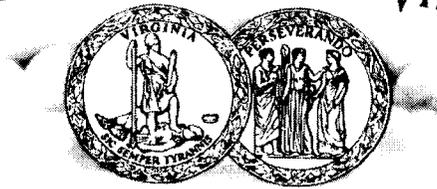


EXAMINATION REPORT
of
DOMINION DENTAL SERVICES, INC.
Alexandria, Virginia
as of
December 31, 2011

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 Dominion Dental Services, Inc. as of December 31, 2011, 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 17th day of September, 2012

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	2
Affiliated Companies	4
Transactions with Affiliates	6
Territory and Plan of Operation	7
Conflict of Interest	7
Fidelity Bond and Other Insurance	8
Provider Agreements	8
Contract Forms	8
Growth of the Corporation	9
Special Reserves and Deposits	10
Scope	11
Financial Statements	12
Conclusion	18

Richmond, Virginia
June 28, 2012

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

DOMINION DENTAL SERVICES, INC.

Alexandria, Virginia

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 May 28, 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 October 1, 2009. The Corporation was last examined by representatives from the State Corporation Commission's Bureau of Insurance (the Bureau) as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2011.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia effective June 19, 1996. Its sole business purpose is the provision of dental benefits to individuals, groups, associations, and health plans.

On September 30, 1998, Dominion Dental USA, Inc. (DDUSA) was incorporated under the laws of Delaware. DDUSA was formed under a stock exchange and reorganization agreement, dated December 11, 1998, whereby the shareholders of the Corporation exchanged their shares for substantially equivalent shares of DDUSA. As a result of this transaction, the Corporation became a wholly owned subsidiary of DDUSA.

On September 30, 1999, the Corporation entered into a Transfer Agreement with Denticare of Virginia (Denticare), a not-for-profit prepaid dental plan licensed in the Commonwealth of Virginia. Pursuant to this Transfer Agreement, the Corporation assumed all of Denticare's subscriber contracts.

On December 31, 2008, DDUSA merged with Diamond Ancillary Services, Inc. (DAS), a wholly owned subsidiary of Capital Advantage Insurance Company, Inc. (CAIC). CAIC is a Pennsylvania domiciled stock casualty insurance corporation and a direct wholly owned subsidiary of Capital BlueCross, a Pennsylvania domiciled not-for-profit, non-stock hospital plan corporation. DDUSA was the surviving entity of the merger with DAS and is a wholly owned subsidiary of CAIC. The Corporation remains a wholly owned subsidiary of DDUSA.

CAPITAL AND SURPLUS

At December 31, 2011, the Corporation's capital and surplus was \$3,777,919. According to the Amended and Restated Articles of Incorporation, the Corporation has the authority to issue 100 shares of common stock with a par value of \$10,000 per share. At December 31, 2011, 100 shares of common capital stock were issued and outstanding, with gross paid in and contributed surplus of \$4,477,183, surplus notes of \$250,000 and unassigned funds of (\$1,949,264). The Corporation entered into the \$250,000 surplus note with DDUSA effective December 31, 1998. The note bears interest at the rate of 12.5% per annum. At December 31, 2011, accrued interest on the surplus note totaled \$1,008,978.

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, 2011 was determined to be \$2,095,700.

MANAGEMENT AND CONTROL

The Corporation's bylaws provide that the Board of Directors (Board) shall be responsible for the management of the business of the Corporation. The number of directors shall be five or such other number as may be designated by the Board, but never less than three or more than twenty. However, if the number of shareholders of the Corporation is less than three, the number of directors may equal the number of shareholders. The directors shall be elected at the annual meeting of the shareholders to serve for a term of one year and each director elected shall serve until the next succeeding

annual meeting of the stockholders and until a successor shall have been elected and qualified. Directors can be elected without limitation on the number of terms they may serve.

