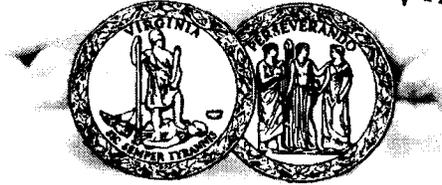


**EXAMINATION REPORT
of
DENTAQUEST VIRGINIA, INC.
Boston, Massachusetts
as of
December 31, 2012**

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of DentaQuest Virginia, Inc. as of December 31, 2012, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 23rd day of August, 2013

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

	<u>Page</u>
Description.....	1
History.....	1
Capital and Surplus	2
Capital and Surplus Requirement.....	2
Management and Control	3
Affiliated Companies	3
Transactions with Affiliates	5
Territory and Plan of Operation	6
Conflict of Interest	6
Fidelity Bond and Other Insurance	7
Provider Agreements	7
Contract Forms	7
Growth of the Corporation	8
Special Reserves and Deposits	9
Scope.....	10
Financial Statements.....	11
Recommendations for Corrective Action	18
Conclusion	19

Richmond, Virginia
May 23, 2013

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

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

DENTAQUEST VIRGINIA, INC.

Boston, Massachusetts

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

DESCRIPTION

The Corporation became licensed in Virginia as a limited health care services health maintenance organization (HMO) pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on October 8, 1997. The Corporation was re-licensed as a dental plan organization (DPO) pursuant to Chapter 61 of Title 38.2 of the Code of Virginia on February 18, 2005. The Corporation was last examined by representatives from the State Corporation Commission's Bureau of Insurance (the Bureau) as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2012.

HISTORY

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

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

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

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

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

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

CAPITAL AND SURPLUS

At December 31, 2012, the Corporation's capital and surplus was \$2,290,513. According to the Articles of Incorporation, the Corporation has the authority to issue 10,000 shares of common stock with a par value of \$.10 per share. At December 31, 2012, 3,010 shares of common stock were issued and outstanding, with gross paid in and contributed surplus of \$303,163, surplus notes of \$550,000 and unassigned funds of \$1,437,049.

CAPITAL AND SURPLUS REQUIREMENT

Code of Virginia Section 38.2-6103 requires that a DPO licensed in Virginia shall have and maintain a minimum capital and surplus in an amount equal to the greater of \$750,000 or 45 days of anticipated operating expenses and incurred claim expenses. The Corporation's minimum capital and surplus requirement at December 31, 2012 was determined to be \$750,000.

MANAGEMENT AND CONTROL

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

The officers of the Corporation shall consist of a President, a Secretary, and a Treasurer. The Board may also choose one or more Assistant Secretaries or other officers if such officers are deemed necessary. The President shall serve for a term of five years while the remaining officers of the Corporation shall serve for a term of one year or until a successor is appointed. At December 31, 2012, the Board of Directors and Officers were as follows:

