purchase price included the cash paid, accrued amounts for a contingent payment and closing adjustments, and costs directly related to the acquisition. Assets acquired included tangible assets of \$8,749,000 and goodwill and intangible assets of \$105,606,000. The acquisition was financed with long-term debt of \$75,000,000 and existing cash.

Credit Facility

On February 2, 2007, DQV and DQ LLC (the "Co-Borrowers") and DentaQuest Group, Inc. as "Parent Guarantor" entered into a Credit Agreement with a group of lenders providing for a \$200,000,000 revolving credit facility and together with all of the subsidiaries of DentaQuest Group, Inc., a Guarantee and Collateral Agreement (together with the Credit Agreement, the

“Credit Facility”). Under the Guarantee and Collateral Agreement, substantially all of the assets of the Parent Guarantor, the Co-Borrowers and their subsidiaries were pledged as collateral against any borrowings under the Credit Facility. Upon closing of the Credit Facility, DQV borrowed \$140,000,000 and purchased the equity interest of an outside investor for \$110,000,000.

In July 2008, the Company became a party to a Credit Facility. Under the amendment the Company became a guarantor of the obligations of the Co-Borrowers and pledged certain assets as security for such obligations. The assets pledged by the Company excluded (a) all cash and cash equivalents other than proceeds of the pledged assets, (b) its investment portfolio, other than equity capital stock or debt of its subsidiaries or proceeds thereof; (c) any property (other than information technology systems) and intellectual property; (d) any membership interests in the Foundation or the DentaQuest Institute, and (e) any interest in the Company’s Service Marks License Agreement with the Delta Dental Plan Association and licenses thereunder. As of December 31, 2010, \$126,000,000 was outstanding under the Credit Agreement.

In June 2009, the Company invested an additional \$15,000,000 in DentaQuest. These funds were used to pay down debt under the Credit Facility.

On June 23, 2011, DentaQuest, LLC entered into an Amended and Restated Credit Agreement and an Amended and Restated Guarantee and Collateral Agreement. Under the terms of these amended and restated agreements, each of DentaQuest USA Insurance Company, Inc., DentaQuest of Florida, Inc., DentaQuest Mid-Atlantic, Inc., and DentaQuest Virginia, Inc. was newly defined as an “Excluded Insurance Subsidiary”. Under the provisions of the amended and restated agreements, the “Excluded Insurance Subsidiaries” are no longer guarantors of the obligations of DentaQuest, LLC and are no longer required to pledge their assets in support of the borrower to the lenders.

Growth of Company

The growth of DSM for the years 2008 through 2010 is indicated in the following schedule which was prepared from information in DSM’s Annual Statements:

Year	Admitted Assets	Liabilities	Capital and Surplus	Premium Income	Member Months
2010	\$ 181,056,338	\$ 84,443,021	\$ 96,613,317	\$ 276,816,671	24,505,425
2009	263,606,550	75,326,453	188,280,097	302,446,045	25,189,942
2008	225,110,403	77,197,681	147,912,722	362,584,664	25,867,958

MANAGEMENT

Annual Meeting

The Company is a non-profit dental service company; therefore, members of the Company govern the affairs of the organization instead of stockholders. A majority of the members of the Company shall at all times be persons who are not providers of health services licensed under the laws of the Commonwealth of Massachusetts. Organizations may be elected as members, with the chief executive officer of the organization designating in writing from time to time the particular individual who will act for it. Members serve three-year terms and approximately one-third of the membership is elected each year at the annual meeting. In 2008, there were six (6) members elected to serve three year terms until their successors are elected and until the adjournment of the annual meeting in 2011. In 2009, six (6) members were elected for three-year terms, and in 2010, four (4) members were elected to serve three-year terms.