The officers of the Corporation shall consist of a Chief Executive Officer, a President, a Chief Operating Officer, a Secretary, a Treasurer and such other officers as the Board deems necessary. The officers shall be elected annually by the Board. At December 31, 2011, the Board of Directors and the Officers of the Corporation were as follows:

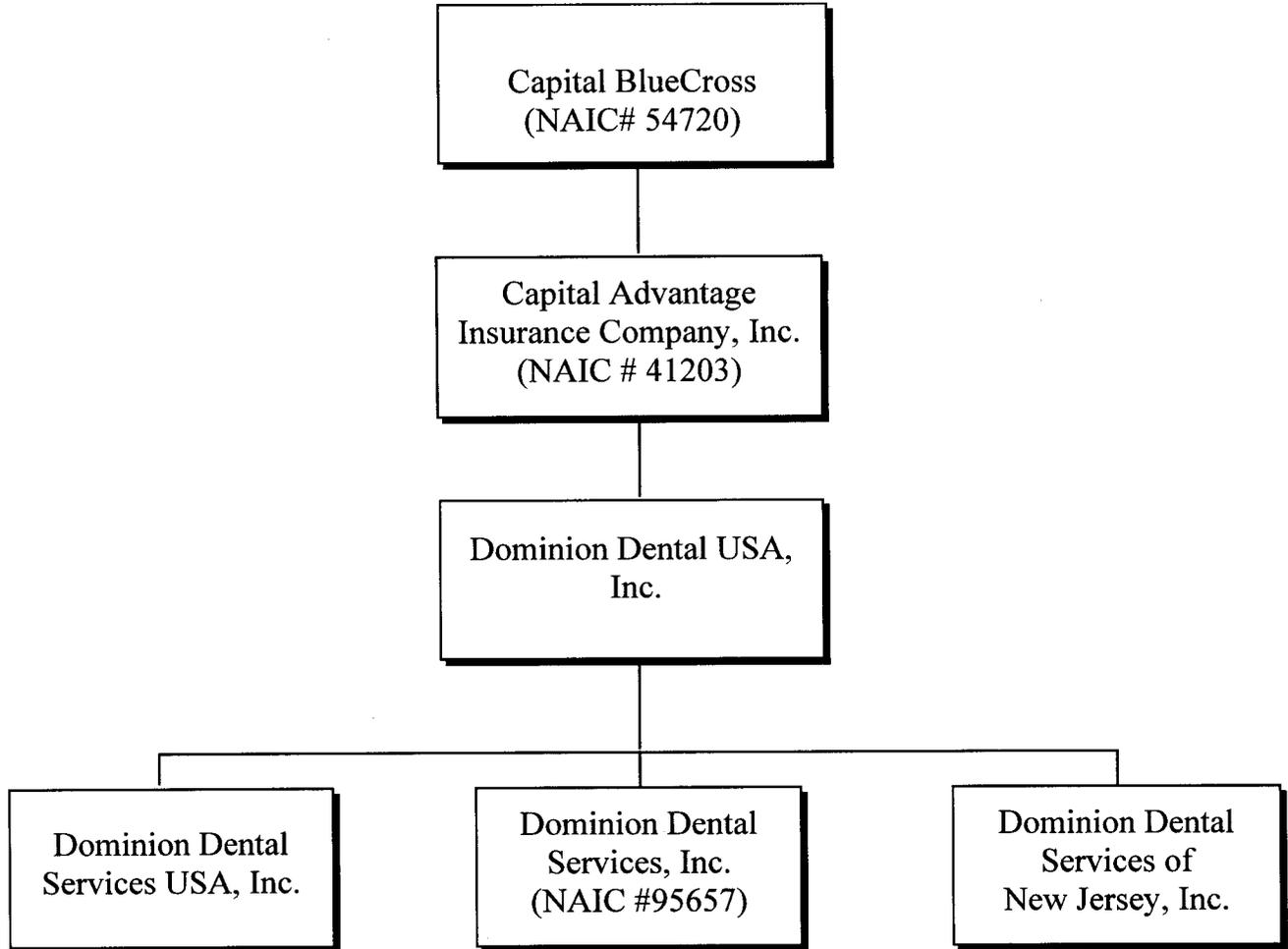
<u>Directors</u>	<u>Principal Occupation</u>
Debra B. Cohen	Chief Operating Officer Capital BlueCross Harrisburg, Pennsylvania
Ronald J. Drnevich	Chief Compliance Officer Capital BlueCross Harrisburg, Pennsylvania
William Lehr, Jr.	Chief Executive Officer Capital BlueCross Harrisburg, Pennsylvania
Mitchell E. McGlynn	President Dominion Dental Services, Inc. Alexandria, Virginia
Gary D. St. Hilaire	President Capital BlueCross Harrisburg, Pennsylvania