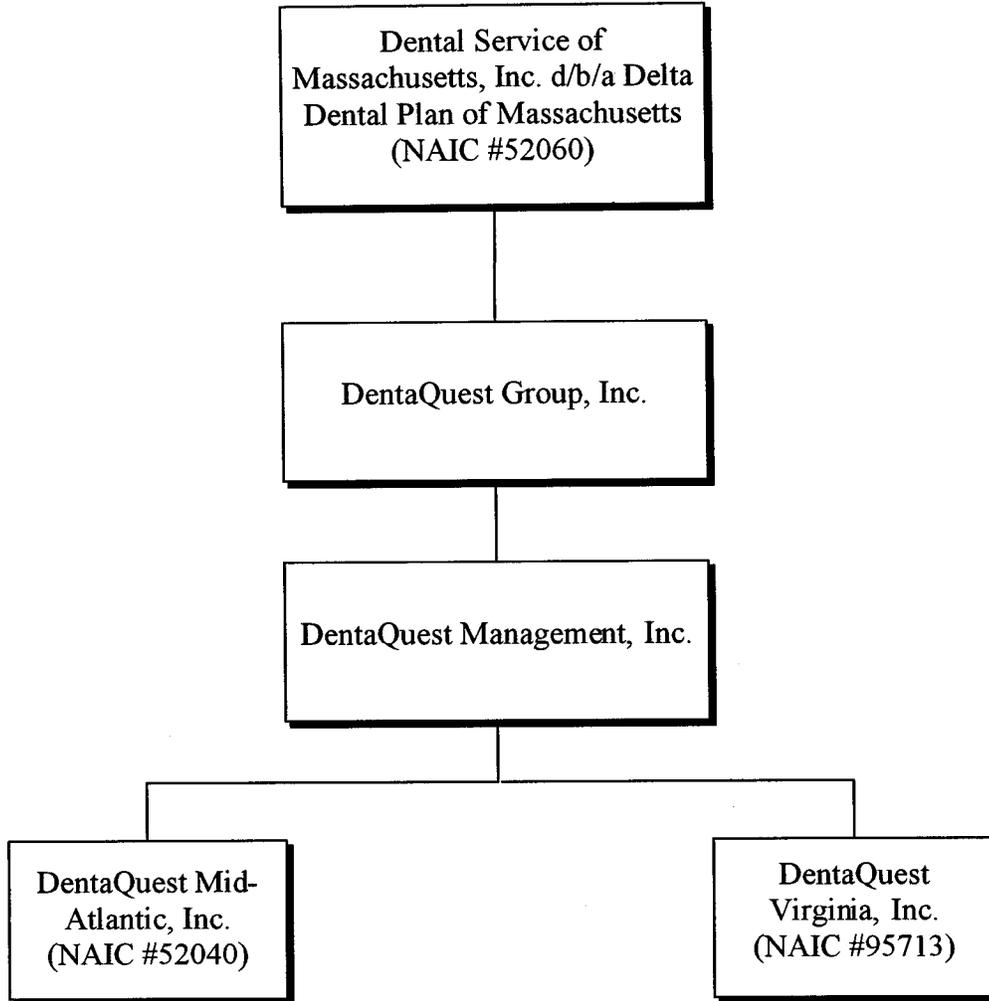
<u>Directors</u>	<u>Principal Occupation</u>
James E. Collins	Chief Financial Officer DentaQuest Group, Inc. Boston, Massachusetts
Fay Donohue	President and Chief Executive Officer Dental Service of Massachusetts, Inc. Boston, Massachusetts
Dennis J. Leonard	Chief Sales Officer DentaQuest Group, Inc. Boston, Massachusetts

Officers

Steven J. Pollock	President
Dennis J. Leonard	Vice President
Myra J. Green	Secretary
James E. Collins	Treasurer
Greg Winn	Assistant Treasurer

AFFILIATED COMPANIES

According to its Articles of Incorporation, the Corporation has the authority to issue 10,000 shares of common capital stock with a par value of \$.10 per share. At December 31, 2012, 3,010 shares of common capital stock were outstanding and owned by DQM. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2012:



TRANSACTIONS WITH AFFILIATES

Management Services Agreement

Effective January 1, 2010, the Corporation entered into a management and services agreement with DentaQuest Mid-Atlantic, Inc. (DQMA). This agreement shall continue indefinitely unless either party provides 120 days prior written notice of its intent to terminate the agreement or both parties mutually agree to terminate the agreement. Pursuant to the terms of the agreement, DQMA shall provide the Corporation with services and support that include information technology services, facilities and equipment, human resources, executive and managerial support, legal, regulatory filing and compliance, accounting, cash management, actuarial and underwriting, sales and marketing, enrollment, claims processing, billing and collection, provider relations and credentialing, and any additional services necessary for the proper conduct of business. As compensation for these services, the Corporation shall reimburse DQMA for costs solely attributable to the Corporation and pay DQMA for its apportioned share of overhead expenses. During 2012, the Corporation paid \$740,100 in fees related to this agreement.

