

AMENDED FORM A
STATEMENT REGARDING THE
ACQUISITION OF CONTROL OF OR MERGER WITH A DOMESTIC INSURER

Northwest Physicians Mutual Insurance Company (“Insurer”)

by

Underwriter for the Professions Insurance Company (“Applicant”)

a subsidiary of The Doctors Company, an Interinsurance Exchange

Filed with the Department of Consumer and Business Services of the State of Oregon

Dated: October 26, 2005

Notices and Correspondence Concerning This Statement Should Be Addressed to:

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ITEM 1. INSURER AND METHOD OF ACQUISITION

State the name and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.

The name and address of the insurer is

Northwest Physicians Mutual Insurance Company
2965 Ryan Drive, S.E.
Salem, Oregon 97301
Phone: (503) 371-8228
Fax: (503) 371-0087

Control of Northwest Physicians Mutual Insurance Company (“*Insurer*” or “*NPM*”) will be acquired by a forward triangular merger of NPM and a newly formed Oregon stock insurance company, Northwest Physicians Insurance Company (“*NPIC*”). An Application for Permit to Organize has been approved by the Department of Consumer and Business Services (“*Department*”) and a Application for a Certificate of Authority has been filed for NPIC. NPIC will be the surviving company in the merger.

NPIC is the wholly-owned subsidiary of Underwriter for the Professions Insurance Company (“*Applicant*” or “*UFTP*”), a stock insurer domiciled in the State of Colorado. UFTP is the wholly-owned subsidiary of The Doctors Company, an Interinsurance Exchange (“*TDC*”), a California domiciled reciprocal insurer authorized to transact the business of insurance in 49 states and the District of Columbia. TDC indirectly will own 100% of the outstanding capital shares of NPIC.

The terms of the proposed merger are set forth in the Amended and Restated Agreement and Plan of Merger (“*Definitive Agreement*”) attached as Appendix 1. The obligation of the Insurer and the Applicant to consummate the transactions contemplated by the Agreement is conditioned upon approval by the Director of the Department of Consumer and Business Services. See Section 8.1(g) of the Definitive Agreement.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

(a) State the name and address of the applicant seeking to acquire control over the insurer.

The name and address of the Applicant are:

Underwriter for the Professions Insurance Company

Statutory Office:
1675 Broadway
Denver, Colorado 80202

Business Office:
185 Greenwood Road
Napa, California 94558
Tel: (707) 226-0100
Fax: (707) 226-0180

Applicant is a stock insurer domiciled in Colorado. Applicant is the wholly owned subsidiary of:

The Doctors Company, an Interinsurance Exchange
185 Greenwood Road
Napa, California 94558
Tel: (707) 226-0100
Fax: (707) 226-0180

(b) If the applicant is not an individual, state the nature of its business operations for the past five years or for such lesser period as such person and any predecessors thereof have been in existence. Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries.

TDC is a California domiciled reciprocal insurer that writes professional liability insurance for physicians and surgeons. TDC was formed by physicians in 1976 in response to a serious medical malpractice availability crisis in California. The California Department of Insurance granted TDC perpetual non-assessability status in 1986. All surplus contribution certificates were retired by 1990.

The Interinsurance exchange is managed by The Doctors Management Company, a wholly owned subsidiary of TDC.

TDC is admitted in 49 states, the District of Columbia, and the Territory of Guam. It writes primarily in 17 states, with 37 percent of its writings in California, 7 percent of its writings in

Ohio, 6 percent of its writings in each of Florida, Washington and Virginia. These five states accounted for 62 percent of TDC's direct premiums in 2004.

UFTP was formed in 1989 as a wholly-owned stock subsidiary of TDC and is domiciled in Colorado. UFTP is admitted in 48 states but is actively writing only in Colorado.

Plans for NPIC

NPIC will continue the business conducted by NPM. The parties contemplate that NPIC will enter into a pooling agreement with TDC under which TDC will reinsure approximately 75 percent of NPIC's written premiums. There will be no retrocession under this pooling agreement. The pooling agreement will significantly reduce the cost of third party reinsurance to NPIC. NPIC will obtain third party reinsurance, in the approximate amount of \$6.7 million, from the reinsurers used by TDC. In 2006, NPIC will retain approximately \$6.7 million in premium.

Due to limited surplus and the cost of reinsurance, NPM has restricted its writings of higher risk specialties. Since NPIC will be better capitalized and will be able to obtain reinsurance at a lower cost, NPIC intends to write a wider range of higher risk specialties than NPM.

Subject to approval by the Department of Consumer and Business Services, the officers of NPIC will be:

President – Richard E. Anderson, M.D.

Chief Operating Officer – Robert D. Francis

Chief Financial Officer – David G. Preimesberger

Secretary – David L. Suddendorf

The directors of Northwest Physicians Insurance Company are Richard E. Anderson, M.D., Robert D. Francis, David G. Preimesberger, James T. Dorigan and William J. Gallagher.

Employees of NPM will become employees of NPIC. In connection with this transaction, NPIC will enter into employment agreements with James T. Dorigan, CEO of NPM, and William J. Gallagher, Chairman of the Board of NPM. Each will become an Executive Vice President of NPIC. Both Messrs. Dorigan and Gallagher will be employed by NPIC on substantially similar terms and conditions and at substantially the same compensation that they receive as employees of NPM.

