

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**UNITED CONCORDIA DENTAL PLANS OF OREGON, INC.
PORTLAND, OREGON**

NAIC COMPANY CODE 47244

AS OF

SEPTEMBER 30, 2000

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April 28, 2001

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

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, we have examined the business affairs and financial condition of

**UNITED CONCORDIA DENTAL PLANS OF OREGON, INC.
10011 S E Division, Suite 203
Portland, Oregon 97266**

NAIC Company Code 47244

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

SCOPE OF EXAMINATION

The Plan was scheduled for an examination as of December 31, 1999, covering the three year period then ended. However, the Plan notified the Insurance Division in January 20, 2001, that it no longer intends to write business in Oregon. Subsequent to this notification, the Insurance Division conducted the Plan's examination as of September 30, 2000. The examination includes subsequent events that are considered material to the financial condition and compliance with the Oregon Insurance Code.

The examination was conducted pursuant to the provisions of ORS 731.300 and in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Plan's financial condition, ability to fulfill and the manner of fulfillment of its obligations, the nature of its operations, and compliance with the Insurance Code. Accounting methods, records, and other supporting evidences were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume, and complexity of the accounting system and operations utilized by the Plan. The record testing included, but was not limited to, assets, liabilities, income and expense related items. A review was also made of the corrective actions taken by the Plan with respect to comments and/or recommendations made in the previous financial reports of examination.

A management affirmation attesting to the Plan's compliance with Oregon laws relating to location of accounts and records, conduct of the Plan's affairs in a nonhazardous manner, and exercise of managerial control by a duly qualified and constituted Board of Directors was signed by and received from the Chairman of the Board of Directors.

PLAN HISTORY

On February 4, 1987, the Plan was incorporated as Alternative Dental Care of Oregon, Inc. A Certificate of Authority was issued November 18, 1987, by the Oregon Insurance Division, to transact prepaid dental insurance in Oregon.

August 5, 1992, TakeCare, Inc., purchased the stock of the Plan from Lincoln National Corporation. Effective October 12, 1993, the Oregon Insurance Director approved the acquisition of the Plan by M.I.D.A., Inc. (the Parent), a Michigan corporation. Under the terms of the acquisition, the Parent purchased 100% of the Plan's issued and outstanding shares of common stock. October 10, 1994, the Plan's name was changed to MIDA Dental Plans, Inc.

June 11, 1996, the Parent company was acquired by United Concordia Companies, Inc. (UCCI). Under the terms of the acquisition, UCCI purchased all of the issued and outstanding stock of the Parent company. Effective February 12, 1997, the name was changed to United Concordia Dental Plans of Oregon, Inc.

AFFILIATED COMPANIES

The Plan is a wholly owned subsidiary of United Concordia Companies, Inc. (the Parent), a Pennsylvania corporation with its home office located in Harrisburg, Pennsylvania, which is ultimately owned by Highmark Inc., a Pennsylvania nonprofit professional health and hospital service plan corporation, formed upon the consolidation of Pennsylvania Blue Shield and Blue Cross of Western Pennsylvania. The organizational chart at the end of this report depicts the Plan's relationship to the group.

CAPITALIZATION

The Articles of Incorporation provide for authorized capital of 10,000 shares of common stock at \$10.00 par value. As of the date of this examination, 7,000 shares of common stock were issued and outstanding.

During 1997 the Plan filed its 1996 annual statement with the Insurance Division which reported \$43,681 in reserves and unassigned funds. This amount was below the minimum surplus requirement of \$50,000 as required by ORS 750.045(3)(a). On February 27, 1997, the Parent company made a capital infusion in the amount of \$30,000 in the form of cash, to cure the impairment. To avoid such an occurrence in the future, the Plan has signed a funding agreement with the Parent. Under the terms of the agreement, the Parent agrees to pay all operating expenses until such time as the Plan generates sufficient revenues to support its operating expenses without drawing on the reserves and unassigned funds. This agreement was reviewed by the Oregon Department of Justice, as part of the Oregon Insurance Division's routine review of agreements for approval.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws vest management and control of the Company in a Board of Directors consisting of at least three members, but not more than six. Directors serve a term of one year without limitation to the number of terms. A majority of the outstanding shares entitled to vote at the meeting shall constitute a quorum. The Board of Directors meet all the requirements of ORS 732.305. The directors serving as of September 30, 2000, were as follows:

Name and Address

Affiliation

Walter F. Froh, Esq.
100 Senate Avenue
Camp Hill, PA 17011

President
Clarity Vision, Inc.
Davis Vision, Inc.

Thomas A. Dzuryachko
4401 Deer Path Road
Harrisburg, PA 17110

President/Chief Executive Officer
United Concordia Companies, Inc.

Donald L. Fisher

Highmark Inc.