In accordance with the amended and restated bylaws, effective August 2, 2010, the annual meeting of the members of the Company for the election by ballot of Directors shall be held each year at the principal office of the Company or at such other place as may be stated in the call of the meeting on such date in March or April as may be determined by the Chairman of the Board. A majority of the members in office at the time shall constitute a quorum for the transaction of business, but a smaller number may adjourn from time to time. Each member of the Company shall be entitled to one vote. The minutes of the annual meeting indicate that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The bylaws provide that the affairs, property, and business of the Company shall be managed by a Board of nine Directors or such greater number as may be determined by the members of the Company at any annual or special meeting. Each member shall serve as a director and each director must be a member of the corporation.

A majority of the Directors shall at all times be persons who are not providers of health services licensed under the laws of the Commonwealth of Massachusetts and who are or agree to be subscribers to the Company's non-profit dental service plan. At least one-third but less than one-half of the Directors shall be dentists registered to practice dentistry in the Commonwealth of Massachusetts.

A majority of the Directors in office shall constitute a quorum for the transaction of business, but a smaller number may adjourn from time to time. Except as otherwise provided by law, in the agreement of association or articles of organization of the Company, or in the bylaws, the vote of the majority of the Directors present and entitled to vote at a meeting shall be sufficient to decide any question brought before the meeting.

At December 31, 2010, DSM's Board of Directors consisted of the following sixteen members:

DENTAL SERVICE OF MASSACHUSETTS, INC.

<u>Name of Director</u>	<u>Business Affiliation</u>
H. Jay Sarles, Chairman	Bank of America, Retired
Terry Conner	Liberty Mutual Holding Co, Retired
Fay Donohue	President and Chief Executive Officer, DSM
Thomas J. Galligan, III	Chairman, President and CEO of Papa Gino's Holding Corp.
Raul Garcia, DMD	President and Chairman of the Department of Health Policy & Health Services Research at the Boston University Goldman School of Dental Medicine
John Gussha, DMD	Generalist in Holden
Edward A. Hjerpe, III	President and CEO Federal Home Loan Bank Boston
Marion Kane	Barr Foundation, Retired
Karen Kaplan	President, Hill, Holliday, Connors, Cosmopolos, Inc.
Donald Kenney	EquiServe, Inc., Retired
Donald LeClair, DMD	Generalist in Beverly
Linda Niessen, DMD	Vice President, Chief Clinical Officer, DENTSPLY International
Walter Owens, DMD	Assistant Professor & University Advancement Development Officer, Meharry Medical School of Dentistry
Anne Page Palmer	John Hancock Life Insurance Company, Retired
William L. Reeve	No Affiliation
Leslie Zide, DMD	Dental Director, Brightwood Health Center, Springfield, Ma.

Committees of the Board of Directors

Audit Committee

The Audit Committee shall consist of at least three Directors, appointed by the Board of Directors and the Board of Directors will appoint one member of the Committee as Chairperson. The Audit Committee is responsible for the appointment, compensation (including fees and terms), retention and oversight of the work of the Company's independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for

the purpose of preparing or issuing an audit report. The Company's independent auditor shall report directly to the audit committee. The committee is also responsible for the Company's internal audit function which includes, reviewing the activities of the department, including the proposed annual audit plan, periodic and interim progress reports, significant issues raised during the audit and management's response. The Committee shall review and monitor the Company's compliance with legal and regulatory requirements. At the date of examination, the following Directors were members of the Audit Committee:

Linda Niessen, DMD - Chairperson	
Edward Hjerpe, III	Donald Kenny
Marion Kane	Pamela Reeve

Executive Committee

The Executive Committee shall consist of at least three Directors, appointed by the Board. The Chairman of the Board and the Vice Chairman of the Board shall be members of the Committee. The Committee provides assistance to the Board by reviewing significant and urgent matters related to the Company, its subsidiaries and affiliates. To provide assistance the Committee maintains free and open communication with the Board and any member of senior management of the Company. Additional responsibilities of the Committee include engaging and obtaining advice and assistance from independent outside legal counsel, accountants, and other advisors. At the date of examination, the members of the Executive Committee were as follows:

