EXAMINATION REPORT
of
DOMINION DENTAL SERVICES, INC
Alexandria, Virginia
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
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.state.va.us/scc

I, Alfred W. Gross, 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, 2007, 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 15th day of December, 2008

Alfred W. Gross

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
October 2, 2008

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

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 last examined by representatives from the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007.

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. The Bureau determined that this transaction was exempt from the provisions of Sections 38.2-1323 through 38.2-1327 of the Code of Virginia requiring prior approval of the acquisition of control of the Corporation because there was no change in the ultimate controlling parties.

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.

CAPITAL AND SURPLUS

At December 31, 2007, the Corporation's capital and surplus was $1,221,264. 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 $.01 per share. At December 31, 2007, 100 shares of common capital stock were issued and outstanding, with gross paid in and contributed surplus of $3,727,182, surplus notes of $250,000 and unassigned funds of ($2,755,919). 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. The surplus note contains the exact subordination clause required by 14 VAC 5-210-60 I. At December 31, 2007, accrued interest on this surplus note totaled $556,749.

NET WORTH REQUIREMENT

Section 38.2-4302 of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than $600,000, up to a maximum of $4,000,000. 14 VAC 5-210-60 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2007 was $1,010,630 the Corporation's minimum net worth requirement at December 31, 2007 was $1,010,630.

MANAGEMENT AND CONTROL

The Corporation's bylaws provide that the Board of Directors (the "Board") shall be responsible for the management of the business of the Corporation. The number of directors shall be three 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. At December 31, 2007, there was one shareholder of the Corporation, therefore there was only one director. The directors shall be elected at the annual meeting of the shareholders 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, a Treasurer and such other officers as the Board deems necessary. The officers shall be elected annually by the Board and shall hold office until their successors are chosen and qualified. The President must be a member of the Board, but no other officer need be a member of the Board.

At December 31, 2007, the Board of Director and Officers were as follows:

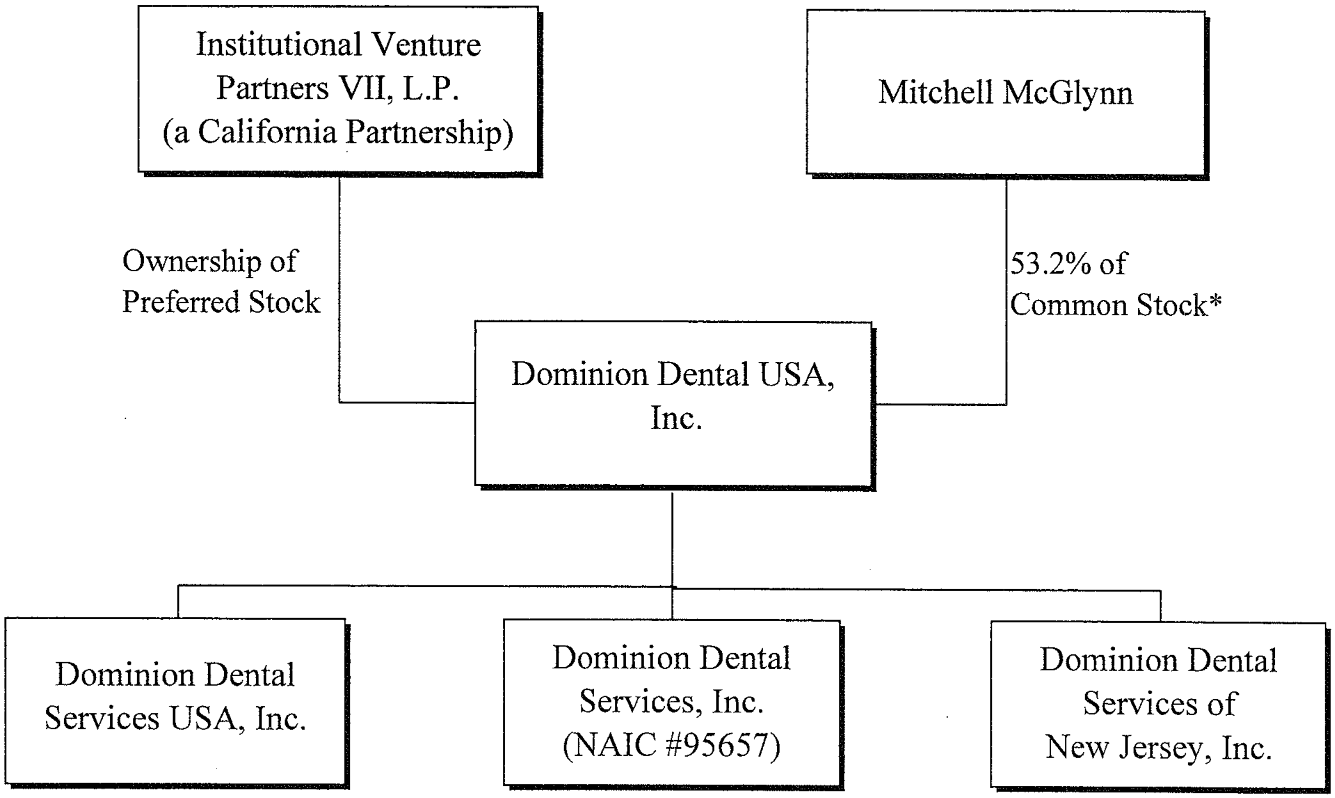
Directors	Principal Occupation
Mitchell E. McGlynn	President and Chief Executive Officer Dominion Dental USA, Inc. Alexandria, Virginia