Administrative Services Agreement

Effective January 1, 2005, the Corporation entered into an administrative services agreement with DQM. This agreement shall continue indefinitely unless either party provides 120 days prior written notice of its intent to terminate the agreement or both parties mutually agree to terminate the agreement. Pursuant to the terms of the agreement, DQM shall provide the Corporation administrative services that include premium billing and collection, capitation payments, commission payments, maintenance of records, accounting, corporate and legal. As compensation for these services, the Corporation shall reimburse DQM for all costs and expenses directly incurred by DQM in the provision of services to the Corporation. During 2012, the Corporation reimbursed DQM \$2,430,000 in costs and expenses incurred on its behalf related to this agreement.

Tax Sharing Agreement

Effective January 1, 2011, the Corporation entered into a tax sharing agreement with and among DentaQuest Group, Inc. ("DQ Group") and its subsidiaries. Pursuant to the agreement, the Corporation is included in the consolidated federal income tax return filed by DQ Group. The Corporation's federal income tax liability or refund is determined as if it was filing its own separate federal income tax return. If the Corporation's tax benefits (i.e. losses or credits) are used to reduce the consolidated federal tax liability, DQ Group will pay the Corporation the amount equal to the reduction in the consolidated federal income tax liability. If the Corporation's tax

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

TERRITORY AND PLAN OF OPERATION

At December 31, 2012, the Corporation's service area, as reported in its 2012 Annual Statement, included the Virginia cities of Alexandria, Colonial Heights, Fairfax, Falls Church, Fredericksburg, Hopewell, Manassas, Manassas Park, Petersburg, Richmond, and Winchester and the Virginia counties of Arlington, Caroline, Chesterfield, Culpeper, Fairfax, Fauquier, Hanover, Henrico, King George, Loudoun, Prince William, Spotsylvania and Stafford.

Services are provided by dentists in independent practice within the Corporation's service area. The Corporation markets Preferred Provider Organization (PPO) plans offered in a variety of plan designs. Choice PPO is offered with benefits payable both in-network and out-of-network. Access PPO is offered with benefits payable both in-network and out-of-network but is also marketed as Access ePPO with benefits payable on an in-network basis only. Depending on the plan, each member may utilize participating general dentists and specialists in order to take advantage of discounts provided by the dentists or, in the case of Access or Choice PPO plans, members may seek care out of network. Access ePPO members may use only participating in-network dentists but may move freely throughout the network. No selection of a dentist is required. Members may also go to a specialist without a referral.

CONFLICT OF INTEREST

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

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Corporation was listed as a named insured on a fidelity bond with a \$5,000,000 limit of liability, subject to a \$50,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Corporation was listed as a named insured on a property insurance policy, a general liability policy, an automobile liability policy, an umbrella liability policy, a workers compensation and employers liability policy, a managed care liability policy, a directors and officers liability policy, a fiduciary liability policy and a employed lawyers professional liability policy.

PROVIDER AGREEMENTS

The Corporation has entered into agreements with numerous participating general dentists and specialists to provide dental services to members. PPO participating general dentists and specialists are paid on a discounted fee-for-service arrangement. At December 31, 2012, the Corporation had established agreements with general dentists, endodontists, oral surgeons, orthodontists, pediatric dentists, periodontists and prosthodontists.

CONTRACT FORMS

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

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation, at year-end, for the ten-year period ending December 31, 2012. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital And Surplus</u>
2003	\$1,331,652	\$272,532	\$1,059,120
2004	1,566,354	385,789	1,180,565
2005	1,790,329	619,656	1,170,673
2006	1,737,440	405,551	1,331,889
2007	1,188,197	194,253	993,944
2008	1,632,753	318,476	1,314,277
2009	2,143,745	381,398	1,762,347
2010	3,139,216	869,896	2,269,320
2011	3,178,592	953,483	2,225,109
2012	3,005,721	715,208	2,290,513