Officers

Gary D. St. Hilaire	Chief Executive Officer
Mitchell E. McGlynn	President
Michael J. Davis, Jr.	Chief Operating Officer
Michael R. Cleary	Treasurer
Sherry E. Baskin	Secretary
Kara N. Greenhouse	Assistant Secretary

AFFILIATED COMPANIES

According to its Amended and Restated Articles of Incorporation, the Corporation has the authority to issue 100 shares of common stock with a par value of \$10,000 per share. At December 31, 2011, the 100 outstanding shares of common stock were owned by DDUSA. The following chart identifies the interrelationship between the Corporation and selected affiliates:



TRANSACTIONS WITH AFFILIATES

Management Services Agreement

Effective January 1, 1999, the Corporation entered into a management services agreement with DDUSA. This agreement shall continue and automatically renew on January 1 of each year thereafter for successive one-year terms unless either party provides notice of its intent not to renew at least 90 days prior to the expiration of the term in effect. Pursuant to the terms of the agreement, DDUSA shall provide the Corporation management services that include senior management, actuarial, advertising and public relations, marketing, purchasing, corporate and legal, regulatory compliance and governmental affairs, accounting, tax compliance, facilities management, risk management, information systems, payroll and human resources. As compensation for these services, the Corporation shall pay DDUSA 18% of premiums when premium revenue is equal to or less than \$1,500,000 per month. If premium revenue is greater than \$1,500,000 per month, the Corporation shall pay 15% of premiums. The Corporation incurred \$3,055,252 in fees related to the agreement in 2011.

Consolidated Federal Income Tax Agreement

Effective January 1, 2009, the Corporation became a party to a Consolidated Federal Income Tax Agreement with Capital BlueCross and selected subsidiaries. The agreement establishes methods for allocating the consolidated federal income tax liability of the consolidated group among its members. The Corporation's federal income tax liability or refund is determined as if it was filing its own separate federal income tax return. If, at the end of any taxable year, the Corporation would have been entitled to a refund on a separate company basis then Capital BlueCross shall pay the amount of the refund to the Corporation. Conversely, if the Corporation has incurred a tax liability on a separate company basis it must pay Capital BlueCross the amount of such liability. Final settlement for a tax year shall be paid within 60 days after the filing of the consolidated federal income tax return.

Dividends

On November 29, 2011, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of \$1,000,000 to DDUSA. The Bureau approved the Corporation's request on December 15, 2011 and the dividend was paid on December 19, 2011.

TERRITORY AND PLAN OF OPERATION

At December 31, 2011, the Company's service area included the following Virginia counties and cities: Alexandria, Arlington, Charles City, Chesapeake, Chesterfield, Colonial Heights, Dinwiddie, Fairfax, Falls Church, Fauquier, Frederick, Fredericksburg, Gloucester, Goochland, Hampton, Hanover, Henrico, Hopewell, James City, King and Queen, King William, Loudoun, Manassas, Manassas Park, Newport News, Norfolk, Petersburg, Portsmouth, Prince George, Prince William, Poquoson, Richmond, Spotsylvania, Stafford, Suffolk, Warren, Williamsburg, Winchester, Virginia Beach and York and the Pennsylvania counties and cities of Adams, Allegheny, Armstrong, Beaver, Bedford, Berks, Blair, Bucks, Butler, Cambria, Carbon, Centre, Chester, Clarion, Clearfield, Clinton, Columbia, Crawford, Cumberland, Dauphin, Delaware, Elk, Erie, Fayette, Franklin, Fulton, Greene, Huntingdon, Indiana, Jefferson, Juniata, Lackawanna, Lancaster, Lawrence, Lebanon, Lehigh, Luzerne, Lycoming, McKean, Mercer, Mifflin, Monroe, Montgomery, Montour, Northampton, Northumberland, Perry, Philadelphia, Pike, Schuylkill, Snyder, Somerset, Susquehanna, Tioga, Union, Venango, Washington, Wayne, Westmoreland and York. Additionally, the Company's service area included the District of Columbia and the entire states of Maryland and Delaware.

Services are provided by dentists in independent practice within the Corporation's service area. The Corporation markets dental HMO (DHMO) and preferred provider organization (PPO) plans. DHMO plans require each member to choose a participating general dentist from a list of the Corporation's primary dental providers. Members can also receive treatment from participating specialists with a referral from their primary dentist. Under the PPO plans members can receive treatment from any licensed dentist or choose from a list of participating dentists. PPO plan members may go to a specialist without a referral.