H. Jay Sarles – Chairman	Edward Hjerpe, III, Vice Chairman
Thomas Galligan, III	Donald Kenney
Raul Garcia, DMD	Linda Niessen, DMD
Karen Kaplan	Anne Page Palmer

Finance and Investment Committee

The Finance and Investment Committee shall consist of at least three Directors, appointed by the Board of Directors, one of whom shall be designated by the Board as Chairman. The Committee recommends overall investment policy to the Board for its approval and approves guidelines for individual investment managers in accordance with the approved investment policy. Also the committee reviews and provides guidance with regards to the capital structure of the Company and any adjustment to it, the Company's debt coverage and leverage ratios and any bank compliance issues, cash flow management and the Company's capital expenditure plan and budget. At the date of examination, the members of the Investment Committee consisted of the following Directors:

Donald Kenney – Chairman	
Edward Hjerpe, III	Marion Kane
John Gusha, DMD	Walter Owens, DMD

Nominating and Governance Committee

The Nominating and Governance Committee shall consist of at least three Directors appointed by the Board of Directors. One director shall be designated by the Board as Chairperson. The primary purposes of this committee are; assume a leadership role in shaping the corporate governance of the Company, promote the effective functioning and coordination of the Boards and Committees of the Company and assist the Board in the implementation, oversight and disclosure of sound corporate governance guidelines and practices for the Company. At the date of examination, the Committee consisted of the following Directors:

Karen Kaplan – Chairperson	Leslie Zide, DMD
Raul Garcia, DMD	Anne Page Palmer

Committee on Professional Quality

The Committee of Professional Quality shall consist of at least three members of the Board of Directors and a Chairperson all appointed by the Board of Directors. The majority of the Committee members must be dentists. The role of the committee is to review the structures, policies, processes and outcome measures relating to the overall retention and management of the provider networks of the Company and its subsidiaries. At the date of examination, the Committee consisted of the following members:

	Raul Garcia, DMD - Chairman
John Gusha	Walter Owens, DMD
Donald LeClair, DMD	Leslie Zide, DMD
Linda Niessen, DMD	

Compensation Committee

The Compensation Committee shall consist of at least three Directors appointed by the Board of Directors, of whom one shall be elected annually by the Committee or by the Board of Directors as Chairperson. The Committee should meet at least twice a year as stated in its charter to carry out its responsibilities. The Compensation Committee shall review and make recommendations to the Board for its approval of the terms of any employment agreement between the Company and CEO, review and approve corporate goals and financial objectives relevant to executive compensation. The Committee reviews and makes recommendations to the Board of Directors with respect to the approval, amendment and termination of the Company's broad base bonus and incentive compensation plans, and administer such plans, consistent with the Committee's oversight responsibilities, including approval of the Company's annual merit and bonus pools. At the date of examination, the members of this Committee were the following Directors:

Anne Page Palmer - Chairperson
Terry Conner Donald Kenney
Thomas Galligan, III Pamela Reeve
Karen Kaplan

Officers

The bylaws of the Company provide that the officers of the Company shall consist of a president, a treasurer, a clerk, one or more vice presidents, one or more assistant treasurers, and such subordinate officers as the Board of Directors shall from time to time elect with such powers and duties and for such terms of office as the Directors may designate. The Chairman of the Board shall be chosen from among the Directors of the Company, but other officers need not be chosen from among the Directors of the Company.

Officers are elected by the Board of Directors at their annual meeting in each year. All of the officers shall hold their respective offices for one year and thereafter until their successors are elected and qualified, unless a different term shall be designated by the Directors, subject to removal at any time by vote of a majority of the Board of Directors.

