



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**ADVANTAGE DENTAL PLAN, INC.
REDMOND, OREGON**

NAIC COMPANY CODE 47006

AS OF

DECEMBER 31, 2007

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SALUTATION

May 29, 2008

Alfred W. Gross, Commissioner
Chairman, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, Oregon 97301-3883

Dear Commissioner and Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

ADVANTAGE DENTAL PLAN, INC.
442 SW Umatilla Avenue, Suite 200
Redmond, Oregon 97756

NAIC Company Code 47006

hereinafter referred to as the "Plan." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We examined the Plan's financial statements as of December 31, 2007. This examination covers the three-year period then ended. Material transactions or events subsequent to the examination cut-off date were reviewed and noted during the examination.

We followed the provisions of ORS 731.300 and the procedures and guidelines prescribed by the NAIC. This examination determined the Plan's financial condition, ability to fulfill its obligations, nature of operations and compliance with the Insurance Code. Accounting methods, records and supporting evidence were examined or tested. Assets, liabilities, income and expense related items were also examined or tested. Corrective actions taken by the Plan in response to comments and/or recommendations in the December 31, 2004 report were reviewed.

PLAN HISTORY

The Plan was incorporated on October 13, 1994, under the laws of the State of Oregon as RDS Dental Plan, Inc. On March 3, 1995, the Plan received a Certificate of Authority to transact business as a health care service contractor, restricted to dental service only, pursuant to ORS Chapter 750. On November 20, 1996, the Plan changed its name to Advantage Dental Plan, Inc.

CAPITALIZATION

The Plan was originally capitalized with the issuance of 1,000 shares of no par common stock to Roseburg Dental Services, LLC, at \$10 per share. Since the initial funding, the Plan has sold additional shares of voting and nonvoting common capital stock. At December 31, 2007, the Plan had issued shares as follows:

	<u>Voting</u>	<u>Nonvoting</u>
Roseburg Dental Services, LLC	100,000	185,362
Basin Dental Services, LLC*	100,000	185,362
Central Oregon Dental Services, LLC	100,000	185,362
Columbia Gorge Dental Services, LLC	100,000	185,362
Eastern Oregon Dental Services, LLC	100,000	185,362
Siskiyou Dental Services, LLC	100,000	185,362
South Coast Dental Services, LLC	100,000	185,362
Valley of the Rogue Dental Services, LLC	100,000	185,362
Various Individuals	<u>0</u>	<u>236,282</u>
Total Shares Issued and Outstanding	<u>800,000</u>	<u>1,719,178</u>

*dba Jefferson Dental Service

The Plan has authorization to issue 1,000,000 shares of no par value voting, and 4,000,000 shares of no par value nonvoting common stock.

The Board of Directors has been inconsistent in establishing a value for the Plan's common capital stock. Initially, both the common voting and common nonvoting shares were issued for \$1 per share. During 1998, a block of 90,000 shares was issued without any funds being posted into the common capital stock account. In 2002, another 500,000 shares were cancelled and reissued to seven of the eight dental LLCs, again without any funds being posted into the common capital stock account. During 2003, the Plan transferred \$400,000 from the common capital stock account into the gross paid in and contributed surplus account. Finally, beginning in 2003, the Board of Directors voted to increase the value of subsequent capital stock issuances to \$2 per share, resulting in 128,000 shares sold to various individuals for a total of \$256,000. From January 1, 2004 through December 31, 2005, the Company sold 186,000 shares of nonvoting shares at \$2.00 per share. In 2006, the Company sold 57,778 nonvoting shares of stock for \$2.25 each.

As of December 31, 2007, the Plan had issued and outstanding 800,000 shares of voting common capital stock with a stated value of \$632,241 and 1,719,178 shares of nonvoting common capital stock with a stated value of \$1,143,909.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest the Plan's management and control in a Board of Directors. As of December 31, 2007, the Board of Directors consisted of twenty-four voting members. Eight of these Board members are representatives of the public, in accordance with the provisions of ORS 750.015 and the Plan's Bylaws.