CONFLICT OF INTEREST

The Corporation has adopted the Capital BlueCross Code of Conduct Policy regarding conflicts of interest. The policy states that all directors, officers and employees should not engage in any activity that would cause a conflict with the interests of the Corporation and, further, should avoid any activity that could create an appearance of conflict. To ensure compliance with the Code of Conduct Policy, directors, officers and employees are required to complete a conflict of interest disclosure form on an annual basis.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2011, the Corporation was listed as a named insured on a fidelity bond with a \$5,000,000 limit of liability, subject to a \$150,000 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 general liability policy, an excess liability policy, a commercial excess liability umbrella policy, a managed care errors and omissions policy, a directors and officers liability policy, a fiduciary liability policy, a workers' compensation and employer's liability policy, and a cyber security policy.

PROVIDER AGREEMENTS

The Corporation has entered into agreements with numerous participating general dentists and specialists to provide dental services to members. Most DHMO plan participating general dentists are paid a monthly capitation fee based on the number of members enrolled with the participating general dentist and on the type of product chosen by the member. Specialists are paid on a discounted fee for service basis. PPO plan providers are paid on a discounted fee for service basis.

CONTRACT FORMS

Contracts are available on both an individual and group basis. Basic contract services include office visits, oral examinations, cleanings, x-rays, fillings, crowns and bridges, dentures, oral surgery, root canals, periodontics and orthodontics. Any treatment received from a non-participating dentist or specialist, other than emergency services, is not covered by the Corporation and the member is fully liable for all charges under the DHMO plan. PPO plan benefit amounts vary depending on whether the member receives services from a participating or a non-participating provider. 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 for the ten-year period ending December 31, 2011. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
2002	\$2,426,095	\$757,015	\$1,669,080
2003	2,360,353	915,518	1,444,835
2004	2,432,261	1,069,144	1,363,117
2005	2,132,941	925,195	1,207,746
2006	2,216,192	848,942	1,367,250
2007	2,180,296	959,032	1,221,264
2008	2,127,076	787,933	1,339,143
2009	4,037,481	817,997	3,219,484
2010	5,768,851	1,488,608	4,280,243
2011	5,659,781	1,881,862	3,777,919

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gain</u>	<u>Dental Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2002	\$14,095,645	\$18,800	\$8,260,528	\$5,352,439	\$501,478
2003	12,889,156	12,951	7,479,246	4,804,031	618,830
2004	12,747,518	13,441	7,679,606	4,643,520	437,833
2005	11,059,557	35,098	6,699,374	4,044,343	350,938
2006	11,500,165	49,073	6,925,190	4,206,945	417,103
2007	11,448,837	51,598	7,097,774	4,195,732	206,929
2008	10,879,125	21,212	6,603,581	4,051,838	244,918
2009	9,624,228	5,304	5,936,901	3,560,861	131,770
2010	15,957,567	6,583	10,558,768	4,589,735	815,647
2011	17,411,575	20,897	12,012,681	4,752,915	666,876

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

<u>Year</u>	<u>Number of Members</u>
2002	148,999
2003	128,323
2004	121,623
2005	74,770
2006	78,084
2007	75,101
2008	68,246
2009	58,438
2010	73,588
2011	80,341

SPECIAL RESERVES AND DEPOSITS

At December 31, 2011, the Bureau required the Corporation to maintain a minimum deposit of \$300,000 with the Treasurer of Virginia. Additionally, the Corporation maintained an \$85,000 deposit to satisfy the State of Maryland's requirement.

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, 2008 through December 31, 2011. Assets were verified and liabilities established at December 31, 2011.