The elected and appointed officers with their respective titles at December 31, 2010, were the following:

<u>Name of Officer</u>	<u>Title</u>
Fay Donohue	President and Chief Executive Officer
Myra Green	Secretary
James Collins	Treasurer

Conflict of Interest Procedure

The Company has adopted, by resolution of the Board of Directors, a formal Conflict of Interest Policy. The Company has an established procedure for the disclosure to the Board of Directors of any potential financial transaction, investment, material interest, activity, or affiliation on the part of any director, officer, or key employee, which might be contrary to the policy statement.

Annually, all Directors, officers, and employees whose duties require them to transact any business, the nature of which might be contrary to the conflict of interest policy, are required to complete a Conflict of Interest Disclosure Statement. The completed questionnaires were reviewed with no discrepancies noted regarding conflicts of interest as reflected in the Company's 2010 Annual Statement response to General Interrogatories Question 17.

Corporate Records

Bylaws and Articles of Organization

The bylaws and articles of organization and amendments thereto were examined as part of this examination. Since the last examination the bylaws were amended and restated twice. On April 30, 2008 Article 3, Section 1 added the provision that each member shall serve as a director and each director must be a member of the corporation. On April 20, 2010 the bylaws were amended to eliminate the position of Chairman of the Board as an Officer of the Corporation and to eliminate the requirement that the Corporation provide a copy of all amendments to the bylaws to participating dentists within 30 days of their adoption. These changes and all prior changes have been properly disclosed to regulatory authorities. Based upon the reading of the bylaws, the Company is operating substantially in compliance of the bylaws and in accordance with the purpose, functions and policies as set forth in the Articles of Organization

Board of Directors Minutes

Review of the minutes of the Board of Directors and committees in place for the period under examination indicated that all meetings were held in accordance with the Company's bylaws and laws of the Commonwealth of Massachusetts. Actions of the Board and committees were ratified at each meeting either by vote or by consent.

Disaster Recovery and Business Continuity

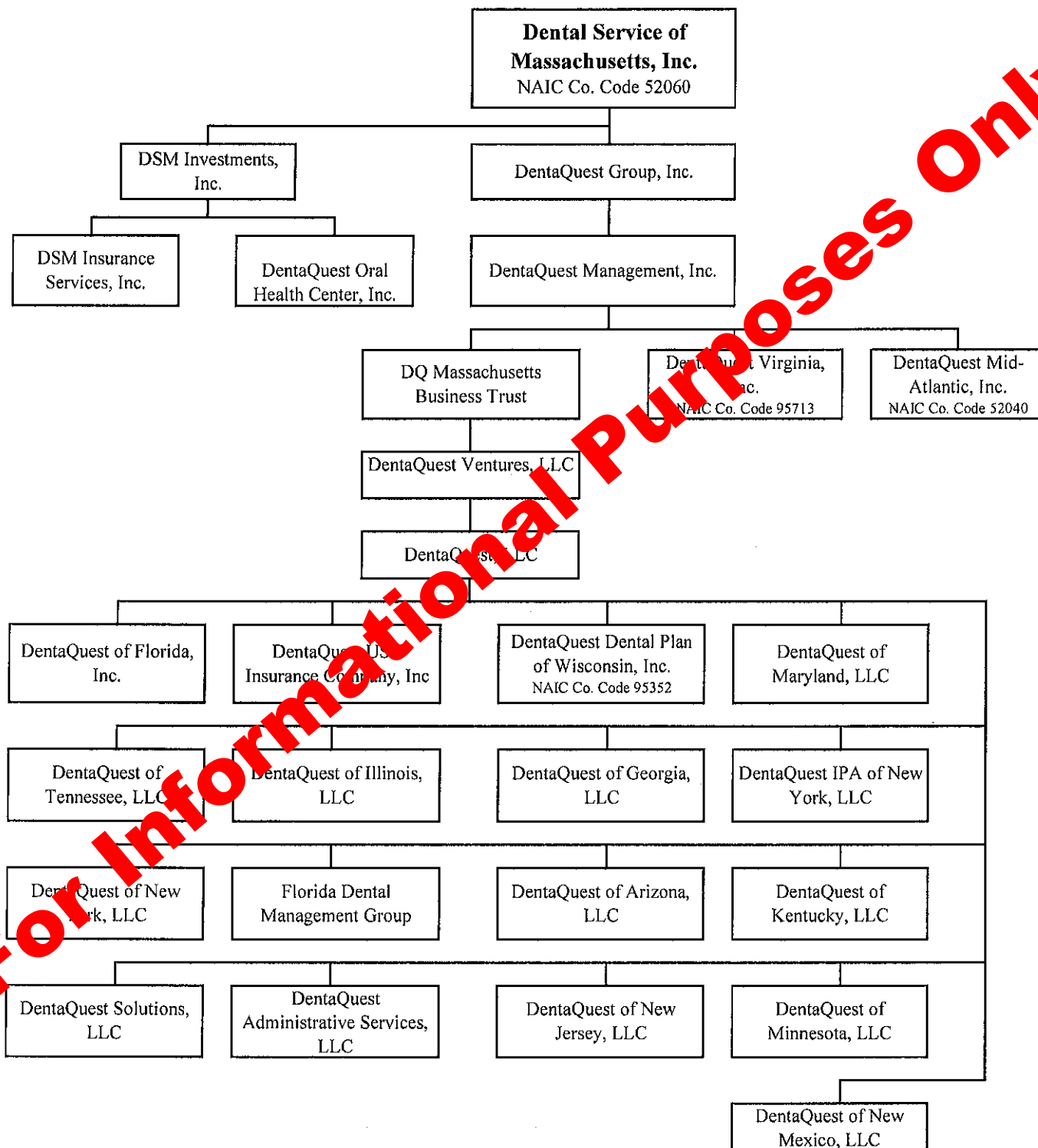
The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with Massachusetts General Laws Chapter 175 Sections 180M-180Q.