Directors serve terms of one year without limiting the number of terms. A majority of the number of directors constitutes a quorum. Members of the Board of Directors serving as of December 31, 2007, were:

<u>Name and Address</u>	<u>Title and Affiliation</u>	<u>Representative</u>
John L. Thomas Eugene, OR 97401	President Pacific Benefit Consultants	Public
Bruce L. Hanna Roseburg, OR 97470	President Coca Cola Bottling Company of Roseburg	Public
Michael A. Gordon Coos Bay, OR 97420	Michael A. Gordon, CPA, LLC	Public
M. Gerald Duncan Roseburg, OR 97470	A. G. Edwards & Sons	Public
Angalee M. Barry Klamath Falls, OR 97603	Sterling Bank	Public
Timothy S. Cowan Salem, OR 97301	American Financial Services	Public
Stuart Watson Grants Pass, OR 97526	Stuart Watson, CPA	Public

<u>Name and Address</u>	<u>Title and Affiliation</u>	<u>Representative</u>
Sam E. Scott, DMD Coos Bay, OR 97420	Dentist South Coast Dental Service, LLC	Provider
John L. Bauer DMD Burns, OR 97720	Dentist Eastern Oregon Dental Service, LLC	Provider
Charles H. Vanderpool, DDS Medford, OR 97504	Dentist Siskiyou Dental Services, LLC	Provider
James A. Lawson, DMD Myrtle Creek, OR 97457	Dentist Roseburg Dental Services, LLC	Provider
Richard P. Miller, DMD Grants Pass, OR 97526	Dentist Valley of the Rogue Dental Services, LLC	Provider
Robert M. Sonnenburg, DMD Bend, OR 97701	Dentist Central Oregon Dental Services, LLC	Provider
Darrel W. Mitchell, DMD Klamath Falls, OR 97603	Dentist Jefferson Dental Services, LLC *	Provider
Wm. John Miner, DMD Medford, OR 97504	Dentist Valley of the Rogue Dental Services, LLC	Provider
Mark E. Crompton, DDS Hood River, OR 97031	Dentist Columbia Gorge Dental Services, LLC	Provider
Dane E. Smith, DDS North Bend, OR 97459	Dentist South Coast Dental Services, LLC	Provider
J. Kyle House, DDS Hood River, OR 97031	Dentist Columbia Gorge Dental Services, LLC	Provider
Dennis C. Turner, DMD Hermiston, OR 97838	Dentist Eastern Oregon Dental Services, LLC	Provider
Tamara K. Abbett, DDS Medford, OR 97504	Dentist Siskiyou Dental Services, LLC	Provider
William K. Schuyler, DMD Roseburg, OR 97470	Dentist Roseburg Dental Services, LLC	Provider

<u>Name and Address</u>	<u>Title and Affiliation</u>	<u>Representative</u>
Thomas Tucker, DMD Klamath Falls, OR 97601	Dentist Jefferson Dental Services, LLC*	Provider
William I. Calhoun, MD Bend, OR 97701	Doctor Eastern Oregon Dental Services, LLC	Provider
John P. Woll, DMD Madras, OR 97741	Dentist Central Oregon Dental Services, LLC	Provider

*Jefferson Dental Services, LLC, is also known as Basin Dental Services, LLC.

Officers

Operating management of the Plan as of December 31, 2007, was under the direction of the following principal officers:

<u>Name</u>	<u>Office</u>
R. Michael Shirtcliff, DMD	President and Medical Director
Tamara K. Abbett, DDS	Secretary
William J. Miner, DMD	Treasurer
J. Kyle House, DDS	Chairman
Dane E. Smith, DDS	Vice Chairman

AFFILIATED COMPANIES

As previously described in the History and Capitalization sections of this report, all voting shares of the Plan are owned by eight LLC dentist groups. The Plan is affiliated to other entities through common management and 100% ownership by the same eight dental LLCs as follows:

Advantage Professional Management, Inc. (APM): APM, formerly known as Northwest Professional Management, Inc., was incorporated on June 5, 1998, and provides management and administrative services to dental groups and dental insurance companies. APM entered into a contract with the Plan to provide management and administrative services effective August 1, 2002, described below.

Advantage Dental Services, LLC (ADS): ADS, formerly known as Northwest Dental Services, LLC, is a limited liability company that was created on October 16, 1998, to write Oregon Health Plan business.

ADP Property Management, LLC (ADPPM): ADPPM is a limited liability company that was formed December 16, 2002, to own and manage real estate properties, including the office building occupied by the Plan and its affiliates.

INTERCOMPANY AGREEMENTS

As of December 31, 2007, the Plan operated under two agreements with its affiliates, as follows:

Management and Administration Agreement

The Plan entered into a management agreement with APM effective August 1, 2002. The management agreement provides for the management of the daily operations of the Plan by APM. Under the terms of the management agreement, the Plan agrees to pay APM a fixed percentage of net premium revenue, as approved by the Plan's executive committee, for the services provided under the management agreement.