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, 2011; a statement of revenue and expenses for the year ending December 31, 2011; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2011. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$2,278,987		\$2,278,987
Cash and short-term investments	<u>2,852,404</u>		<u>2,852,404</u>
Subtotals, cash and invested assets	\$5,131,391	\$0	\$5,131,391
Investment income due or accrued	7,759		7,759
Uncollected premiums	433,040		433,040
Net deferred tax asset	79,809		79,809
Health care and other amounts receivable	7,782		7,782
Aggregate write-ins for other than invested assets	<u>32,377</u>	<u>32,377</u>	<u>0</u>
Total assets	<u><u>\$5,692,158</u></u>	<u><u>\$32,377</u></u>	<u><u>\$5,659,781</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Total</u>
Claims unpaid	\$817,469
Unpaid claims adjustment expense	19,508
Aggregate health policy reserves	194,137
Premiums received in advance	673,984
General expenses due or accrued	79,198
Current federal income tax payable and interest thereon	83,222
Amounts due to parent, subsidiaries and affiliates	10,701
Aggregate write-ins for other liabilities	<u>3,643</u>
Total liabilities	<u>\$1,881,862</u>
Common capital stock	\$1,000,000
Gross paid in and contributed surplus	4,477,183
Surplus notes	250,000
Unassigned funds (surplus)	<u>(1,949,264)</u>
Total capital and surplus	<u>\$3,777,919</u>
Total liabilities, capital and surplus	<u><u>\$5,659,781</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Total</u>
Net premium income	\$16,382,587
Change in unearned premium reserves and reserve for rate credits	(60,886)
Risk revenues	<u>1,089,874</u>
Total revenues	<u>\$17,411,575</u>
Hospital and Medical	
Hospital/medical benefits	\$8,533,123
Outside referrals	3,479,315
Emergency room and out-of-area	<u>243</u>
Total hospital and medical	\$12,012,681
Claims adjustment expenses	209,959
General administrative expenses	<u>4,542,956</u>
Total underwriting deductions	<u>\$16,765,596</u>
Net underwriting gain	<u>\$645,979</u>
Net investment income earned	<u>\$20,897</u>
Net investment gains	<u>\$20,897</u>
Net income before federal income taxes	\$666,876
Federal income taxes incurred	<u>163,351</u>
Net income	<u><u>\$503,525</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Capital and surplus prior reporting year	<u>\$1,221,264</u>	<u>\$1,339,143</u>	<u>\$3,219,484</u>	<u>\$4,280,243</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS				
Net income	\$172,216	\$123,501	\$1,006,305	\$503,525
Change in net deferred income tax	(169,454)	(370,872)	95,113	(18,827)
Change in nonadmitted assets	42,415	377,712	(40,659)	12,978
Paid in capital	72,702		999,999	
Paid in surplus		1,750,000	(999,999)	
Dividends to stockholders				<u>(1,000,000)</u>
Net change in capital and surplus	<u>\$117,879</u>	<u>\$1,880,341</u>	<u>\$1,060,759</u>	<u>(\$502,324)</u>
Capital and surplus end of reporting year	<u><u>\$1,339,143</u></u>	<u><u>\$3,219,484</u></u>	<u><u>\$4,280,243</u></u>	<u><u>\$3,777,919</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$16,330,247
Net investment income	18,015
Miscellaneous income	1,156,874
Total	<u>\$17,505,136</u>
Benefit and loss related payments	\$11,742,701
Commissions, expenses paid and aggregate write-ins for deductions	4,785,918
Federal income taxes paid	(128,736)
Total	<u>\$16,399,883</u>
Net cash from operations	<u>\$1,105,253</u>

Cash from Investments

Proceeds from investments sold, matured or repaid	
Bonds	<u>\$995,766</u>
Cost of investments acquired (long-term only)	
Bonds	<u>\$2,281,046</u>
Net cash from investments	<u>(\$1,285,280)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	(\$1,000,000)
Other cash provided	<u>12,637</u>
Net cash from financing and miscellaneous sources	<u>(\$987,363)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	(\$1,167,390)
Cash and short-term investments:	
Beginning of the year	<u>4,019,794</u>
End of the year	<u><u>\$2,852,404</u></u>

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,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial 'K'.

Kenneth G. Campbell, CFE
Assistant Chief Examiner



STATE CORP COMMISSION
BUREAU OF INSURANCE
12 SEP 11 AM 8:00

September 8, 2012

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

RE: Dominion Dental Services, Inc.
Examination Report as of December 31, 2011

Dear Mr. Smith:

In reference to your letter dated August 22, 2012, this letter serves as written acknowledgement of receipt of the Examination Report as of December 31, 2011.

We would also like to acknowledge the courtesy and professionalism of Ken Campbell and Milton Parker.

Sincerely,

A handwritten signature in black ink, appearing to read "MJ Davis, Jr.", with a long horizontal flourish extending to the right.

Michael J. Davis, Jr.
President