Officers

Mitchell E. McGlynn	President
Patricia L. Doyle	Secretary/Treasurer

AFFILIATED COMPANIES

According to its Amended Articles of Incorporation, the Corporation has the authority to issue 100 shares of common stock with a par value of $.01 per share. As previously discussed in the History section of this examination report, on December 11, 1998, a stock exchange and reorganization took place and DDUSA became the sole shareholder of the Corporation. At December 31, 2007, the 100 outstanding shares of common stock were owned by DDUSA. The following chart identifies the interrelationship between the Corporation and its affiliates:



* Eight individuals own the remaining common stock of Dominion Dental USA, Inc., each with ownership interest less than 10%.

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 27% of premium revenue. During 2007, the Corporation incurred $3,041,186 in fees related to this agreement.

Tax Sharing Agreement

Effective for the filing of the 2001 tax return, the Corporation entered into a Tax Sharing Agreement with and among DDUSA and its subsidiaries. The agreement establishes methods for allocating consolidated Federal income tax liabilities among the affiliates, for payment of such liabilities, and for sharing the benefits that may be derived from filing a consolidated Federal income tax return. Under the terms of the agreement, income taxes are computed for each entity in the consolidated group at the statutory rate based on each affiliate's income giving effect to permanent differences. In the event a subsidiary owes an amount to DDUSA such amount shall be payable on the due date of the federal tax return or the estimated tax payment. If DDUSA owes an amount to a subsidiary, DDUSA shall either repay such amount to the subsidiary or credit such overpayment against the next payment due from the subsidiary.

Dividends

On March 3, 2005, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of $131,000 to DDUSA. The Bureau approved the Corporation's request on April 7, 2005 and the dividend was paid on April 8, 2005. On May 26, 2005, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of $243,000 to DDUSA. The Bureau approved the Corporation's request on June 23, 2005 and the dividend was paid on June 23, 2005. On August 19, 2005, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of $133,000 to DDUSA. The Bureau approved the Corporation's request on October 17, 2005 and the dividend was paid on October 21, 2005.

On March 13, 2006, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of $150,000 to DDUSA. The Bureau approved the Corporation's request on May 1, 2006 and the dividend was paid on May 2, 2006. On October 24, 2006, the Corporation paid an ordinary cash dividend of $95,000 to DDUSA. On December 12, 2006, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of $102,000 to DDUSA. The Bureau approved the Corporation's request on February 12, 2007 and the dividend was paid on February 15, 2007.

