EXAMINATION REPORT
of
DELTA DENTAL OF VIRGINIA
Roanoke, Virginia
as of
December 31, 2009

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

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

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

IN WITNESS WHEREOF, I have hereunto set my hand and affixed to the original the seal of the Bureau at the City of Richmond, Virginia this 23rd day of September, 2010

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
June 24, 2010

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by the authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

DELTA DENTAL OF VIRGINIA

Roanoke, Virginia

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

DESCRIPTION

The Plan is a non-stock, non-profit dental services plan operating pursuant to Chapter 45 of Title 38.2 of the Code of Virginia. The Plan was last examined by representatives of the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009.

HISTORY

The Plan was incorporated under the laws of Virginia on January 6, 1965. According to its amended and restated articles of incorporation, the Plan was organized to operate one or more dental services plans in accordance with the provisions of Chapter 45 of Title 38.2 of the Code of Virginia, as amended. The Plan may also assist in the administration of governmental health care programs in any manner provided for by contract or regulations. On August 16, 2005, the Plan changed its name from Delta Dental Plan of Virginia to Delta Dental of Virginia. On January 12, 2006, the Plan formed Mercury Data Exchange, Inc. ("Mercury"), a wholly-owned, for-profit, development stage subsidiary. Mercury was created to develop and provide technology to support the automation, standardization and real-time exchange of patient data between dental offices and the Plan. During 2006, Corvesta, Inc. ("Corvesta"), a non-stock, non-profit holding company was formed by the Board of Directors of the Plan and on December 31, 2007, Corvesta became the sole member of the Plan.

MANAGEMENT AND CONTROL

The bylaws of the Plan provide that the Board of Directors shall control and manage the affairs and business of the Plan. The Board shall consist of no fewer than twelve directors nor more than twenty directors. Directors shall be elected at an annual meeting of Corvesta's Board of Directors and shall serve four-year terms.

The bylaws also provide for five standing committees: the Executive Committee, the Corporate Governance Committee, the Nominating Committee, the Audit Committee and the Executive Compensation Committee. There shall be four advisory committees: the Marketing Committee, the Dental Policy Committee, the Finance and Investment Committee, and the Public Benefit Funding Committee. The Executive Committee consists of the President, the Chairman of the Board, the Chairman of the Finance and Investment Committee, two directors from the Board elected by the Board and two directors from the Board appointed by the President of the Plan. The Executive Committee may be empowered by the Board to have and exercise all the powers and duties assigned to the Board provided, however, that the actions taken shall be reported to the Board at its next meeting and shall be subject to amendment or revocation by the Board.

The officers of the Plan shall be a Chairman of the Board, a President, who shall also be the Chief Executive Officer, a Secretary, a Treasurer and such other officers as the Board may elect. The term of each officer, with the exception of the President, shall be for one year or until his/her successor has been elected. The President shall be an employee under contract with the Plan and shall automatically serve as a member of the Board. Additional officers may be elected by the Board according to its needs.

At December 31, 2009, the Board of Directors and Officers were as follows:

Directors	Principal Occupation
Harold J. Barrett, Jr., DDS	Retired Falls Church, Virginia
Richard H. Berry	Retired Williamsburg, Virginia
Lyndell B. Brooks	Retired Roanoke, Virginia

Gordon L. Gentry, Jr.	Chairman/CEO Towne Bank Newport News, Virginia
Daniel C. Hastings, Jr.	Retired Ringgold, Virginia
Michael L. Houliston	Retired Massanutten, Virginia
Thomas R. Hudson, DDS	Dentist Richmond, Virginia
George A. Levicki, DDS	President and Chief Executive Officer Delta Dental of Virginia Roanoke, Virginia
Mayer G. Levy, DDS	Retired Newport News, Virginia
Emanuel W. Michaels, DDS	Retired Norfolk, Virginia
French H. Moore, Jr., DDS	Retired Abingdon, Virginia
Thomas S. Nardo	Retired Richmond, Virginia
Jess Newbern, III	Owner/President Newbern Properties, LLC Roanoke, Virginia
Albert L. Payne, DDS	Dentist Danville, Virginia
S. Gordon Seccombe, Jr.	Retired Newport News, Virginia
Patrick N. Shaffner	Retired Roanoke, Virginia