AFFILIATED COMPANIES

The Company is the ultimate controlling entity in a hierarchy of numerous for-profit and not-for-profit subsidiaries and affiliates; however, in that it was formed and continues to operate under MGL Chapter 176E, it claims exemption per Section 14 of such statute from the requirement to file the holding company system annual registration statements (Forms A, B, C, and D) as otherwise required by Section 206C of MGL Chapter 175 and Regulation 211 CMR 7.00.

ORGANIZATION CHART

The corporate organization of which DSM was a member at December 31, 2010, is represented as follows:



DentaQuest Foundation, Inc., f/k/a Oral Health Foundation, Inc., and DentaQuest Institute, Inc. f/k/a the Catalyst Institute, Inc., are not shown in the organizational chart because these two entities are not consolidated with the Company even though the Company is the sole member of each corporation; they are charity organizations which rely on the Company's multi-million dollar annual contributions for their continued operations.

Transactions and Agreements with Subsidiaries and Affiliates

Services Agreement

In 2002, the Company and DQV entered into a Services Agreement whereby the Company receives management, general administrative, underwriting, claims, financial accounting, and other services from DQV in exchange for a monthly fee. On July 14, 2008 the agreement was amended to reflect the new corporate entity, DentaQuest Ventures, LLC which was formed as part of the tax reorganization in 2006. In addition, the amendment changed the reimbursement terms whereby DSM shall reimburse DQV for the actual cost of providing the services of information technologies, accounting, legal, cash management, human resources, professional relations, credentialing of dentists, and regulatory filings and compliance. DQV charges the Company a fee equal to DQV's cost plus a 7% margin for providing executive and managerial support overseeing the business services and the services related to managing facilities and office space. DQV also charges the Company a fee equal to DQV cost plus a 15% margin for providing the services of claims processing, enrollment, actuarial and underwriting, billing, sales and marketing and customer service.