Other NPM employees will be employed by NPIC on substantially the same terms and at the same compensation as they receive as employees of NPM. The former NPM employees will be employed "at will" by NPIC subject to a severance payment equal to six months salary if they are terminated without cause or due to elimination or consolidation of their position within one year after the closing.

Upon the proposed merger, Dr. Gallagher will be nominated as a member of the TDC Board of Directors.

The NPM Board will continue as an Advisory Board to NPIC. The Advisory Board or its subcommittees will advise NPIC management with respect to underwriting, claims handling, marketing, governmental affairs and other issues relating to writing medical malpractice insurance in Oregon.

In the future, NPIC may enter into a management agreement with TDC to manage the business written by TDC in the Pacific Northwest.

Rates and Forms

After closing, NPIC intends to use the same rates and forms as NPM (with the name of the insurer changed). See Section 5.6 of the Definitive Agreement. NPIC will issue name change endorsements, in a form approved by the Department of Consumer and Business Services, with respect to policies written by NPM that are in force as of the Closing Date.

(c) Furnish a chart or listing clearly presenting the identities of the inter-relationships among the applicant and all affiliates of the applicant.

No affiliate need to be identified if its total assets are equal to less than ½ of 1% of the total assets of the ultimate controlling person affiliated with the applicant. Indicate in such chart or listing the percentage of voting securities of each such person which is owned or controlled by the applicant or by any other such person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of such control. As to each person specified in such chart or listing indicate the type of organization (e.g. corporation, trust, partnership) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of the proceedings and the date when commenced.

An organization chart of the Applicant and its Parent and Affiliates which shows the percentage of ownership interests was attached as Appendix 2 to the original Form A filing.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

State the following with respect to (1) the acquiring party if the acquiring party is an individual or (2) if the acquiring party is not an individual, all individuals who are or who have been selected to become directors or executive officers of the acquiring party or who perform or will perform functions appropriate to such positions, or who are owners of 10 percent or more of the voting securities of the acquiring party:

(a) Name and business address;

(b) Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which such employment is carried on;

(c) Material occupations, positions, offices or employment during the last five years, giving the starting and ending dates of each and the name, principal business and address of any business corporation or other organization in which each such occupation, position, office or employment was carried on; if any such occupation, position, office or employment required licensing by or registration with any federal, state or municipal governmental agency, indicate such fact, the current status of such licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.

(d) whether or not such person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last ten years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.

Current Officers of The Doctors Company

Richard Elliott Anderson, *CEO and Vice President*

David Burnett Troxel, *Secretary*

David Gerard Preimesberger, *Treasurer*

Current Directors of The Doctors Company

Richard Elliott Anderson, *Chairman of the Board*

David Michael Charles

Kenneth Richard Chrisman

Linda Hawes Clever

Mark Gorney

Charles Richard Kossman

Ann Smith Lofsky
John Andrew McRae
Donald Jerome Palmisano
Robert Blair Sheppard
Diana Lynn Starcher
David Burnett Troxel
Thomas Allen Waltz
Randall Keach Zeller

Current Officers of Underwriter For The Professions

Richard Elliott Anderson, *CEO*

David Burnett Troxel, *Secretary*

David Gerard Preimesberger, *Treasurer*

Current Directors of Underwriter For The Professions

Richard Elliott Anderson, *Chairman of the Board*

David Michael Charles
Mark Gorney
Ann Smith Lofsky
David Burnett Troxel
Randall Keach Zeller

Biographical Affidavits have been filed.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

(a) Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.

OVERVIEW ON CONSIDERATION

The key elements of the consideration are:

- The consideration will be NPM's surplus at December 31, 2005, plus adjustments for certain one-time costs and for assets whose value is not fully reflected under statutory accounting. (See Definitive Agreement, Schedule 3.2(a).) For example, the purchase price will be increased by certain values associated with the headquarters building, the adjacent lot, certain non-admitted property and the net unrealized gains of NPM's bond portfolio. (See Schedule 3.2(a), items (3)-(6).) To the extent the Company sells these assets prior to December 31, 2005, there would be no increase in purchase price pursuant to items (3)-(6). This treatment avoids double counting since the proceeds of any such sales would increase NPM's surplus. For example, the lot adjoining the NPM headquarters building has already been sold and, as a result, the projected purchase price has increased due to the corresponding increase in projected surplus. The pre-interest consideration is projected to be approximately \$14 million.
- All record date members will receive a portion of the consideration. The consideration will be paid to record date members over a five year period. A cash payment of \$2.5 million will be paid upon closing ("*Closing Payment*"). Record date members who remain insured with NPIC or an affiliate through 2006 or who are not so insured under specified circumstances ("*Continuing Members*") will receive a share of the Closing Payment and five annual contingent payments thereafter. Record date members who are not Continuing Members ("*Non-Continuing Members*") will receive a share of the Closing Payment and a single contingent payment in 2011. Non-Continuing Members will ultimately receive only thirty-six percent (36%) of what they would have received had they become Continuing Members. (Definitive Agreement, Section 3.2(f).)
- The purchase price will be subject to modification (both upwards and downwards) for reserve deficiencies and redundancies over the five year period. There is a dispute resolution mechanism with respect to these modifications.
- The purchase price may be adjusted downwards if persistency – the percentage of policyholders who remain insured with NPIC or an affiliate – drops below 91 percent in 2006 or 83 percent in 2007. The persistency rate used for this adjustment does not reflect policyholders who have ceased to be insured by NPM, NPIC or an affiliate of NPIC as a result of death, disability, retirement or non-renewal by the insurer.