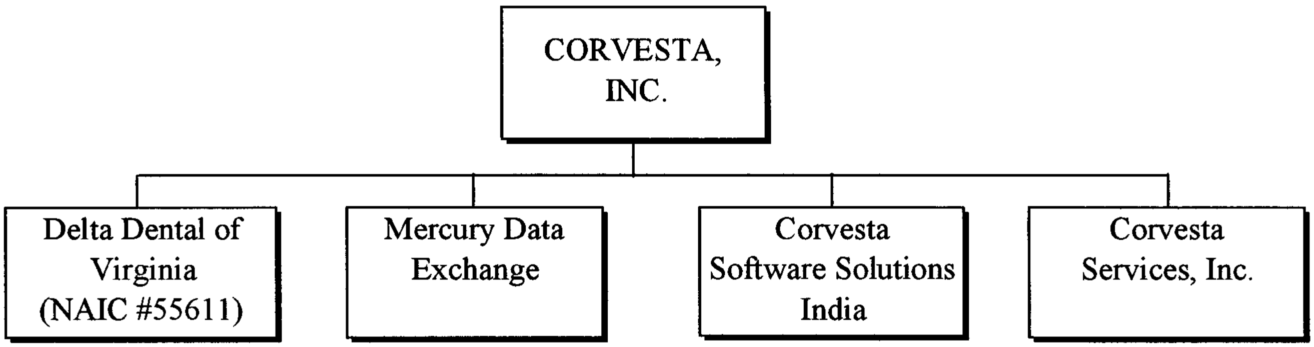
Grant M. Sprinkle, III, DDS	Dentist Salem, Virginia
Bob R. Stacy	Retired Bristol, Tennessee
Barry Wolfe, DDS	Dentist Roanoke, Virginia

Officers

Lyndell B. Brooks	Chairman of the Board
George A. Levicki, DDS	President and Chief Executive Officer
Grant M. Sprinkle, III, DDS	Secretary
Thomas S. Nardo	Treasurer
Michael W. Wise	Vice President, Finance
Oscar D. Bryant	Vice President, Information Systems
Peter V. Davies, II	Vice President, Marketing
Stacy H. Campbell	Vice President, Business Development
Bradley D. Knopf	Vice President, Actuarial and Underwriting

AFFILIATED COMPANIES

At December 31, 2009, Corvesta was the sole member of the Plan. The chart on the following page illustrates the organizational structure of the Plan and affiliated entities at December 31, 2009:


CORVESTA, INC.
Delta Dental of Virginia (NAIC #55611)
Mercury Data Exchange
Corvesta Software Solutions India
Corvesta Services, Inc.

TRANSACTIONS WITH AFFILIATES

Services and Credit Agreement

Effective January 12, 2006, the Plan entered into a Services and Credit Agreement with Mercury whereby the Plan shall provide various administrative and executive services as well as a line of credit in which Mercury can borrow funds for operating and business investment purposes. Services provided by the Plan include, but are not limited to, human resources, information technology, accounting and administrative, compliance, executive management and marketing services. The Plan shall be reimbursed at the fair market value for such services as agreed upon by both parties. Fees for these services totaled $261,699 in 2009. The agreement also includes a provision that allows Mercury to borrow funds from the Plan in such amounts and at such times as agreed upon by both parties. Any borrowings shall bear interest at the prime rate plus 1%, compounded annually. All or any part of the principal plus accrued interest is due upon a) 30 days prior notice from the Plan, b) immediately if Mercury discloses in writing its inability to pay its debts as they come due or c) various other situations occur that are specifically identified in the agreement. At December 31, 2009, there were no loans pursuant to this agreement. Either party may terminate the agreement upon 30 days prior written notice to the other.