Effective October 1, 2010, with the consent of the Company, DQV assigned all of its rights and obligations under the Service Agreement to its subsidiary DentaQuest, LLC ("DQ LLC") and DQ LLC agreed to assume and perform all of DQV's duties and obligations under the Service Agreement. The Service Agreement was amended and restated and there were no changes to the financial terms.

Surplus Notes

In 2010 the Company entered into three Surplus Note Agreements with the following subsidiaries: DentaQuest of Florida, Inc. (formerly Atlantic Dental, Inc.) for \$4,200,000, DentaQuest Virginia, Inc. for \$550,000, and DentaQuest USA Insurance Company of Texas, Inc. for \$4,000,000. These agreements are in place in order for the Company to fund the statutory deposit requirement for each of these subsidiaries.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized insurer, consistent with Section 60 of MGL Chapter 175. The aggregate limit of the liability exceeds the minimum fidelity bond amount recommended by the NAIC. The Company further protected its interests and property with insurance covering other insurable interests, such as a crime policy that covers employee

dishonesty and outside thefts. The Company also has in place numerous other insurance coverages including "all risk" property coverage, managed care liability coverage, workers compensation, and an umbrella policy.

PENSION AND INSURANCE PLANS

In accordance with the Services Agreement, the Company has no employees, therefore DSM does not have employee pension and insurance plans. All pension and insurance plans are maintained by the Company's affiliate DQ, LLC. Under the terms of the Services Agreement, the Company paid its proportionate share of the pension and 401(k) benefit expense, which is sponsored by DQ, LLC. During 2010, the Company's share of the expense for these plans was \$1,127,160 for the discretionary retirement plan and \$942,510 for the 401(k) plan. In addition, the Company paid for its share of health, dental, short-term disability or salary continuance benefits, long-term disability, and life insurance options to all full and qualified part-time employees providing services to the Company.

STATUTORY DEPOSITS

DSM is licensed to transact business and restrict its writings to businesses only in the Commonwealth of Massachusetts. It does not have statutory deposits with the Commonwealth.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company's Certificate of Authority in Massachusetts was current and in force. The Company writes coverage provided through a small network of independent agents. Although the Company currently is licensed to write business only in the Commonwealth of Massachusetts, it in effect provides coverage in numerous states through affiliated subsidiaries operating with slight distinguishing identities under the group name of DentaQuest in other jurisdictions.

Treatment of Policyholders

Claim Settlement Practices

Procedures performed in conjunction with the claims testwork indicated that DSM investigated and settled claims on a timely and equitable basis.

REINSURANCE

The Company did not participate in any reinsurance programs in the period under examination. DSM therefore retains the underwriting risk of its policies and is solely responsible to policyholders and claimants for incurred losses, claims, claim adjustment expenses, and underwriting expenses.

SUBSEQUENT EVENTS

Effective January, 1, 2011 DentaQuest Ventures, LLC ("DQV, LLC") merged with and into DentaQuest, LLC ("DQ, LLC") in a statutory merger. DQ, LLC is the surviving legal entity. Pursuant to the merger, all of the assets and liabilities of DQV, LLC have been assumed by DQ, LLC.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's independent Certified Public Accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network (LAN), Wide Area Network (WAN) and Internet Controls. No material deficiencies were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2010 Annual Statement. No discrepancies noted.

The books and records of the Company are audited annually by PricewaterhouseCoopers, LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and the National Association of Insurance Commissioners as of December 31, 2010:

- Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2010
- Statement of Revenue and Expenses for the Year Ended December 31, 2010
- Statement of Surplus for the year ended December 31, 2010
- Reconciliation of Capital and Surplus for the three year period ended December 31, 2010

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Dental Service of Massachusetts, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2010