- Compound interest an annual rate of 4.5 percent will be paid on the unpaid balances of the purchase price as determined as of the final payment date.

THE AMOUNT OF THE PURCHASE PRICE

The method of determining the initial purchase price (for purposes of closing) is set forth in Schedule 3.2(a) of the Definitive Agreement. The purchase price will be determined as NPM's audited statutory surplus at December 31, 2005, adjusted as follows:

- 1) Decreased by the amount of the statutory deferred tax asset carried on NPM's books as of December 31, 2005;
- 2) Increased by the amount of \$275,471 attributable to the tax assets of the Company, including the Company's net operating loss carryforwards and capital loss carryforwards;
- 3) Increased by the difference between 90 percent of the appraised value of NPM's headquarters building as of the appraisal performed in June 2005 and the statutory book value of the headquarters building as of December 31, 2005.
- 4) Increased by the mutually agreed upon value of NPM's non-admitted assets that consist of vehicles, furniture, equipment and pre-paid assets in an amount that will not exceed \$100,000.
- 5) Increased by the amount of any net unrealized gains of the Company's bond portfolio; and
- 6) Decreased by \$500,000 if the following expenses have not been accrued by NPM by December 31, 2005:
 - a) 2005 management incentives and bonuses in the amount of \$181,000;
 - b) Software upgrades in the amount of \$50,000;
 - c) Costs and expenses of the activities of the NPM Representative in the amount of \$100,000; and
 - d) Personnel, phone, computer and miscellaneous costs in the amount of \$69,000.
 - e) Year-end actuarial, accounting and audit expenses in the amount of \$100,000.

The Definitive Agreement does not require NPM to sell any assets. See "Overview of Consideration" for a discussion of the effect of the sale of certain assets.

POST CLOSING ADJUSTMENTS TO THE PURCHASE PRICE

The consideration will be paid out over a five year period, according to the schedule discussed below. During that period, the consideration is subject to adjustment to reflect:

- Over or under-reserving of claims incurred on or before December 31, 2005;
- Persistency;
- Costs associated with post-closing activities of the NPM Representative; and
- Losses associated breaches of covenants, representations and warranties by NPM with respect to pre-closing activities.

Reserve Adequacy Adjustments

The value of NPM depends to a very significant extent on the adequacy of its reserves. Due to NPM's depletion of surplus in recent years, there is a higher than typical level of certainty about the adequacy of NPM's current reserves.

The parties have agreed in Section 3.2(d) of the Definitive Agreement that the purchase price may be adjusted based on reserves deficiencies and redundancies relating to pre-merger policies. These adjustments will be made as of December 31, 2006 through December 31, 2010. For each of those five years, the purchase price will be:

- 1) Decreased by the full amount of any deficiencies in the Company's loss reserves and defense and cost containment reserves relating to claims incurred on or prior to December 31 2005, compared on the annual adjustment date with such reserves as of December 31, 2005;
- 2) Increased by seventy five percent (75%) of the amount of any redundancies in the Company's loss reserves and defense and cost containment reserves relating to claims incurred on or prior to December 31 2005, compared on the annual Adjustment date with such reserves as of December 31, 2005.

Under the agreement, NPIC retains 25 percent of the potential upside in the reserve development in consideration for its assumption of unlimited risk with respect to adverse reserve development. Once a Contingent Payment has been made, it will not be recouped from the members even if subsequent loss development pushes the purchase price below the level of the aggregate payments previous made to members.

Indeed, NPIC will be responsible for NPM's liabilities even if there is a reserve deficiency that exceeds the entire amount of consideration paid. TDC intends that NPIC remain adequately capitalized. A significant reserve deficiency relating to pre-merger policies would diminish NPIC's surplus. TDC or UFTP would have to infuse additional capital into NPIC. Thus, in effect, TDC or UFTP would be paying the pre-merger claims.

TDC and NPM do not consider that a formal guarantee of NPM liabilities assumed by NPIC as a result of the merger to be necessary. As a practical matter, TDC will not allow a wholly-owned subsidiary to become financially shaky. Any significant weakness in any of its subsidiaries would put into question TDC's own A.M. Best rating. Moreover, a formal guarantee would require prior approval of the California Department of Insurance. Obtaining

such approval would delay the completion of this transaction for a lengthy period of time – probably in the range of six months to a year.

In addition to compensating NPIC for the unlimited downside risk it will assume and for the absence of a “claw back” provision, the 25% sharing in upside potential gives NPIC a financial incentive to manage the NPM liabilities as efficiently as possible. To the extent that effective management of the run-off creates reserve redundancies, the NPM members will benefit.