Fee-for-Service Risk Sharing Agreement

The Plan entered into an agreement with each of the eight LLC owners. The agreements define the covered services to be performed by the owner LLCs and the compensation payable for these services. In addition, the agreements provide for risk sharing with a performance payment to the dental LLCs achieving targeted efficiencies or assessment to those dental LLCs with utilization amounts exceeding an established percentage.

CONFLICT OF INTEREST

The Plan has an established policy requiring disclosure of any material interest or affiliation on the part of its directors, officers, and key personnel which may conflict with official duties. A review of the completed disclosures did not reveal any exceptions.

CORPORATE RECORDS

The corporate records, including the Board of Director minutes, Articles of Incorporation, Bylaws, and insurance holding company registration statements, were reviewed for the period under examination.

Board of Director Minutes

Corporate minutes were reviewed for the period under examination. It was noted that the Board minutes, including those of the executive committee, were recorded in sufficient detail to determine the actions taken by the directors. All shareholders participate in a voting agreement that provides for the voting of their respective shares of voting common stock in connection with the election of the Plan's Board of Directors. The results of the elections are reflected in the executive committee minutes, and not in the Board of Directors meeting minutes. The Plan is in compliance with Article 2.1 of its Bylaws, which states that the shareholders shall hold a meeting for the purpose of electing directors.

Articles of Incorporation

The Articles of Incorporation conformed to Oregon statutes. No amendments were made to the articles during the period covered by this examination.

Bylaws

The Bylaws conformed to Oregon statutes. No amendments were made to the Bylaws during this examination period.

INSURANCE HOLDING COMPANY REGISTRATION STATEMENT

The Plan filed an insurance holding company registration statement in accordance with the provisions of ORS 732.552, ORS 732.554, and OAR 836-027-0020(1).

REINSURANCE

The Plan does not currently have any reinsurance contracts in effect due to the low coverage limits offered relative to the minimum capital requirements. The Plan is in compliance with the provisions of ORS 731.504, which limits the risk on any one subject to 10% of surplus.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, the authority to write in the State of Oregon, and the solvency of the insurers providing the coverages. At December 31, 2007, the Plan was insured up to \$1,000,000 per occurrence against losses from employee dishonesty, forgery or alterations after a \$1,000 per occurrence deductible by Travelers Casualty & Surety of America.

The Plan has directors and officer's liability coverage up to \$1,000,000, subject to a \$25,000 retention for each claim or a \$50,000 retention for third party wrongful acts claims. The Plan carried general liability coverage. Advantage Professional Management (APM) carried insurance coverage for the property and equipment it uses in the Plan's operation as follows:

- Computer general liability
- Automobile liability
- Property liability

RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

Since the Plan has no employees, it has no retirement plans or postretirement benefits. Employees are provided by APM under a management agreement.

TERRITORY AND PLAN OF OPERATION

The Plan is authorized in Oregon, Idaho and Washington where it provides dental insurance to commercial and ASO (Administrative Services Only) groups. It is not authorized to transact insurance in any other state.

GROWTH OF THE PLAN

Growth of the Plan since the last financial examination is reflected in the following schedule. Stated amounts were derived from the Plan's filed annual statements, except for years in which the Oregon Insurance Division issued a report of examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2004*	\$3,192,430	\$1,003,301	\$2,189,129	\$19,719
2005	3,759,462	1,442,781	2,316,681	13,496
2006	3,772,946	1,338,812	2,434,134	23,558
2007*	3,651,301	1,242,264	2,409,037	19,199

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the underwriting results of the Plan since the most recent financial examination. The amounts were compiled from the Plan's filed annual statements, except for years in which the Oregon Insurance Division issued a report of examination.

<u>Year</u>	<u>A Premiums Earned</u>	<u>B Incurred Claims</u>	<u>C Incurred Expenses</u>	<u>(B+C)/A Ratio</u>
2004*	\$10,094,121	\$ 8,070,639	\$2,014,000	99.9%
2005	12,111,517	9,650,092	2,518,133	100.5%
2006	13,009,324	10,472,567	2,647,089	100.8%
2007*	14,175,432	11,482,974	2,851,093	101.1%

*Per examination

A combined claims and expense to premium ratio more than 100% indicates an underwriting loss. The Plan incurred an underwriting loss from 2005 through 2007, but reported net income in those years due to net investment gains.

ACCOUNTS AND RECORDS

All records were made available to the examiners in compliance with the provisions of ORS 733.170. Assets are maintained in accordance with the provisions of ORS 732.245; however, the following examination issues were noted.

