



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, 2010

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SALUTATION

July 18, 2011

Joseph Torti, III
Deputy Director and Superintendent of Insurance
Chairman, NAIC Financial Condition (E) Committee
Rhode Island Division of Banking Regulation
Division of Insurance
1511 Pontiac Avenue
Cranston, RI 02920

Honorable Scott L. Harra, Acting Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE, Room 440
Salem, Oregon 97301-3883

Dear Superintendent 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, 2010. 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 considered the provisions of ORS 731.300 and the NAIC procedures and guidelines during our examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Plan, including corporate governance, identifying and assessing inherent risks within the Plan, and evaluating system controls and procedures used to mitigate those risks. The 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. Corrective actions taken by the Plan in response to comments and recommendations in the December 31, 2007, 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

On April 11, 2008, the Insurance Division approved a reorganization in the Plan's ownership structure to create a consolidated holding company. The Plan is authorized to issue 1,000,000 shares of voting common stock of which 800,000 shares are issued and outstanding and 4,000,000 nonvoting shares of common stock of which 1,719,178 are issued and outstanding.

Advantage Community Holding Company, LLC (Holdings) was organized on April 19, 2007, for the purpose to direct the operations of Advantage Dental and its affiliates. In addition, on May 21, 2007, Advantage Consolidated, LLC (Consolidated) was organized for the purpose of managing the interest of individual owners.

The reorganization shifted ownership of the Plan to Consolidated. The 800,000 shares voting common shares issued and outstanding and the 1,719,178 nonvoting shares issued and outstanding are now owned by Consolidated. Previous owners of the Plan, as noted above, are now stakeholders in Consolidated.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest the Plan's management and control in a Board of Directors. The Board is composed of the management committee of the holding company. As of December 31, 2010, the Board of Directors consisted of 14 members, 12 of which are voting members. Four 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 until a member is terminated from the management committee of the holding company. A majority of the directors constitutes a quorum. Members of the Board of Directors serving as of December 31, 2010, were:

<u>Name and Address</u>	<u>Title and Affiliation</u>	<u>Years as Manager</u>
J. Kyle House, DDS* Hood River, OR	Dentist Owner/Provider	9
John L. Thomas Eugene, OR	Lay Member Pacific Benefit Consultants	13
James A. Lawson, DMD Myrtle Creek, OR	Dentist Owner/Provider	16
Tamara Abbett, DDS Medford, OR	Dentist Owner/Provider	9
Donald Lanahan, DMD Grants Pass, OR	Dentist Owner/Provider	3
John L. Bauer, DMD Burns, OR	Dentist Owner/Provider	4

<u>Name and Address</u>	<u>Title and Affiliation</u>	<u>Years as Manager</u>
M. Gerald Duncan Roseburg, OR	Lay Member DA Davidson	10
Michael A. Gordon, CPA Coos Bay, OR	Lay Member CPA Firm	7
Bruce L. Hanna Roseburg, OR	Lay Member Owner – Coca-Cola Bottling Company	12
Sam E. Scott Coos Bay, OR	Dentist Owner/Provider	7
Thomas S. Tucker, DMD Klamath Falls, OR	Dentist Owner/Provider	4
Robert M. Sonnenburg, DMD Bend, OR	Dentist Owner/Provider	8
Dane E. Smith, DDS North Bend, OR	Owner/Provider Ex Officio	16
R. Mike Shirtcliff, DMD Redmond, OR *Chairman	Owner/Provider Ex Officio	16

Officers

Operating management of the Plan as of December 31, 2010, was under the direction of the following principal officers:

<u>Name</u>	<u>Office</u>
R. Michael Shirtcliff, DMD	President
Tamara K. Abbett, DDS	Secretary
James A. Lawson, DMD	Treasurer
J. Kyle House, DDS	Chairman
John L. Thomas	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 Consolidated.

In 2009 Consolidated purchased several companies in a process to form a community dental services company. Upon completion of the acquisitions, Consolidated created additional companies (affiliates). The Plan has a formal agreement with Advantage Professional Management LLC. The other affiliates have common management with Consolidated.

Below find the affiliates of the Plan.