Retention Incentive

The reason for the acquisition from the perspective of TDC and UFTP is the NPM policyholder base. In light of comments from the Department, the parties have amended the retention incentive and persistency provisions.

Under the Definitive Agreement, all NPM members as of the September 1, 2005 record date will receive compensation. No nominal consideration will be paid to members insured after the record date.

Record date members who remain insured with NPIC or an affiliate through 2006 or who are not so insured under specified circumstances (“*Continuing Members*”) will receive a share of the Closing Payment and five annual contingent payments thereafter. Record date members who are not Continuing Members (“*Non-Continuing Members*”) will receive a share of the Closing Payment and a single contingent payment in 2011. Non-Continuing Members will ultimately receive only thirty-six percent (36%) of what they would have received had they become Continuing Members.

The single contingent payment paid to Non-Continuing Members will be computed as follows:

- NPIC will withhold from the annual contingent payments to Continuing Members an amount reasonably necessary to fund the contingent payment to Non-Continuing Members. NPIC will reasonably determine the withheld amount in consultation with the NPM Representative.
- In 2011, NPIC will compute the amount each Non-Continuing Member would have received if all record date members had become Continuing Members. Each Non-Continuing Member will receive an amount equal to thirty-six percent (36%) of the amount he, she or it would be entitled to as a Continuing Member (including the portion of the Closing Payment already received by that member).
- Compound interest at an annual rate of 4.5 percent will be paid on the unpaid balance.
- Once the payments have been computed for all Non-Continuing Members, the remaining purchase price pool will be allocated among Continuing Members, in accordance with their sharing ratio, and paid out in a final contingent payment.

This approach exposes Non-Continuing Members to the same purchase price adjustments as Continuing Members. It also provides for a withheld amount in order for NPIC to build up the fund necessary to pay Non-Continuing Members in all events (e.g., if there adverse developments that may preclude a final contingent payment in 2011 to Continuing Members.)

UFTP and TDC do not believe that this retention provision is inconsistent with the requirements of ORS 732.531. Section 732.531(b) provides: “A member of a domestic mutual insurer or a subscriber of a domestic reciprocal insurer shall be an eligible member or eligible subscriber if the policy of the member or subscriber is in force as of the record date, which is the date that the board of directors of the domestic mutual insurer or the domestic reciprocal insurer approves the proposed activity or some other date specified as the record date in the statement and approved by the Director of the Department of Consumer and Business Services.” Nothing in this language precludes the Director from approving a consideration structure under which contingent consideration payments are made to members as of the record date who remain insureds as of future dates upon which the amount of contingent consideration payments will be determined.

Persistency Adjustment

Historically, NPM has had a high persistency rate. When death, disability, retirement and non-renewal are factored in, NPM’s persistency rate is above 96 percent.

- The December 31, 2006 adjustment will reduce the purchase price by .5 percent for each one percent decrease in the retention rate of members as of the Closing Date below 91 percent.
- The December 31, 2007 adjustment will reduce the purchase price by .5 percent for each one percent decrease in the retention rate of members as of the Closing Date below 83 percent. ($.91 \times .91 = .83$).
- The Persistency Adjustment determined as of the December 31, 2007 Adjustment Date will be carried through and applied at all future Adjustment Dates.

The following example illustrates how the Persistency Adjustment would work:

If the persistency rate was 86 percent (5 points below the 91 percent threshold) at the December 31, 2006 Adjustment Date, the purchase price used to determine the first contingent payment would be reduced by 2.5%. If the persistency rate in the next year was 81 percent (2 points below the 83 percent threshold), then the second contingent payment made in 2008 would be reduced by 1 percent. The 1 percent adjustment would be carried forward and applied in determining the third contingent payment in 2009, the fourth contingent payment in 2010 and the fifth and final contingent payment in 2011.

Other Adjustments to the Purchase Price

In addition to the adjustments related to reserve adequacy and persistency described above, Section 3.2(d) also provides that the purchase price may be decreased for:

- Costs incurred by NPIC in connection with the engagement and activities of the NPM Representative (Section 3.2(d)(iv)); and
- Losses incurred by NPIC or UFTP as a result of a breach by NPM with respect to its representations, warranties or covenants under the Definitive Agreement; costs of corrective action required in connection with a market conduct examination or enforcement action by a regulator with respect to the Company; and taxes in excess of any accruals by NPM with respect to any period ending on or before the Closing Date. (Schedule 3.2(d)(v)).

DISPUTE RESOLUTION MECHANISM

The Definitive Agreement at Paragraph 3.3 includes a mechanism for resolving any disputes that may arise regarding any redundancies or deficiencies in NPM's reserves.

The Definitive Agreement creates a NPM Representative to represent the interests of the NPM members with respect to the purchase price adjustment provisions and other matters.

Each year, no later than 90 days after each Adjustment Date, NPIC will deliver a schedule and supporting documentation to the NPM Representative showing the redetermination of the purchase price based on year-end reserves.

The NPM Representative, with the approval of the majority of the Advisory Board, can object to the Purchase price calculation within 45 days of receipt of the calculations. If no objection is made, the Contingent Payment will be made on or before May 15. If an objection is made, the undisputed portion of the Contingent Payment will be made on or before May 15.