Assets	Per Company	Examination Changes	Per Examination
Bonds	\$ 161,612,511	\$ 0	\$ 161,612,511
Preferred stocks	347,672		347,672
Common stocks	53,964,636		53,964,636
Cash, cash equivalents and short-term investments	34,684,246		34,684,246
Receivables for securities	556,108		556,108
Aggregate write-ins for invested assets:			
Investment in DentaQuest, Inc.	(118,885,392)		(118,885,392)
Surplus Note	4,000,000		4,000,000
Subtotals, cash and invested assets	136,279,781		136,279,781
Investment income due and accrued	1,713,875		1,713,875
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	32,856,334		32,856,334
Electronic data processing equipment and software	2,814,213		2,814,213
Receivables from parent, subsidiaries, and affiliates	1,637,154		1,637,154
Aggregate write-ins for other than invested assets:			
Other receivables and assets	1,254,981		1,254,981
Management fee due from DentaQuest	4,500,000		4,500,000
Total Assets	<u>\$ 181,056,338</u>	<u>\$ 0</u>	<u>\$ 181,056,338</u>

Dental Service of Massachusetts, Inc.
Statement of Assets, Liabilities, Capital and Surplus
As of December 31, 2010

	Per Company	Examination Changes	Per Examination	Notes
Liabilities				
Claims unpaid	\$ 14,566,368	\$ 0	\$ 14,566,368	
Unpaid claims adjustment expenses	1,054,544		1,054,544	
Aggregate health policy reserves	7,171,350		7,171,350	
Premiums received in advance	6,487,160		6,487,160	
General expenses due or accrued	1,650,457		1,650,457	
Amounts withheld or retained for the account of others	42,518,882		42,518,882	
Payable for securities	3,449,166		3,449,166	
Aggregate write-ins for other liabilities:				
Management fee due to DentaQuest	5,684,755		5,684,755	
Other unapplied receipts	83,642		83,642	
Care group reserves	571,398		571,398	
Payable to DentaQuest, LLC	1,205,299		1,205,299	
Total Liabilities	<u>84,443,021</u>		<u>84,443,021</u>	
Common capital stock				
Gross paid-in and contributed surplus				
Unassigned funds (surplus)	96,613,317		96,613,317	
Total capital and surplus	<u>96,613,317</u>	<u>0</u>	<u>96,613,317</u>	
Total Liabilities, Capital, and Surplus	<u>\$ 181,056,338</u>	<u>\$ 0</u>	<u>\$ 181,056,338</u>	

Dental Service of Massachusetts, Inc.
Statement of Revenue and Expenses
As of December 31, 2010

	Per Company	Examination Changes	Per Examination
Net premium income	\$ 276,816,671	\$ 0	\$ 276,816,671
Hospital and medical: other professional services	211,237,433		211,237,433
Claim adjustment expenses	6,098,000		6,098,000
General administrative expenses	27,784,767		27,784,767
Total underwriting deductions	245,120,200		245,120,200
Net underwriting gain	31,696,471		31,696,471
Net investment income earned	6,964,378		6,964,378
Net realized capital gains	5,034,010		5,034,010
Net investment gain	11,998,388		11,998,388
Aggregate write-in for other income or (expenses):			
Charitable contributions	(10,685,000)		(10,685,000)
Total other income or (expenses)	(10,685,000)		(10,685,000)
Net income or (loss) after capital gains tax and before all other federal and foreign income taxes	33,009,859		33,009,859
Federal and foreign income taxes incurred	0		0
Net Income (Loss)	\$ 33,009,859	\$ 0	\$ 33,009,859

Dental Service of Massachusetts, Inc.
Statement of Surplus
For the Year Ended December 31, 2010

	As Reported by the Company	Examination Changes	Per Examination	Notes
Surplus, December 31, 2009	\$ 188,280,097	\$ 0	\$ 188,280,097	
Net income (loss)	33,009,859		33,009,859	
Change in net unrealized capital gains or (losses)	(56,041,647)	11,106,205	(44,935,442)	2
Change in non-admitted assets	(68,634,010)	(11,106,205)	(79,740,215)	2
Aggregate write-ins for gains or (losses) in surplus	(982)		(982)	
Net change in surplus for the year	(91,666,780)		(91,666,780)	
Surplus, December 31, 2010	<u>\$ 96,613,317</u>	<u>\$ 0</u>	<u>\$ 96,613,317</u>	