1800 Center Street
Camp Hill, PA 17011

Vice President Financial Services & Strategic Planning

Nathan C. Kleinberg
2198 East Camelback Road, Suite 260
Phoenix, AZ 85016

Senior Vice President Marketing
United Concordia Companies, Inc

Name and Address

Affiliation

Eric S. Graham*
11755 SW 12th Street
Beaverton, OR 97225

Partner – Montgomery & Graham Consulting

Leonard Oppenheimer*
13765 NW Cornell Road
Portland, OR 97229

President - Insurance Smart

*Public members of the Board of Directors

Officers

Operating management of the Plan as of September 30, 2000, was under the direction of the following principal officers:

Name

Title

Thomas A. Dzuryachko
Daniel J. Wright
Richard J. Enterline, Esq.
Timothy D. Billow

President & Chairman of the Board
Treasurer & Assistant Secretary
Secretary
Assistant Treasurer

MANAGEMENT AFFIRMATION

MANAGEMENT AFFIRMATION

(Attachment for management affirmation submitted by company
See report)

CONFLICT OF INTEREST

The Plan requires key employees, officers and directors to disclose any conflict of interest on a signed conflict of interest questionnaire. From a review of the conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in disclosing all and any potential conflicts of interest. No exceptions were noted.

CORPORATE RECORDS

Board Minutes

Minutes of the Board of Director meetings were reviewed for the period under examination. A quorum was present at each meeting. The minutes supported the transactions of the Plan and the action taken by its officers. The minutes reflected the approval of investments as required by ORS 733.730 and ORS 733.740.

Articles of Incorporation

Articles of Incorporation appeared to be in conformance with Oregon statutes and were amended once during the course of this examination to change the name of the corporation to United Concordia Dental Plans of Oregon, Inc.

Bylaws

The Bylaws appeared to be in conformance with Oregon Statutes. During the course of this examination the Bylaws were amended twice.

1. Article 1, Section 1 of the Bylaws was amended. The amendment granted to the Board more discretion to determine when the annual meeting of the shareholders would be held. The action was taken so as to allow all affiliates to have uniform annual meeting dates.

2. Article IX of the Bylaws was amended to indicate that the Bylaws can be amended or repealed and new Bylaws may be adopted, by the Board of Directors or shareholders, except where the power

to amend a Bylaw on any subject is expressly committed to the shareholders of the Corporation. In addition, the Board resolved that the name of the corporation as presented in the title of the corporation's Bylaws shall read "United Concordia Dental Plans of Oregon, Inc."

FIDELITY BONDS AND OTHER INSURANCE COVERAGES

The Plan, through its ultimate Parent, is insured up to \$15,000,000 per occurrence, with \$250,000 deductible, against losses from acts of dishonesty and fraud by its employees. This fidelity bond coverage was found to meet the minimum coverage recommended by the NAIC. In addition, the Company is covered against directors and officers liability for \$10,000,000 with \$1,000,000 deductible for each claim.

Other insurance coverage in force under commercial policies provide for indemnification to the Plan for losses against liability arising from general business operations and automobile operation.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

The Plan does not have any employees and, therefore, no liability for employee benefits. The Parent company did not charge the Plan for any post-retirement benefits for the period covered by this examination.

TERRITORY AND PLAN OF OPERATION

The Plan arranges services for its members through a network of participating dentists and dental specialists throughout Oregon. During the period covered by this examination the Plan has grown from five contracts to 727 contracts covering 1,317 participants.

MANAGEMENT AGREEMENTS

Management Agreement

The Plan has no employees. All services, including administrative, management, and marketing services, are performed by UCCI employees. The Plan reimburses UCCI for these services on a

cost basis. In addition to the direct expenses, the Plan is charged a management fee based upon the cost of the services provided under the agreement. However, the Plan shall not be under any payment obligation to UCCI for so long as the funding undertaking of UCCI remains in effect. (See Capitalization, page 5)

Insurance Coverage Agreement

During the previous examination it was noted that most insurance deductibles exceeded the reported surplus of the Plan. As a result, it was recommended the Plan immediately make the necessary arrangement to reduce the insurance deductibles and hereafter comply with the provisions of ORS 731.302 and the NAIC Examiners Handbook. As a result, on August 1, 1997, an agreement was signed between the Plan and UCCI whereby, UCCI will provide the Plan with adequate insurance coverage. UCCI will pay any and all deductibles for the Plan. Payments made by UCCI shall not be liabilities of the Plan nor shall the Plan be required, at any time, to repay any funds to UCCI for payments. (See Funding Agreement, page 6)

Tax Allocation Agreement

On April 29, 1999, the Plan signed a new tax allocation agreement with its ultimate Parent, Highmark Inc., whereby, the Plan files as a consolidated return with its Parent. The new agreement replaced a prior tax allocation joinder agreement dated June 11, 1996. The purpose of the agreement is to provide for the apportionment of the tax liability as though each entity filed a separate return.

Purchase Agreement

On August 1, 1999, the Plan entered into a purchase agreement with its Parent, whereby, the Parent would purchase certain fixed assets. The purchase price of the assets was the net book value of the assets as of the effective date of this agreement and was paid in cash. In addition, the Parent agreed to pay any taxes, fees, levies, imposts, duties withholding or other charges, if any, imposed by taxing authorities by reason of the sale and delivery herein provided for.