If the NPM Representative objects and NPIC and the NPM Representative cannot resolve the matter within 30 days from the date of the objection, then the parties will engage a nationally recognized independent accounting or actuarial firm mutually satisfactory to NPIC and the NPM Representative to serve as the Neutral Actuary. The Neutral Actuary shall review the relevant calculations and supporting data and determine a Purchase price adjustment that will be binding upon the parties.

If there is a supplemental Contingent Payment, either by agreement between the NPM Representative and NPIC or by the determination of the Neutral Actuary, such supplemental Contingent Payments will be made no later than 15 days from the date that the dispute is resolved.

The Definitive Agreement provides for the set aside of funds in the amount of \$100,000 to fund the activities of the NPM Representative. If these funds are exhausted during the five year period, then further payments to the NPM Representative will reduce the amount of the future Contingent Payments. Any funds remaining in the \$100,000 set aside will be paid to NPM members as part of the final Contingent Payment.

If a review by a Neutral Actuary is conducted and the Neutral Actuary determines that NPIC's calculation of the Purchase price was less than 5 percent lower than the Neutral

Actuary's determination of the Purchase price, then future Contingent Payments will be reduced by an amount equal to the cost of retaining the Neutral Actuary.

The Amended Agreement provides that the parties may jointly prepare and reasonably agree upon a standard form of Indemnification Agreement in order to protect the NPM Representative against personal liability. In the event the NPM Representative incurs indemnifiable costs and expenses arising from his duties the amount of the indemnification will reduce the succeeding contingent payments.

SCHEDULE FOR PAYMENT OF CONSIDERATION

The consideration will be paid to Continuing Members over a five-year period. The value of NPM depends to a significant degree on the future development of NPM claims incurred on or before December 31, 2005. The five-year period during which the consideration will be paid out to members is long enough to determine whether there has been significant over- or under-reserving of NPM claims. The total amount of the consideration will be contingent upon the adequacy of the reserves as of the time of closing.

The schedule for the payment of the consideration to Continuing and Non-Continuing Members is set forth in Section 3.2 of the Definitive Agreement. In each year from 2007 through 2011, the Purchase price will be subject to adjustment based on any redundancies or deficiencies in NPM's reserves as of the prior December 31, compared with such reserves as of December 31, 2005.

The actual amount of the Purchase price will not become final until 2011. The interim payments of the consideration will be based on an annually updated restatement of year-end 2005 surplus, based on changes in reserves relating to NPM claims incurred prior to January 1, 2006. The Purchase price – as adjusted – will be paid out to Continuing Members according to the following timetable:

At Closing	\$2.5 million
May 15, 2007	25% of the purchase price (determined as of the December 31, 2006 Adjustment Date) less the payment at Closing.
May 15, 2008	40% of the purchase price (determined as of December 31, 2007 Adjustment Date) less previous payments.
May 15, 2009	60% of the purchase price (determined as of December 31, 2008 Adjustment Date) less previous payments.
May 15, 2010	75% of the purchase price (determined as of December 31, 2009 Adjustment Date) less previous payments.

May 15, 2011	100% of the purchase price (determined as of December 31, 2010 Adjustment Date) less previous payments plus interest.
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There will be no “claw back” if adverse reserve development causes the relevant percentage of the purchase price as of a later point in time to be lower than the amounts already paid out, although the Agreement provides for an offset of the balloon interest payment against a prior overpayment of the purchase price in the computation of the final payment.

INTEREST

Compound interest at the annual rate of 4.5 percent will be paid in a balloon payment as part of the final payment in 2011. The principal on which the interest is computed will be the unpaid balance of the *final* purchase price as of each Contingent Payment date. In other words, the interest will be computed using the final purchase price as of each Adjustment Date, rather than the interim purchase price figures used to determine the amounts of the first four contingent payments. The interim purchase price figures may be higher or lower than the final Purchase price. Where a interim purchase price figure is lower than the final purchase price, the contingent payment will have been too low. Therefore, using the final purchase price in the interest computation will generate a higher outstanding balance, and higher interest payments to the member for that year. Similarly, if the interim purchase price figure as of a given Adjustment Date is higher than the final purchase price, the contingent payment will be too large. Using the final purchase price to determine the outstanding balance on which the interest is computed will generate a lower interest payment for that year. Regardless of how the interim purchase price estimates move relative to the final purchase price, members receive exactly the amount of interest to which they are entitled.

The Agreement provides for compounding of interest at the rate of 4.5% on an annual basis. The interest on each year’s outstanding balance is added to the principal in computing the next year’s interest. An example of the interest computation for a Continuing Member is provided below. For simplicity, the example assumes that that the member is entitled to a compensation payment of \$7,050 (comprised of a flat payment of \$3,000 and a post-flat payment of \$4,050. (The \$7,050 is 1/2000th of a \$14.1 million aggregate purchase price and, therefore, provides a representative example of a payment stream.) For simplicity, the example also ignores partial year interest, i.e. it assumes that every contingent payment is paid exactly one year after the prior payment.