On May 15, 2007, the Corporation filed a request with the Bureau to pay an extraordinary cash dividend of $282,000 to DDUSA. The Bureau approved the Corporation's request on June 14, 2007 and the dividend was paid on June 14, 2007.

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Corporation's service area, as reported in its 2007 Annual Statement, included the Virginia counties and cities of 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, Poquoson, Portsmouth, Prince George, Prince William, Richmond, Spotsylvania, Stafford, Suffolk, Warren, Williamsburg, Winchester, Virginia Beach and York and the Pennsylvania counties and cities of Allegheny, Beaver, Berks, Blair, Bucks, Butler, Cambria, Centre, Chester, Columbia, Cumberland, Dauphin, Delaware, Erie, Fayette, Lackawanna, Lancaster, Lawrence, Lebanon, Lehigh, Luzerne, Lycoming, Montgomery, Northampton, Northumberland, Philadelphia, Schuylkill, Snyder, Washington, Westmoreland and York. Additionally, the Corporation's service area included the entire states of Maryland and Delaware.

Services are provided by dentists in independent practice within the Corporation's service area. Each member must 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.

CONFLICT OF INTEREST

The Corporation has adopted a conflict of interest policy that sets forth the standards under which all directors and management employees must comply. This policy states that every director and management employee should promptly report any company in which they, or a member of their family, have a material interest and in which they have engaged, or may in the future engage, in transactions with the Corporation. Every director shall abstain from voting on any action which would commit the Corporation to a business relationship with any business in which the director has an interest. The policy also states that every director and management employee shall refrain from approving any transaction between the Corporation and any business in which the director or management employee has a significant financial relationship. Additionally, all persons covered by this policy shall refrain from accepting any gift, entertainment, or other favor which might be regarded as placing them under obligation to any third party. To ensure compliance with the Corporation's policy, directors and management employees must complete a conflict of interest questionnaire on an annual basis.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2007, the Corporation was listed as a named insured on a fidelity bond with a $1,250,000 limit of liability, subject to a $10,000 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, a property policy, an umbrella policy, a managed care errors and omissions policy, a directors and officers policy, and a workers compensation policy.

PROVIDER AGREEMENTS

The Corporation has entered into agreements with numerous participating general dentists and specialists to provide dental services to members. Most 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.

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. For some of the aforementioned services, the member is required to pay a portion of the cost of the service. 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. 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, 2007. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

Year	Total Admitted Assets	Total Liabilities	Capital and Surplus
1998	$2,672,925	$1,867,467	$805,458
1999	3,729,467	2,548,946	1,180,521
2000	1,214,441	884,120	330,321
2001	2,283,474	777,978	1,505,496
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

Year	Total Revenue	Net Investment Gain	Medical & Hospital Expenses	Administrative Expenses	Pre-Tax Income (Loss)
1998	$3,764,406		$2,361,911	$2,422,224	($1,019,729)
1999	9,355,336		5,718,429	3,380,148	256,759
2000	12,929,768		7,632,156	4,589,981	707,631
2001*	14,744,781	63,621	9,054,954	5,243,637	509,811
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

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

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

Year	Number of Members
1998	49,266
1999	92,461
2000	143,650
2001	145,616
2002	148,999
2003	128,323
2004	121,623
2005	74,770
2006	78,084
2007	75,101