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Medical & Hospital Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2003	\$1,908,068	\$6,381	\$1,039,090	\$617,913	\$257,446
2004	1,586,037	8,064	834,845	611,707	147,549
2005	1,313,813	2,206	790,949	443,164	81,906
2006	1,569,726	12,902	914,103	458,932	209,593
2007	1,705,803	17,467	1,021,700	473,226	228,344
2008	2,037,384	8,988	1,297,792	263,885	484,695
2009	2,679,034	1,085	1,631,096	386,744	662,279
2010	3,885,040	2,797	3,146,136	821,698	(79,997)
2011	4,979,650	3,318	3,967,828	1,161,285	(146,145)
2012	5,740,091	32	4,312,491	1,239,358	188,274

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

<u>Year</u>	<u>Number of Members</u>
2003	16,357
2004	15,204
2005	13,442
2006	9,856
2007	10,428
2008	11,338
2009	13,060
2010	17,403
2011	20,548
2012	19,782

SPECIAL RESERVES AND DEPOSITS

At December 31, 2012, the Bureau required the Corporation to maintain a minimum deposit of \$300,000 with the Treasurer of Virginia.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2010 through December 31, 2012. Assets were verified and liabilities established at December 31, 2012.

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

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

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2012; a statement of revenue and expenses for the year ending December 31, 2012; a reconciliation of capital and surplus for the period under review; a statement of cash flow for the year ending December 31, 2012; and a statement of Examiners' changes in capital and surplus at December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Cash and cash equivalents	\$2,643,733		\$2,643,733
Investment income due and accrued	3		3
Uncollected premiums and agents' balances in the course of collection	233,891	178,413	55,478
Net deferred tax asset	67,469		67,469
Receivables from parent, subsidiaries, and affiliates	<u>239,038</u>	<u>0</u>	<u>239,038</u>
Total assets	<u><u>\$3,184,134</u></u>	<u><u>\$178,413</u></u>	<u><u>\$3,005,721</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	\$423,954
Unpaid claims adjustment expenses	33,000
Aggregate health policy reserves	7,225
Premiums received in advance	49,934
General expenses due or accrued	25,348
Amounts due to parent, subsidiaries and affiliates	<u>175,747</u>
 Total liabilities	 <u>\$715,208</u>
 Common capital stock	 \$301
Gross paid in and contributed surplus	303,163
Surplus notes	550,000
Unassigned funds (surplus)	<u>1,437,049</u>
 Total capital and surplus	 <u>\$2,290,513</u>
 Total liabilities, capital and surplus	 <u><u>\$3,005,721</u></u>

STATEMENT OF REVENUE AND EXPENSES

Net premium income	<u>\$5,740,091</u>
Total revenues	<u>\$5,740,091</u>
Hospital and Medical	
Hospital/medical benefits	<u>\$4,312,491</u>
Total hospital and medical	\$4,312,491
Claims adjustment expenses	223,084
General administrative expenses	<u>1,016,274</u>
Total underwriting deductions	<u>\$5,551,849</u>
Net underwriting gain	<u>\$188,242</u>
Net investment income earned	<u>\$32</u>
Net investment gains	<u>\$32</u>
Net income before federal income taxes	\$188,274
Federal income taxes incurred	<u>18,685</u>
Net income	<u><u>\$169,589</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital and surplus prior reporting year	<u>\$1,762,347</u>	<u>\$2,269,320</u>	<u>\$2,225,109</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income (loss)	(50,258)	(43,155)	169,589
Change in net deferred income tax	15	1,531	58,959
Change in nonadmitted assets	7,216	(2,587)	(163,144)
Change in surplus notes	<u>550,000</u>	<u> </u>	<u> </u>
Net change in capital and surplus	<u>\$506,973</u>	<u>(\$44,211)</u>	<u>\$65,404</u>
Capital and surplus end of reporting year	<u><u>\$2,269,320</u></u>	<u><u>\$2,225,109</u></u>	<u><u>\$2,290,513</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$6,137,411
Net investment income	<u>32</u>
Total	<u>\$6,137,443</u>
Benefit and loss related payments	\$4,478,903
Commissions, expenses paid and aggregate write-ins for deductions	1,228,945
Federal income taxes paid	<u>12,328</u>
Total	<u>\$5,720,176</u>
Net cash from operations	<u>\$417,267</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>(\$417,081)</u>
Net cash from financing and miscellaneous sources	<u>(\$417,081)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$186
Cash and short-term investments:	
Beginning of the year	<u>2,643,547</u>
End of the year	<u><u>\$2,643,733</u></u>