	Purchase Price	Cumulative Percent	Principal Amount Paid	Cumulative Amount Paid	Unpaid Balance (w. interest)	Interest
At Closing (2006)	7,050	18%	1,250	1,250	5,800	261
2007	7,050	25%	513	1,763	5,549	250
2008	7,050	40%	1,058	2,820	4,741	213
2009	7,050	60%	1,410	4,230	3,544	159
2010	7,050	75%	1,058	5,288	2646	119
2011	7,050	100%	1,763	7,050		
Interest Payment						1,003
Total Payments				8,053		

If the same hypothetical member were non-continuing, the payment flow and interest would be as shown below:

	Purchase Price	Cumulative Percent	Amount Paid	Cumulative Amount Paid	Unpaid Balance (w. interest)	Interest
At Closing (2006)	7,050	18%	1,250	1,250	1,288	58
2007	7,050	0%	-	1,250	1,346	61
2008	7,050	0%	-	1,250	1,407	63
2009	7,050	0%	-	1,250	1,470	66
2010	7,050	0%	-	1,250	1,536	69
2011	7,050	36%	1,288	2,538	-	
Interest						317
Total				2,855		

If the final Contingent Payment computation shows that a record date member has already received more than his or her share of the final purchase price, the interest due will be offset against the overpayment of principal. (For Non-Continuing Members, if the final purchase price is higher than the amount already paid from the Closing Payment, then there is no outstanding balance on which interest would accrue. Thus, the interest offset provision is not needed for Non-Continuing Members.)

THE ALLOCATION OF COMPENSATION AMONG THE MEMBERS.

The consideration will be allocated among Continuing Members according to a formula that contains a flat dollar amount and a variable component. The variable component is now

referred to as the “post-flat component payment” in the Definitive Agreement. *See, generally, Schedule 3.2(c).*

The flat dollar component will be \$3,000 for full time practitioners and \$1,800 for part time practitioners. Medical entities with separate policies will not be eligible for a flat dollar component.

The post-flat component will be based on a Continuing Member’s proportional contribution to premiums earned by NPM on policies issued to Continuing Members during the three years prior to the record date, not including surplus contributions. The post-flat component will be allocated to Continuing Members using the statutory allocation method in section 732.612(7). Thus, physicians in higher rated specialties who paid higher premiums during the past three years will receive larger post-flat component payments.

The flat amount will be paid to Continuing Members first under the timetable outlined above. Only after all flat components of Continuing Members have been paid will the post-flat components of the Continuing Members be paid. Thus, the payment at closing will be made from the flat component. Subsequent payments to Continuing Members will be comprised of any remaining portion of the flat component and, once the flat component of all Continuing Members is fully paid, the post-flat component will be paid in accordance with the sharing ratio of Continuing Members.

The compensation paid to Non-Continuing Members will be structured slightly differently. (See Definitive Agreement, Section 3.2(f).) The flat and post-flat concept is not relevant to the consideration paid to Non-Continuing Members since they are paid the stipulated amount of 36% of what they would have received had they become Continuing Members. (See Schedule 3.2(b).) In 2011, the amount each Non-Continuing Member would be entitled to if he or she had been a Continuing Member will be determined using the sharing ratios of all record date members. The compensation so determined will be multiplied by 36% to determine the aggregate payment due to the Non-Continuing Member. Subject to this cap, any remaining portions of the purchase price owed to Non-Continuing Members will be paid in a single payment. The amount paid to a Non-Continuing Member in 2011 will be reduced by the amount of the Closing Payment received by said Non-Continuing Member and increased by the interest computed in order to determine the exact amount of the final contingent payment owed to the Non-Continuing Member.

Note that a slightly different ratio is used in computing the amounts owed to Non-Continuing Members than to Continuing Members, since Non-Continuing Members are compensated based on what they would have received had they remained with the NPIC. The ratio used to determine a Non-Continuing Member’s hypothetical compensation compares a Non-Continuing Member’s premiums to aggregate premiums of all record date members over the three years prior to the record date. The ratio used to determine a Continuing Member’s post-flat component the Continuing Member’s premiums to all Continuing Members’ premiums during the three year period. This approach ensures that the entire purchase price is paid out (subject to the withheld amount).

SOURCE OF THE CONSIDERATION

The source of the consideration for both the Closing Payment and the Contingent Payments will be the working capital of UFTP.

(b) Explain the criteria used in determining the nature and amount of such consideration.

The payment of the consideration in cash to NPM members is appropriate to the nature of the transaction as a merger of a mutual insurer into a stock insurer. The rationale for the payment of the consideration over time was discussed above.

The amount of the consideration was determined by the parties as NPM's statutory surplus as of December 31, 2005, adjusted for various liabilities and assets not recognized in statutory accounting. These assets and liabilities are specified at Schedule 3.2(a) of the Definitive Agreement.

The payment of compound interest at the rate of 4.5 percent on unpaid balances is appropriate in light of the payment of the consideration over time. The payment of the interest as a balloon payment at the end of the five year stream of payments is required by the contingent nature of the purchase price. Only at the end of the five year period will the actual purchase price be known and, therefore, the principal amount of the unpaid balances on which interest is due.