SPECIAL RESERVES AND DEPOSITS

At December 31, 2007, the Bureau required the Corporation to maintain a minimum deposit of $300,000 with the Treasurer of Virginia. Additionally, the Corporation maintained a $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, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRA) were required had medium or low risk assessments as determined from the National Association of Insurance Commissioners Examiners Handbook. Analytical review procedures were applied for non-SRA items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Corporate Records
Management and Control
Transactions with Affiliates
Territory and Plan of Operation
Conflict of Interest
Provider Agreements
Contract Forms
Special Reserves and Deposits
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2007; a statement of revenue and expenses for the year ending December 31, 2007; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash, cash equivalents and short-term investments	$1,754,842		$1,754,842
Subtotals, cash and invested assets	$1,754,842	$0	$1,754,842
Uncollected premiums in the course of collection	275,316	1,954	273,362
Net deferred tax asset	543,849	417,968	125,881
Furniture and equipment, including health care delivery assets	669	669	0
Receivables from parent, subsidiaries and affiliates	26,211		26,211
Aggregate write-ins for other than invested assets	4,231	4,231	0
Total assets	$2,605,118	$424,822	$2,180,296

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid	$134,492	$1,024	$135,516
Aggregate health policy reserves		102,381	102,381
Premiums received in advance		338,006	338,006
General expenses due or accrued		125,316	125,316
Aggregate write-ins for other liabilities		257,813	257,813
Total liabilities	$134,492	$824,540	$959,032
Common capital stock			$1
Gross paid in and contributed surplus			3,727,182
Surplus notes			250,000
Unassigned funds (surplus)			(2,755,919)
Total capital and surplus			$1,221,264
Total liabilities, capital and surplus			$2,180,296

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Net premium income	XXX	$11,444,273
Change in unearned premium reserves and reserve for rate credits	XXX	4,564
Total revenues	XXX	$11,448,837
Hospital and Medical		
Hospital/medical benefits	$8,696	$7,097,112
Emergency room and out-of-area	662	662
Total hospital and medical	$9,358	$7,097,774
General administrative expenses	4,155,513	4,157,732
Total underwriting deductions	$4,164,871	$11,255,506
Net underwriting gain	XXX	$193,331
Net investment income earned		$51,598
Net investment gains		$51,598
Aggregate write-ins for other expenses		($38,000)
Net income before federal income taxes	XXX	$206,929
Federal income taxes incurred	XXX	56,112
Net income	XXX	$150,817

RECONCILIATION OF CAPITAL AND SURPLUS

	2005	2006	2007
Capital and surplus prior reporting year	$1,363,117	$1,207,746	$1,367,250
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income	$245,080	$297,976	$150,817
Change in net deferred income tax	(102,316)	(19,507)	(5,429)
Change in nonadmitted assets	103,007	6,908	36,514
Paid in capital	105,858	119,127	56,112
Dividends to stockholders	(507,000)	(245,000)	(384,000)
Net change in capital and surplus	($155,371)	$159,504	($145,986)
Capital and surplus end of reporting year	$1,207,746	$1,367,250	$1,221,264

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	$11,782,426
Net investment income	52,459
Total	$11,834,885
Benefit and loss related payments	$7,110,424
Commissions, expenses paid and aggregate write-ins for deductions	4,147,026
Total	$11,257,450
Net cash from operations	$577,435

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	($384,000)
Other cash applied	(27,220)
Net cash from financing and miscellaneous sources	($411,220)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	$166,215
Cash and short-term investments:	
Beginning of the year	1,588,627
End of the year	$1,754,842

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, Ken Campbell, CFE participated in the work of the examination.

Respectfully submitted,

Cliff Lewis

Cliff Lewis, CFE
Senior Insurance Examiner

DOMINION
DENTAL
Services, Inc.

BUREAU OF INSURANCE
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December 2, 2008

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, 2007

Dear Mr. Smith:

In reference to your letter dated November 26, 2008, this letter serves as written acknowledgement of receipt of the Examination Report as of December 31, 2007.

We would also like to acknowledge the courtesy and professionalism of Ken Campbell and Cliff Lewis.

Sincerely,

Mitchell E. McGlynn
President

115 South Union Street • Suite 300 • Alexandria, VA 22314 • www.DominionDental.com

703-518-5000 • 888-681-5100 (toll free) • 703-518-8849 (fax)