Transfers to Corvesta

In 2007, the Plan transferred $801,147 in assets related to its investment in Mercury to Corvesta. In addition, the Plan transferred $5,000,000, $6,000,000 and $8,000,000 to Corvesta in 2007, 2008 and 2009, respectively.

EMPLOYMENT CONTRACT

On January 1, 2006, the Plan entered into an employment agreement with Dr. George A. Levicki, President and Chief Executive Officer. The initial term of the agreement was for three years and and it shall renew automatically for one-year terms thereafter. The agreement states that Dr. Levicki shall receive a base salary, with such base salary to increase on an annual or more frequent basis at the discretion of the Executive Compensation Committee of the Board. In addition to the salary, the agreement provides for an annual incentive bonus if Dr. Levicki satisfies the terms and conditions of the Plan's executive incentive plan. The Executive Compensation Committee may revise the measures and the incentive plan on an annual basis. For the year ending December 31, 2009, Dr. Levicki received a base salary of $436,000, a bonus of $361,061 and other compensation of $119,240. This agreement further provides for, but is not limited to, the following fringe benefits:

a. Health and dental benefits for Dr. Levicki and his eligible dependents.

b. A company vehicle and operating expenses associated with maintaining the vehicle, including but not limited to personal property taxes, license and renewal fees, insurance, maintenance, repairs and fuel.

c. Membership in a country club of Dr. Levicki's choice in the Roanoke Valley. Membership shall include initiation fees, stock purchase, annual or monthly membership dues, fees, and/or assessments. Dr. Levicki shall be responsible for any other fees incidental to his membership, including but not limited to periodic minimum charges for food or other purchases and any charges not directly related to Dr. Levicki's business use of the facility.

d. A term life insurance policy with a death benefit equal to $760,000.

e. Disability income insurance.

The Plan may terminate this agreement at any time upon advance notice to Dr. Levicki, subject to provisions of the contract. Dr. Levicki may terminate this agreement at any time upon not less than six months advance notice of termination to the Plan.

RETIREMENT PLANS

Profit Sharing/401k Plan:

The Plan has a defined contribution profit sharing plan in which all employees 21 years of age are immediately eligible for 401k participation and those with at least one year of service are eligible for all other benefits. The Plan's contributions are made at a rate of eleven percent of the participants' eligible compensation. For the year ended December 31, 2009, the expense associated with the funding of the defined contribution profit sharing plan was $1,116,527. Within the defined contribution profit sharing plan, participants can contribute a percentage of their eligible compensation on a pretax basis. The Plan matches a percentage of the elective deferrals made by participants. The expense related to the Plan's match of participant elective deferrals totaled $200,742 in 2009.

Deferred Compensation Plan (Option Plan):

The Plan has a nonqualified deferred compensation plan available to key employees. Under the nonqualified deferred compensation plan, eligible key employees are granted options in amount and at a date (the "award date") determined by the Plan's Board of Directors. These options become vested based upon the vesting terms of the award and are exercisable upon vesting. Participating key employees have the choice of receiving exercised options in cash or by acquiring mutual fund shares at the fair market value as of the award date. At December 31, 2009, the Plan has fully funded the obligation by acquiring marketable securities with a fair market value of $506,464. The expense related to the nonqualified deferred compensation plan in 2009 was $219,000.

CONFLICT OF INTEREST

The Plan has adopted a conflict of interest policy that expresses its policies and procedures for identifying and dealing with conflicts and potential conflicts of interest. No person shall use his or her position, knowledge or information obtained during the course of activities for the Plan for personal profit or advantage or in any other manner that conflicts with the Plan's interest. No person should occupy a position or maintain a material financial interest in any other business enterprise that presents a conflict of interest between his or her duties to the Plan and his or her duties to the other enterprise. No person should accept gifts, payments, favors, discounts, entertainment, hospitality or any other consideration that goes beyond commonly accepted business practices. To ensure compliance with the Plan's policy, directors, officers, and responsible employees must complete a conflict of interest questionnaire annually.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, the Plan was listed as a named insured on a commercial crime policy with a $1,000,000 limit of liability, subject to a $100 deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Plan was listed as a named insured on a commercial general liability policy, a commercial property policy, a workers compensation policy, an automobile liability policy, a commercial umbrella policy, and a directors and officers liability policy.