(c) If the source of the consideration is a loan made in the lender's ordinary course of business and if the acquiring party wishes to identity of the lender to remain confidential, the acquiring party must specifically request that the identity be kept confidential.

No loans will be obtained in connection with the payment of the initial payment of consideration at Closing. It is not contemplated that loans any loans will be obtained in connection with the subsequent Contingent Payments to members.

ITEM 5. FUTURE PLANS OF INSURER

Describe any plans or proposals which the applicant may have to declare an extraordinary dividend, to liquidate such insurer, to sell its assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.

OPERATIONS

Applicant and TDC intend that NPIC will manage the NPM business in keeping with historical operations and the use of best practices to improve financial performance.

The only contemplated material change will be a major restructuring of the reinsurance program. TDC and NPM contemplate that NPIC will reinsure approximately 75% of its written premium (or about \$20 million) through a pooling agreement. There will be no retrocession from TDC to NPIC under the proposed pooling agreement.

Participation of NPIC in the pooling arrangement in an amount in excess of the relevant threshold under the California Insurance Holding Company System Regulatory Act will require prior approval of the California Department of Insurance. For inter-company reinsurance agreements entered into during 2005, the prior approval trigger is \$20,279,146. For inter-company reinsurance agreements entered into in 2006, the threshold will be somewhat higher. The contemplated 75% pooling agreement is within the prior approval threshold. Therefore, the 75% pooling agreement can be implemented at closing without any California regulatory approvals. However, TDC may at some point in the future seek approval from the California Department of Insurance to reinsure an additional amount of NPIC's written premiums through an amendment to the proposed pooling agreement.

In addition, NPIC will cede approximately \$6.7 million to third party reinsurers under excess of loss treaties. The excess of loss reinsurers will be those used by TDC. NPIC will retain approximately \$6.7 million in written premium in 2006.

EXTRAORDINARY DIVIDEND

TDC and UFTP do not contemplate that NPIC will seek permission to declare an extraordinary dividend in 2006. However, in 2007 NPIC may seek approval of the Oregon Department of Consumer and Business Services for payment of an extraordinary dividend in the amount of NPIC's initial capitalization.

CAPITALIZATION

Following the closing, NPIC will be adequately capitalized. NPIC will have NPM's surplus, plus its initial capitalization of \$3 million. The \$3 million of initial capitalization will remain in NPIC through 2006.

Whether some or all of the initial capitalization will be returned to UFTP through an extraordinary dividend and whether additional capital will be infused into NPIC will depend on NPIC's need for additional capital to support its business and the potential for future growth in the states where NPIC will write insurance.

RBC computations under two scenarios were attached as Appendix 5 to the original Form A filing.

- Scenario 1: The initial \$3 million capitalization remains in NPIC for the five-year period covered by the pro formas.
- Scenario 2: The initial \$3 million capitalization is returned to UFTP by an extraordinary dividend in 2007.

The RBC computations show that under both scenarios, NPIC's surplus will be above 200% of the Company Action Level for the five year period covered by the pro forma projections.

POLICYHOLDER DIVIDENDS

The Amended Definitive Agreement provides at Section 5.10, that NPIC will adopt a policyholder dividend plan that will provide a 50 percent profit sharing of underwriting profit when NPIC's results are better than a combined ratio of 95 percent over a rolling three year period. The dividend plan specified in the Amended Definitive Agreement will be in effect for at least three years after the Closing Date. These dividends will be distributed as a credit against renewing premiums.

COMPLIANCE WITH ORS SECTION 732.245

NPIC will maintain its home office and its accounts and records as required by ORS §732.245 at NPM's current headquarters located in Salem, Oregon.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

State the number of shares of the insurer's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement or acquisition, and a statement as to the method by which the fairness of the proposal was arrived at.

NPM is a mutual insurer and does not have voting securities. All of the NPM members' interests in NPM will be acquired through a forward triangular merger between the newly formed Oregon stock insurer, NPIC, and NPM.

The merger will be voted on by the members at a special meeting. The proposed form of the notice of special meeting will be provided following discussions with the Department of Consumer and Business Services.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

State the amount of each class of any voting security of the insurer that is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

NPM is a mutual insurer and does not have voting securities. All of the NPM members' interests in NPM will be acquired through a forward triangular merger between a newly formed Oregon stock insurer, Northwest Physicians Insurance Company ("NPIC") and NPM. Upon formation, NPIC will be the wholly owned subsidiary of UFTP, a Colorado stock insurer. UFTP is the wholly owned subsidiary of TDC.

ITEM 8. CONTRACTS, ARRANGEMENTS OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including but not limited to transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. Such description shall identify the persons with whom such contracts, arrangements or understandings have been entered into.

There are no such contracts, arrangements or understanding.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this Statement. Include in such description the dates of purchase, the names of purchasers, and the consideration paid or agreed to be paid therefor. State whether any such shares so purchased are hypothecated.

There are no such actions or activities.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3, during the 12 calendar months preceding the filing of this statement.

There are no such actions or activities.

ITEM 11. COPIES OF TENDER AND OTHER OFFERS

Copies of all tender offers for, requests or invitations for tenders of, exchange offers for, and agreements to acquire or exchange any voting security of the insurer and, if distributed, of additional soliciting material relating thereto.