Dental Service of Massachusetts, Inc.
Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2010

	<u>2 0 1 0</u>	<u>2 0 0 9</u>	<u>2 0 0 8</u>
Capital and surplus as of December 31, prior year	\$ 188,280,097	\$ 147,912,722	\$ 153,890,061
Net income or (loss)	33,009,859	25,782,035	12,113,007
Change in net unrealized capital gains or (losses) *	(44,935,442)	25,958,000	(56,440,401)
Change in non-admitted assets *	(79,740,215)	(11,373,310)	(12,764,239)
Miscellaneous adjustment	(982)	650	
Non-Admitted Investment in DSM Investments			(3,162,312)
Net change capital and surplus for the year	<u>(91,666,780)</u>	<u>10,367,375</u>	<u>(5,977,345)</u>
Capital and surplus as of December 31, current year	<u>\$ 96,613,317</u>	<u>\$ 188,280,097</u>	<u>\$ 147,912,722</u>

* Per Examination

NOTES TO FINANCIAL STATEMENT**Note 1:**

<u>Claims Unpaid</u>	\$ 14,566,368
<u>Unpaid Claims Adjustment Expenses</u>	\$ 1,054,544

The Company retained the services of Milliman, Inc., Consultants and Actuaries, to develop the Company's year-end reserves and to provide the Actuarial Opinion on the reasonableness of the reserves carried by the Company as of December 31, 2010.

PricewaterhouseCoopers performed an independent actuarial review of the Company's reserves and the table below summarizes their reserve range estimates as of December 31, 2010:

DSM – Claims Unpaid & Unpaid Claims Adjustment Expenses	PwC - Low Range	PwC - High Range
\$15,620,912	\$14,131,833	\$15,850,836

As part of the examination, the Examiners reviewed the reports and the Statement of Actuarial Opinion issued by Milliman, Inc., and performed, as they deemed appropriate, their own testwork and evaluation of DSM's reserve liabilities as of December 31, 2010, with payment developments through September 30, 2011. Based on such reviews and testwork and with reliance on the professional judgment of the Appointed Actuary in his Statement of Actuarial Opinion as to the appropriateness of DSM's reserving methods and compliance with the requirements of Massachusetts law, the Examiners concluded that the Claims Unpaid and the Unpaid Claims Adjustment Expenses reported by DSM in its Annual Statement as of December 31, 2010, appear to be reasonable and adequate to enable DSM to fulfill its contractual obligations.

Note 2:Goodwill Valuation

During the Annual Audit performed by PwC it was noted that the Company used an incorrect number of months to calculate the goodwill amortization for two subsidiaries. This finding resulted in a change between the change in Net Unrealized Capital Gains or (Losses) and the Change in Non-Admitted Assets. This finding did not result in amending the Annual Statement with the NAIC because there was no impact to surplus and the net change between the two lines is zero. The examination team recommended that the Company make the change beginning with the September 30, 2011 Quarterly Statement and the Company has complied with this recommendation.

COMMENTS AND RECOMMENDATIONS

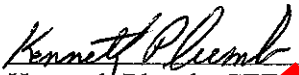
The Company is not in compliance with Massachusetts General Law, Chapter 176A, Section 16, which requires approval of all investment purchases and sales either by the Board of Directors or by the Finance and Investment Committee. It is recommended the Company enact the necessary steps to comply with the statute.

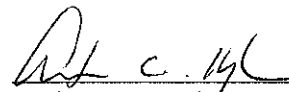
ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination.

The assistance rendered by the following Massachusetts Division of Insurance examiners who participated in this examination is hereby acknowledged:

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Commonwealth of Massachusetts
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