Advantage Professional Management, LLC. (APM): APM, formerly known as Northwest Professional Management, Inc., was incorporated on June 5, 1998, and subsequently changed from an incorporated business to an LLC in July 2007. APM 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. This agreement was replaced by a Management and Staffing agreement signed January 1, 2008. (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.

Advantage 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.

Advantage Dental Clinics, LLC is a limited liability company formed in 2009, for the purpose of operating and managing the 20 dental clinics operating throughout Oregon.

Advantage Equipment Leasing, LLC is a limited liability company formed in 2009, which owns all the equipment in the dental clinic offices and leases the equipment to the dental clinics.

Advantage Dental Group, PC is a company formed in 2009 which is owned by the eight dentists on the Advantage Holding LLC Management Committee. Funding for the Company comes from leasing of dentists to the Advantage Clinics.

American Financial Services, Inc. was formed for the purpose of providing dentists with a financing system to allow the dentist to provide financing to patients for dental treatment.

Advantage Consulting Services, LLC was formed for consulting with dentists in the clinics on services to be provided and other consulting concerns clinics may have.

Advantage Dental Support Group, LLC was formed to facilitate clinics in maintaining adequate staff in the dental clinics. The company leases employees to clinics and to other clients.

Advantage Clinic Properties, LLC owns the 9 buildings where established clinics are located. The company owns the properties and leases them back to the clinics.

INTERCOMPANY AGREEMENTS

The Plan entered into an agreement with APM on August 1, 2002. The agreement was replaced with the Management and Staffing Agreement on January 1, 2008. The agreement calls for APM to provide all management, administrative and marketing services to the Plan. Under the terms of the management agreement, the Plan agrees to pay APM 14% of gross monthly premiums received by the Plan.

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

The Board minutes, including those of the executive committee, were recorded in sufficient detail to determine the actions taken by the Board. The Plan is in compliance with Article 2.1 of its Bylaws which states that the shareholders shall hold an annual 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. On May 6, 2010, the Preamble was changed to read, the Corporations' voting and nonvoting shares are currently owned by Advantage Community Holding Company, LLC. In addition, changes were made to reflect the changes in the ownership structure.

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 coverage's 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. Insurance coverages are provided by Advantage Consolidated, LLC. At December 31, 2010, the Plan was insured up to \$1,000,000 per occurrence against losses from employee dishonesty, forgery or alterations after a \$10,000 per occurrence deductible by Federal Insurance Company.

The Plan has directors' and officers' liability coverage up to \$1,000,000, subject to \$25,000 retention for each claim or a \$50,000 retention for third party wrongful acts claims. The Plan carried general liability coverage. Advantage Consolidated, LLC 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 these benefits by APM under the Management and Staffing Agreement.

TERRITORY AND PLAN OF OPERATION

The Plan is authorized to write business in Oregon, Idaho and Washington where it provides dental insurance to commercial and ASO (Administrative Services Only) groups. The Company has an inactive Certificate of Authority with the State of Hawaii.

GROWTH OF THE PLAN

The following tables reflect the growth and loss experience of the plan since the last financial examination. In 2009, the Company's growth and loss experience slowed considerably. This was the result of several factors; loss of policies, loss of OEBC business and the general economy. During 2009 the Plan sold its commercial business to PacificSource Health Plans.

Growth of the Plan since the last financial examination is reflected in the following schedule. Amounts were derived from the Plan's 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>
2007*	\$3,651,301	\$1,242,264	\$2,409,037	\$19,199
2008	3,157,060	726,981	2,430,081	4,737
2009	2,259,882	893,714	1,366,169	13,128
2010*	1,767,558	294,395	1,473,163	3,805

*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 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>
2007*	\$14,175,432	\$11,482,974	\$2,851,093	101.1%
2008	13,160,427	10,566,855	2,730,171	101.0%
2009	6,265,781	5,471,352	3,038,815	135.8%
2010*	238,727	222,668	193,014	174.1%

*Per examination

A combined claims and expense to premiums ratio more than 100% indicates an underwriting loss. The decrease in earned premium is the direct result of the majority of its dental business being sold to PacificSource Health Plans during 2009.