The notice of member meeting and related materials to be provided to members of Northwest Physicians Insurance Company will be provided following discussions with the Department of Consumer and Business Services.

ITEM 12. AGREEMENTS WITH BROKER-DEALERS

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.

There are no such agreements with broker dealers.

ITEM 13. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial statements and exhibits shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

(b) The financial statements shall include the annual financial statements of the persons identified in Item 2(c) for the preceding five fiscal years (or for such lesser period as such applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information covering the period from the end of such person's last fiscal year, if such information is available. Such statements may be prepared on either an individual basis, or, unless the Director otherwise requires, on a consolidated basis if such consolidated statements are prepared in the usual course of business.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles prescribed or permitted under law. If the applicant is an insurer that is actively engaged in the business of insurance, the financial statements need not be certified if they are based on the Annual Statement of such person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of such state.

(c) File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory or management contracts concerning the insurer, annual reports to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by Form A or OAR 836-027-0030 or 836-027-0040.

The following documents have been provided to the Department of Consumer and Business Services"

- 1) The Proxy Statement for the 2003 Special Meeting of NPM members is Appendix 13A-1. The Proxy Statements for the 2003, 2004 and 2005 Annual Meetings of NPM members are Appendices 13A-2 through 13A-4. (NPM has not issued an Annual Report for 2003 or 2004.)
- 2) TDC Annual Reports for 2003 and 2004 are Appendix 13B.
- 3) Pro forma financials for NPIC for 2006, 2007, 2008, 2009 and 2010 are Appendices 13C-1 through 13C-5.
- 4) An original State of Colorado Secretary of State Certificate for UFTP is Appendix 13D.

- 5) An original State of California Secretary of State Certificate for TDC is Appendix 13E.
- 6) The Unanimous Written Consent of the Board of Directors of UFTP is Appendix 13F.
- 7) A copy of the Board Resolution of NPM is Appendix 13G.
- 8) A copy of the June 2005 appraisal of NPM's headquarters building and the adjoining vacant lot is Appendix 13H.
- 9) A copy of the Letter of Intent dated June 29 is Appendix 13J.
- 10) A copy of the proposed name change endorsement is Appendix 13K.
- 11) Audited financial statements of UFTP for the years ending December 31, 2001 and December 31, 2000 is Appendix 13L.
- 12) Audited financial statements of UFTP for the years ending December 31, 2002 and December 31, 2001 is Appendix 13M.
- 13) Audited financial statements of UFTP for the years ending December 31, 2003 and December 31, 2002 is Appendix 13N..
- 14) Audited financial statements of UFTP for the years ending December 31, 2004 and December 31, 2003 is Appendix 13O.
- 15) Unaudited financial statements of UFTP for the quarter ending March 31, 2005 and for the quarter ending June 30, 2005 were provided to the Department by letter to Kathleen Dahlin dated August 24, 2005.
- 16) Audited financial statements of TDC for the years ending December 31, 2001 and December 31, 2000 are attached as Appendix 13P.
- 17) Audited financial statements of TDC for the years ending December 31, 2002 and December 31, 2001 is Appendix 13Q.
- 18) Audited financial statements of TDC for the years ending December 31, 2003 and December 31, 2002 are attached as Appendix 13R.
- 19) Audited financial statements of TDC for the years ending December 31, 2004 and December 31, 2003 and unaudited financial statements of TDC for the quarter ending March 31, 2005 and for the quarter ending June 30, 2005 were provided to the Department by letter to Kathleen Dahlin dated August 24, 2005.
- 20) A Certificate of Compliance for TDC dated December 31, 2003 issued by the California Department of Insurance is Appendix 13S.

- 21) A Certificate of Compliance for UFTP dated May 12, 2004 issued by the Colorado Department of Insurance is Appendix 13T.
- 22) A Certificate of Compliance for TDC dated September 12, 2005 issued by the California Department of Insurance is Appendix U.
- 23) A Certificate of Compliance for UFTP dated September 7, 2005 issued by the Colorado Department of Insurance is Appendix V.
- 24) A Certificate of Deposit for UFTP dated September 9, 2005 issued by the Colorado Department of Insurance is Appendix W.
- 25) The notice of the member meeting on the proposed merger and related materials will be provided following discussions with the Department of Consumer and Business Services.
- 26) Proposed employment agreements with James T. Dorigan and William J. Gallager will be provided.

ITEM 14. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of ORS 732.517 to 732.592, Underwriter for the Professions Insurance Company has caused this application to be duly signed on its behalf of the City of Napa and State of California on the 6th day of September, 2005.

(SEAL) Underwriter for the Professions Insurance Company

BY _____
Richard E. Anderson, Chief Executive Officer

Attest:

(Signature of Officer)

(Title)

CERTIFICATION

The undersigned deposes and says that the undersigned deponent has duly executed the attached application dated September 6, 2005, for and on behalf of Underwriter for the Professions Insurance Company; that the deponent is the Chief Executive Officer of such company and that the deponent is authorized to execute and file such instrument. Deponent further says that the deponent is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of the deponent's knowledge, information and belief.

(Signature) _____
Richard E. Anderson,
Chief Executive Officer