Accounting

The 2007 Health Annual Statement Instructions published by the NAIC are not being followed adequately. Numerous mistakes were found during the examination that would not have occurred if the instructions had been followed. ORS 733.210 recommends the NAIC annual statement instructions be used to prepare the filed annual statement. **I recommend the Plan obtain and follow the NAIC Health Annual Statement instructions in preparing its annual statements filed with the Oregon Insurance Division in accordance with ORS 733.210. In addition, I recommend the Plan's accounting staff receive training in preparing the financial statements filed with the division.**

Custodial Agreement

The Plan directly purchased many of its invested assets from TreasuryDirect, sponsored by the US Department of the Treasury, the Bureau of the Public Debt, or from various national banks and mutual funds. Assets purchased and held directly by an insurer do not require a custodial arrangement.

A number of the invested assets, however, were purchased through and held by a brokerage firm, Strand, Atkinson, Williams & York. OAR 836-027-0200 requires that the Plan have a custodial agreement with a national bank, state bank or trust company for investments not directly held by the Plan. Holding the investments at a brokerage firm does not comply with OAR 836-027-0200.

I recommend the Plan obtain a custodial agreement with a national bank, state bank or trust company which meets the requirements of OAR 836-027-0200, for invested assets it does not directly hold.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

As of December 31, 2007, the Plan had complied with all recommendations referenced in the 2004 financial examination report published by the Oregon Department of Consumer and Business Services.

ADVANTAGE DENTAL PLAN, INC.
BALANCE SHEET
As of December 31, 2007

<u>ASSETS</u>	<u>Per Plan</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds (Note 1)	\$1,149,937	\$ 0	\$1,149,937
Cash and short-term investments	2,160,482		2,160,482
Other invested assets	259,500		259,500
Investment income due and accrued	28,161		28,161
Uncollected premiums	48,654		48,654
Amounts receivable relating to uninsured plans	3,503		3,503
Healthcare receivables	<u>1,064</u>	<u>0</u>	<u>1,064</u>
Total Assets	<u>\$3,651,301</u>	<u>\$ 0</u>	<u>\$3,651,301</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 2)	646,828		646,828
Unpaid claims adjustment expense	11,029		11,029
Premiums received in advance	328,139		328,139
General expenses due or accrued	95,455		95,455
Amounts due to parent, subsidiaries and affiliates	139,780		139,780
Liability for amounts held under uninsured plans	<u>21,033</u>	<u>0</u>	<u>21,033</u>
Total Liabilities	<u>1,242,264</u>	<u>0</u>	<u>1,242,264</u>
 <u>CAPITAL & SURPLUS</u>			
Common capital stock	1,776,150		1,776,150
Gross paid in and contributed surplus	400,000		400,000
Unassigned funds (surplus)	<u>232,887</u>	<u>0</u>	<u>232,887</u>
Total Capital & Surplus	<u>2,409,037</u>	<u>0</u>	<u>2,409,037</u>
Total Liabilities, Capital & Surplus	<u>\$3,651,301</u>	<u>\$ 0</u>	<u>\$3,651,301</u>

ADVANTAGE DENTAL PLAN, INC.
INCOME STATEMENT
For the Year Ended December 31, 2007

<u>UNDERWRITING INCOME</u>	<u>Per Plan</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Premiums earned	\$14,175,432	\$ 0	\$14,175,432
Other professional services	11,482,974	0	11,482,974
Claims adjustment expenses	763,061		763,061
General administrative expenses	<u>2,088,032</u>	<u>0</u>	<u>2,088,032</u>
Total Underwriting Deductions	<u>14,334,067</u>	<u>0</u>	<u>14,334,067</u>
Net Underwriting Gain or (loss)	(158,635)		(158,635)
 <u>INVESTMENT INCOME</u>			
Net investment income earned	177,835		177,835
Net realized capital gains	<u>0</u>	<u>0</u>	<u>0</u>
Net Investment Gains	177,835		177,835
 <u>OTHER INCOME</u>			
Net gain or (loss) from agents' balances charged off	0		0
Aggregate write-ins for other income or expenses	<u>0</u>	<u>0</u>	<u>0</u>
Net income before federal income taxes	19,199	0	19,199
Federal income taxes incurred	<u>0</u>	<u>0</u>	<u>0</u>
Net Income	<u>\$ 19,199</u>	<u>\$ 0</u>	<u>\$ 19,199</u>
 <u>RESERVES AND UNASSIGNED FUNDS</u>			
Capital and Surplus December 31, 2006	\$ 2,434,134	\$ 0	\$2,434,134
Net income	19,199		19,199
Change in net deferred income tax	(26,631)		(26,631)
Change in nonadmitted assets	15,434		15,434
Change in Paid in capital	(18,750)		(18,750)
Aggregate write-ins for gains or (losses)	<u>(14,349)</u>	<u>0</u>	<u>(14,349)</u>
Net change in capital and surplus	<u>(25,097)</u>	<u>0</u>	<u>(25,097)</u>
Capital and Surplus December 31, 2007	<u>\$2,409,037</u>	<u>\$ 0</u>	<u>\$2,409,037</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Investments