EXAMINERS' CHANGES IN CAPITAL AND SURPLUS

	<u>Corporation</u>	<u>Examiners</u>	<u>Increase (Decrease)</u>
<u>Assets:</u>			
Receivables from parent, subsidiaries and affiliates	\$352,283	\$239,038	(\$113,245)
<u>Liabilities:</u>			
Amounts due to parent, subsidiaries and affiliates	191,528	175,747	<u>15,781</u>
Examiners' decrease in capital and surplus			<u>(\$97,464)</u>
Total capital and surplus per Company			\$2,387,977
Total capital and surplus per Examiners			<u>2,290,513</u>
Net decrease in capital and surplus			<u>(\$97,464)</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Accounts and Records

1. Receivables from parent, subsidiaries and affiliates \$239,038

The above asset is \$113,245 less than the amount reported by the Corporation in its 2012 Annual Statement. The decrease is a result of:

- a. The Examiners decreasing the asset \$149,963 due to the Corporation reporting an erroneous receivable from an affiliate at December 31, 2012.
- b. The Examiners establishing a federal income tax recoverable of \$36,718. The \$149,963 decrease above resulted in a corresponding decrease to Net premium income reported in the Statement of Revenue and Expenses in the 2012 Annual Statement. As a result of this reduction to premium income and its federal income tax effect, a federal income tax recoverable was established. This federal income tax recoverable is due from an affiliate pursuant to the Tax Sharing Agreement described on page 5.

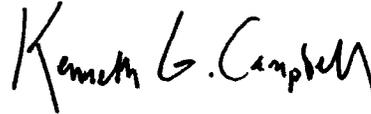
2. Amounts due to parent, subsidiaries and affiliates \$175,747

The above liability is \$15,781 less than the amount reported by the Corporation in its 2012 Annual Statement. The decrease is due to the federal income tax effect of the reduction to Net premium income described above. At December 31, 2012, the Corporation had reported this amount as due to an affiliate for federal income taxes pursuant to the Tax Sharing Agreement.

CONCLUSION

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

Respectfully submitted,

Handwritten signature of Kenneth G. Campbell in black ink.

Kenneth G. Campbell, CFE
Assistant Chief Examiner

DentaQuest

August 1, 2013

STATE CROUP COMMISSION
BUREAU OF INSURANCE
13 AUG 15 AM 8:15

Virginia Bureau of Insurance
PO Box 1157
Richmond, VA 23218

Attention: David H. Smith
Chief Examiner

Re: DentaQuest Virginia, Inc. Examination Report as of December 31, 2012

Mr. Smith,

We agree with the findings of the Virginia Bureau of Insurance ('Virginia BOI') Examination Report as of December 31, 2012 and therefore do not request a hearing before the Commission.

The recommendations for corrective action were to reduce statutory surplus by a total of \$97,464 as follows:

1. *Reduce assets - Receivables from parent, subsidiaries and affiliates by \$113,245.*
2. *Reduce liabilities – Amounts due to parent subsidiaries and affiliates by \$15,781.*

The Company's response was to amend its 2012 Annual Statement filing on May 31, 2013 in accordance with the recommendations of the Virginia BOI.

Please note that these changes were included in the audited financial statements filed with the Virginia BOI on June 1, 2013.

Regards,



Steven J. Pollock
President