TERRITORY AND PLAN OF OPERATION

The Plan is licensed to issue contracts for future dental services. Services are provided by approximately 3,300 licensed dentists within the Plan's service area which encompasses the entire state of Virginia. Subscriber contracts offered by the Plan for dental services can be categorized into three general classes:

1. Prepaid Group Contracts. Group prepaid dental contracts are written for a subscriber fee usually fixed for a one-year period. These contracts require monthly payment of subscriber fees based on the number of employees comprising the group. Underwriting risk to the Plan is involved under these contracts.

2. Administrative Services Contracts (ASC). Contracts provide for the processing and payment of dental claims incurred by an ASC group. The Plan is reimbursed for the claim payments as well as an administrative fee. There is no underwriting risk to the Plan under these contracts.

3. Delta Care Plan Contracts. The Plan contracts with participating dentists to provide treatment to subscribers for a per-subscriber-per-month fee for each subscriber who has selected the dentist.

GROWTH OF THE PLAN

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

Year	Total Admitted Assets	Total Liabilities	Capital And Surplus
2000	$18,603,098	$10,089,129	$8,513,969
2001	19,983,449	7,449,327	12,534,122
2002	26,375,340	8,635,054	17,740,286
2003	38,152,335	12,744,713	25,407,622
2004	45,547,673	12,776,852	32,770,821
2005	64,653,158	21,787,434	42,865,724
2006	75,261,315	22,241,602	53,019,713
2007	83,121,886	25,320,234	57,801,652
2008	83,546,302	27,531,457	56,014,845
2009	92,237,519	29,599,219	62,638,300

Year	Total Revenue	Net Investment Gains	Dental Expenses	Administrative Expenses	Net Income (Loss)
2000	$38,996,287		$29,960,512	$7,231,652	$1,804,123
2001*	44,616,030	571,647	34,058,592	7,756,668	3,372,417
2002	52,003,827	475,645	40,303,803	7,200,064	4,975,605
2003	68,071,993	809,710	52,084,008	10,200,037	6,597,658
2004	69,465,970	1,066,214	52,432,608	11,803,432	6,296,144
2005	90,157,020	1,559,145	70,489,192	12,235,987	8,990,986
2006	111,484,741	2,409,936	88,684,414	15,007,274	10,202,989
2007	121,946,329	(24,199)	96,852,679	16,732,287	8,337,164
2008	129,500,147	(2,379,961)	101,754,476	16,346,320	9,019,390
2009	143,261,540	1,380,791	113,446,756	17,848,757	13,346,818

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

SCOPE

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

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

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

FINANCIAL STATEMENTS

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

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$36,678,777		$36,678,777
Stocks:			
Preferred stocks	314,833		314,833
Common stocks	35,864,961		35,864,961
Real estate	9,427,174		9,427,174
Cash and short-term investments	(2,947,354)		(2,947,354)
Subtotals, cash and invested assets	$79,338,391		$79,338,391
Investment income due and accrued	204,318		204,318
Uncollected premiums and agents' balances in the course of collection	2,843,380		2,843,380
Amounts receivable relating to uninsured plans	8,099,745	5,408	8,094,337
Electronic data processing equipment and software	2,832,010	2,047,672	784,338
Furniture and equipment	1,618,315	1,618,315	0
Receivables from parent, subsidiaries and affiliates	338,519	106,825	231,694
Health care and other amounts receivable	2,967,242	2,226,181	741,061
Total assets	$98,241,920	$6,004,401	$92,237,519