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 2010 Health Annual Statement Instructions published by the NAIC are not being adequately followed. Numerous errors were found during the examination that would not have occurred if the instructions had been followed. ORS 733.210(2) 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(2).**

Limitations on Investments in Property of Any One Person

ORS 733.770 prohibits an insurer from having any combination of investments in or secured by the stocks, obligations, and property of one person, corporation or political subdivision in excess of 10% of the insurer's total assets. Political subdivisions include agencies.

Schedule E, Part 1, page E25, reflects investments in Pacific Continental Bank of \$229,084 and Columbia Community Bank for \$229,289, as of December 31, 2010. These exceed the limitation by \$52,325 and \$52,530, respectively for a total of \$104,855.

Permission was granted prior to 1999 to allow the Plan, pursuant to ORS 733.520, to maintain current operating cash in an account without being subject to the limitation of ORS 733.770. The Pacific Continental non interest bearing account of \$414K is not subject to the statute.

For those accounts subject to the limitation of ORS 733.770, the Plan needs to reallocate the investments so that those bank accounts which are not current operating cash accounts must not exceed 10% of the insurer's assets.

I recommend the Plan reallocate its investments with the exception of the current operating cash account so that it does not exceed 10% of the insurer's assets in a single investment as required by ORS 733.770.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

As of December 31, 2010, the Plan had complied with all recommendations referenced in the 2007 financial examination report published by the Oregon Department of Consumer and Business Services.

ADVANTAGE DENTAL PLAN, INC.
BALANCE SHEET
As of December 31, 2010

<u>ASSETS</u>	<u>Per Plan</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds (Note 1)	\$ 0	\$ 0	\$ 0
Cash and short-term investments (Note 1)	1,681,125		1,681,125
Other invested assets	0		0
Investment income due and accrued	1,433		1,433
Uncollected premiums	77		77
Amounts receivable relating to uninsured plans			
Healthcare receivables	<u>84,923</u>	<u>0</u>	<u>84,923</u>
Total Assets	<u>\$1,767,558</u>	<u>\$ 0</u>	<u>\$1,767,558</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 2)	10,631		10,631
Unpaid claims adjustment expense (Note 2)	184		184
Premiums received in advance	9,553		9,553
General expenses due or accrued	0		0
Amounts due to parent, subsidiaries and affiliates	3,548		3,548
Liability for amounts held under uninsured plans	<u>270,479</u>	<u>0</u>	<u>270,479</u>
Total Liabilities	<u>294,395</u>	<u>0</u>	<u>294,395</u>
 <u>CAPITAL & SURPLUS</u>			
Common capital stock (Note 3)	1,000,000		1,000,000
Gross paid in/contributed surplus (Note 3)	1,176,151		1,176,151
Unassigned funds (surplus)	<u>(702,988)</u>	<u>0</u>	<u>(702,988)</u>
Total Capital & Surplus	<u>1,473,163</u>	<u>0</u>	<u>1,473,163</u>
Total Liabilities, Capital & Surplus	<u>\$1,767,558</u>	<u>\$ 0</u>	<u>\$1,767,558</u>

ADVANTAGE DENTAL PLAN, INC.
INCOME STATEMENT
For the Year Ended December 31, 2010

<u>UNDERWRITING INCOME</u>	<u>Per Plan</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Premiums earned	\$ 238,727	\$ 0	\$ 238,727
Aggregate write-in for other health care related revenues	<u>144,959</u>	<u>0</u>	<u>144,959</u>
Total Revenues	<u>383,686</u>	<u>0</u>	<u>383,686</u>
Other professional services	172,090	0	172,090
Aggregate write-ins for other hospital and medical	50,578	0	50,578
General Administrative Expenses (Note 4)	<u>193,014</u>	<u>0</u>	<u>193,014</u>
Total Underwriting Deductions	<u>415,682</u>	<u>0</u>	<u>415,682</u>
Net Underwriting Gain or (loss)	(31,996)	<u>0</u>	(31,996)
 <u>INVESTMENT INCOME</u>			
Net investment income earned	35,801	0	35,801
Federal income taxes incurred	<u>0</u>	<u>0</u>	<u>0</u>
Net Income	<u>\$ 3,805</u>	<u>\$ 0</u>	<u>\$ 3,805</u>
 <u>RESERVES AND UNASSIGNED FUNDS</u>			
Capital and Surplus, December 31, 2009	<u>\$1,366,169</u>	<u>\$ 0</u>	<u>\$1,366,169</u>
Net income	3,805	0	3,805
Change in nonadmitted assets	103,189	0	103,189
Change in Paid in capital (Note 3)	776,151	0	776,151
Transferred to capital stock (stock dividend) (Note 3)	<u>(776,151)</u>	<u>0</u>	<u>(776,151)</u>
Net change in capital and surplus	<u>106,994</u>	<u>0</u>	<u>106,994</u>
Capital and Surplus, December 31, 2010	<u>\$1,473,163</u>	<u>\$ 0</u>	<u>\$1,473,163</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>
2007	\$1,149,937	\$2,160,483	31.5%	59.1%
2008	601,297	2,088,195	19.1%	66.1%
2009	200,000	1,645,084	8.9%	72.8%
2010	0	1,681,125	0.0%	95.1%