Most of the Plan's investments were in short-term investments. A comparison of the investments over the past four years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2004	\$ 454,583	\$2,063,500	14%	65%
2005	102,841	3,146,996	3%	84%
2006	248,908	3,164,278	7%	84%
2007	1,149,937	2,160,482	31%	59%

Investment transactions were approved by the executive committee of the Board of Directors pursuant to ORS 733.740. As of December 31, 2007, invested assets of \$1,656,244 representing 46% of the total invested assets were invested in amply secured obligations of the United States or FDIC insured cash deposits and certificates of deposit. This exceeded the amount of assets that must be invested in these types of assets pursuant to ORS 733.580 and ORS 750.045.

Note 2 – Unpaid Claims and Unpaid Claims Adjustment Expenses

Scott Fitzpatrick, FSA, MAAA, Oregon Insurance Division actuary, reviewed the Plan's unpaid claims reserves as of December 31, 2007. Based on the Plan's claims runoff data, he concluded that the December 31, 2007, liability for unpaid claims was adequate. The underlying data supporting the review was tested by the examiners and no exceptions were noted.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following is a summary of recommendations made in this report of examination:

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- 13 I recommend the Plan obtain and follow the NAIC Health Annual Statement instructions in preparing its annual statements filed with the Oregon Insurance Division in accordance with ORS 733.210. In addition I recommend the Plan's accounting staff receive training in preparing the financial statements filed with the division.
- 14 I recommend the Plan obtain a custodial agreement with a national bank, state bank or trust company which meets the requirements of OAR 836-027-0200, for invested assets it does not directly hold.

CONCLUSION

During the three-year period covered by this examination, the Plan's surplus increased from \$2,189,912, as presented in the December 31, 2004, report of examination, to \$2,409,037, as shown in this examination report. Assets, liabilities and surplus are compared below:

	<u>December 31,</u>		
	<u>2007</u>	<u>2004</u>	<u>Change</u>
Assets	\$3,651,301	\$3,192,430	\$458,871
Liabilities	<u>1,242,264</u>	<u>1,003,301</u>	<u>238,963</u>
Surplus	<u>\$2,409,037</u>	<u>\$2,189,129</u>	<u>\$219,908</u>

SUBSEQUENT EVENTS

On October 16, 2007, the Plan filed with the Director of the Department of Consumer and Business Services a proposal to reorganize its ownership structure to create a consolidated holding company structure. Supplemental and amended information was periodically provided until the filing was complete on April 11, 2008. Two new holding companies, Advantage Community Holding Company (Holding) and Advantage Consolidated LLC (Consolidated), were created to facilitate the reorganization.

Advantage Community Holding Company is an Oregon limited liability company organized to direct the operations of the Plan and its affiliates.

Advantage Consolidated, LLC is an Oregon limited liability company was formed to consolidate the ownership of the Plan and its affiliates and to manage the interests of the owners of the Plan.

After all steps in the proposal have been completed, the owners of the Plan shall have the same percentage ownership in Consolidated as they had in the Plan and its affiliates immediately prior to the reorganization.

The proposed reorganization was approved by the director on April 22, 2008, by order INS 08-03-007. All transactions involving shares owned by the current owners will take place no sooner than 60 days after the director has approved the transaction.

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and contract employees of the Plan during the examination process are gratefully acknowledged.

In addition to the undersigned, Ellen F. Quale, CPA, insurance examiner for the State of Oregon, Department of Consumer and Business Services, Insurance Division, and Scott L. Fitzpatrick, FSA, MAAA, actuary for the Department of Consumer and Business Services, participated in the examination.

Respectfully submitted,

Mike P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Mike P. Phillips, CFE, CPA, AES, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Advantage Dental Plan, Inc.

2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of Advantage Dental Plan, Inc., was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Mike P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this _____ day of _____, 2008.

NOTARY PUBLIC for the State of Oregon

My Commission Expires: _____