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	$6,900,000
Unpaid claims adjustment expenses	882,000
Aggregate health policy reserves	90,706
Premiums received in advance	2,094,197
General expenses due or accrued	11,568,561
Amounts withheld or retained for the account of others	832,431
Liability for amounts held under uninsured plans	6,208,507
Aggregate write-ins for other liabilities	1,022,817
Total liabilities	$29,599,219
Unassigned funds (surplus)	$62,638,300
Total capital and surplus	$62,638,300
Total liabilities, capital and surplus	$92,237,519

STATEMENT OF REVENUES AND EXPENSES

Net premium income	$144,438,244
Change in unearned premium reserve and reserve for rate credits	(1,176,704)
Total revenues	$143,261,540
Hospital and Medical	
Hospital/medical benefits	$113,446,756
Total hospital and medical	$113,446,756
Claims adjustment expenses	3,437,014
General administrative expenses	14,408,078
Increase in reserves for accident and health contracts	3,665
Total underwriting deductions	$131,295,513
Net underwriting gain	$11,966,027
Net investment income earned	$1,787,487
Net realized capital losses	(406,696)
Net investment gains	$1,380,791
Net income	$13,346,818

RECONCILIATION OF CAPITAL AND SURPLUS

	2007	2008	2009
Capital and surplus prior reporting year	$53,019,713	$57,801,652	$56,014,845
Net income	8,337,164	9,019,390	13,346,818
Net unrealized capital gains	296,769	(3,873,459)	4,520,485
Change in nonadmitted assets	1,949,153	(932,738)	(3,243,848)
Transfers to Corvesta	(5,801,147)	(6,000,000)	(8,000,000)
Net change in capital and surplus	$4,781,939	($1,786,807)	$6,623,455
Capital and surplus end of reporting year	$57,801,652	$56,014,845	$62,638,300

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	$143,223,272
Net investment income	1,712,463
Total	$144,935,735
Benefit and loss related payments	$112,896,756
Commissions, expenses paid and aggregate write-ins for deductions	12,702,683
Total	$125,599,439
Net cash from operations	$19,336,296

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$11,950,272
Stocks	1,926,623
Total investment proceeds	$13,876,895
Cost of investments acquired (long-term only):	
Bonds	$11,262,772
Stocks	10,972,608
Total investment acquired	$22,235,380
Net cash from investments	($8,358,485)

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other provided applied	($12,376,007)
Net cash from financing and miscellaneous sources	($12,376,007)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	($1,398,196)
Cash and short-term investments:	
Beginning of the year	(1,549,158)
End of the year	($2,947,354)

SUBSEQUENT EVENTS

On February 8, 2010, the Plan transferred $2,000,000 to Corvesta. On June 22, 2010, the Plan transferred an additional $2,000,000 to Corvesta.

CONCLUSION

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

Respectfully submitted,

Kenneth G. Campbell

Kenneth G. Campbell, CFE
Assistant Chief Examiner

DELTA DENTAL

www.deltadentalva.com

STATE CORP COMMISSION
BUREAU OF INSURANCE

10 SEP 14 AM 9:43

September 7, 2010

Mr. David H. Smith
State Corporation Commission
Bureau of Insurance
Post Office Box 1157
Richmond, VA 23218

Dear Mr. Smith:

We are providing this letter in connection with the draft Examination Report regarding the Delta Dental of Virginia statutory financial statements as of December 31, 2009 and for the period from January 1, 2007 to December 31, 2009.

The draft Examination Report was accompanied by a cover letter from you dated August 24, 2010. The cover letter indicated since the examination report does not contain any recommendations for corrective action, we only need to provide written acknowledgement of receipt of the report within thirty days of the date of the letter. Please accept this correspondence as confirmation of receipt. Also as requested in your correspondence, please provide 25 copies of the final report so that we may address inquiries and for our internal records.

Respectfully,

George A. Levicki, DDS
President & CEO

Delta Dental of Virginia
4818 Starkey Road
Roanoke, Virginia 24018-8542

Telephone: 540-989-8000
800-572-3044