Investment transactions were approved by the finance committee within the Board of Directors pursuant to ORS 733.740. As of December 31, 2010, invested assets of \$1,681,125 representing 100% 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 – Claims Unpaid and Claims Adjustment Expenses

The DCBS actuary Scott Fitzpatrick, FSA, MAAA, performed an examination of the Company's claims unpaid and claims adjustment expense liabilities as of December 31, 2010. The scope of his examination included a review of the Company's valuation methodology, reserving assumptions, and external actuarial reports. Based on these procedures, he concluded that the liabilities for claims unpaid and claims adjustment expenses were sufficient and in compliance with Oregon law. The detailed results of the actuarial findings are summarized in the actuarial examination letter contained in the supporting work papers.

Note 3 – Gross Paid In and Contributed Surplus

The State of Idaho notified the Company that its surplus was below the Idaho minimum surplus requirements. As a result, the Board of Directors on April 29, 2010, approved a resolution to transfer \$776,151 from Advantage Non-Voting Common Stock to gross paid in and contributed surplus.

Note 4 – General Administrative Expenses

General Administrative Expenses include 14% of gross monthly premiums received by the Plan paid to APM subject to the Intercompany Agreement described on page 10 of this report. It also includes \$160,000 additional administrative fees paid by the Plan to APM. The payment of these additional fees may be done if the Plan had notified the director in writing not later than the 30th day before the transaction pursuant to ORS 732.574(2). The Plan did not provide such notification to the director. **I recommend the Plan not pay additional fees to an affiliate until it has notified the director of its intent to pay such**

fees, as required by ORS 732.574(2) and OAR 836-011-0450, and the director has approved the payment of such fees.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

Page

- 14 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 733.170.
- 15 I recommend the Plan reallocate its investments with the exception of the current operating cash account so that it does not exceed 10% of the insurer's assets in a single investment as required by ORS 733.770.
- 18 I recommend the Plan not pay additional fees to an affiliate until it has notified the director of its intent to pay such fees, as required by ORS 732.574(2) and OAR 836-011-0450, and the director has approved the payment of such fees.

CONCLUSION

During the three-year period covered by this examination, the Plan's surplus decreased from \$2,409,037, as presented in the December 31, 2007, report of examination, to \$1,473,163, as shown in this examination report. Assets, liabilities and surplus are compared below:

	December 31,		
	<u>2010</u>	<u>2007</u>	<u>Change</u>
Assets	\$1,767,558	\$3,651,301	\$(1,883,743)
Liabilities	<u>294,395</u>	<u>1,242,264</u>	<u>(947,869)</u>
Surplus	<u>\$1,473,163</u>	<u>\$2,409,037</u>	<u>\$ (935,874)</u>

SUBSEQUENT EVENTS

On January 27, 2011, the Board of Directors authorized payment of up to \$180,000 in additional administrative fees to Advantage Professional Management, LLC. On July 18, 2011, the Plan communicated it would not make this payment to Advantage Professional, LLC.

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, Timothy R. Hurley, CFE, insurance examiner for the State of Oregon, Department of Consumer and Business Services, Insurance Division, 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 _____, 2011.

NOTARY PUBLIC for the State of Oregon

My Commission Expires: _____