GROWTH OF THE PLAN

The following exhibit reflects the annual growth of the Plan since 1996. Stated amounts were compiled from the Plan's filed annual statements and, where indicated, from current and previous examination reports.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Reserves</u> <u>Unassigned Funds</u>	<u>Net Gain/(Loss)</u>
1996*	\$ 57,457	\$13,776	\$43,681	\$(61,880)
1997	94,723	33,454	61,269	(15,050)
1998	88,852	34,157	54,695	(7,254)
1999	93,857	24,306	69,551	12,592
2000*+	\$146,422	\$49,547	\$96,875	\$27,324

*Per examination

+Reflective of nine months activity

The Parent company infused \$30,000 in cash on February 27, 1997, to cure the impairment of the Plan as of December 31, 1996. The reserves and unassigned funds balance have increased considerably over the past two years as a result of increased sales efforts.

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Plan since 1996. The stated amounts were compiled from copies of the Plan's filed annual statements and, where indicated, from the current and previous examination reports.

<u>Year</u>	<u>Premiums Earned</u>	<u>Claims Incurred</u>	<u>Claims Ratio</u>
1996*	\$ 9,811	\$ 4,997	50.93%
1997	30,935	19,928	64.42%
1998	87,796	77,816	88.63%
1999	181,229	142,237	78.48%
2000*+	212,638	151,503	71.25%

*Per examination

+Represents activity through September 30, 2000

Loss ratios appear reasonable for the period covered under this examination.

HOLDING COMPANY REGISTRATION

The Plan is a member of a holding company system and filed a registration statement with the Insurance Division pursuant to the provisions of ORS 732.551 and OAR 836-27-010. No exceptions were noted in the registration statement.

STATUTORY DEPOSITS

As of the date of the examination, the Plan maintained a surety bond with the Oregon Insurance Division, Department of Consumer and Business Services, in the sum of \$50,000 pursuant to the provisions of ORS 750.045(2). The bond was verified from the records of the Insurance Division.

REINSURANCE

The Plan has no reinsurance agreements as all risks are covered by capitation arrangements with the providers. The maximum risk under such arrangement is below 10% of the Plan's reserves and unassigned funds. As a result, the Plan is in compliance with the requirements of ORS 731.504.

ACCOUNTS AND RECORDS

The Plan's books are maintained on the basis of customary and general practice in insurance accounting. Disbursements were evidenced by bills, invoices, or statements pursuant to the provisions of ORS 732.320.

In general, the Plan's records and source documentation supported the amounts presented in the Plan's September 30, 2000, quarterly statement. The following exceptions were noted:

Uncollected Premiums

During the examination of uncollected premiums, it was determined the “Aging – Receivable and Unapplied Cash” report did not foot or crossfoot. The problem was due to processing errors. No recommendation will be made as the Plan has corrected the problem subsequent to the date of this examination.

Recordkeeping Practices

Even though numerous records are maintained in the Portland, Oregon office, certain accounting records and supporting work papers and documents for the annual statements are maintained in Harrisburg, Pennsylvania, the home of its Parent, UCCI. At the start of the examination, the following accounts and records were not readily available as outlined below:

Uncollected Premiums – The report (Aging Receivables and Unapplied Cash) required to determine the accuracy of reporting uncollected premiums was not on site at the start of the examination. Requests for the report had to be initiated by the examination staff.

Claims Paid – All data related to claims paid were maintained in Harrisburg, Pennsylvania. This included the actual claim and related information.

The above recordkeeping practices are contrary to the provision of ORS 732.245. This code section, in essence, states that every domestic insurer shall have and maintain its principal place of business and home office in the State of Oregon, and shall keep therein accurate and complete accounts and records of its assets, transactions and affairs. Furthermore, ORS 733.170 requires, in part, that an insurer shall keep its books, records, accounts and transactions, and source data in such a manner that the commissioner may readily verify its statements of financial condition. **I recommend the Company, at all times, comply with the provisions of ORS 732.245(1) by maintaining all**

records in the State of Oregon and to keep records in a form that is readily verifiable by the director pursuant to ORS 733.170.

Principal Place of Business

ORS 732.245 requires every domestic insurer to maintain its principal place of business and home offices in this state. Per the Insurance Division records, the Plan's address for its principal place of business is 10011 SE Division, Suite #203, Portland, Oregon. At the start of this examination, it was noted that this office remained locked during business hours. In addition, all incoming calls were forwarded to the Parent company located in Harrisburg, Pennsylvania. This is a direct violation of ORS 732.245. **I recommend the Plan immediately take the corrective action to address this problem. As of the date of this report, the Plan is still in violation of the above code section.**

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Plan complied with all recommendations made in the previous examination as indicated below, except for number six:

1. I recommend the Plan properly account for and safeguard its stock certificates by voiding this certificate and issue a new stock certificate representing the correct number of shares issued with the correct par value and hereafter comply with the provisions of ORS 733.170.

The Plan has issued a new stock certificate representing the correct number of shares issued with correct par value

2. I recommend the Plan submit a business plan to the Insurance Division for review and comment as soon as it is available to avoid being in violation with the provisions of ORS 731.385.

The plan submitted a business plan subsequent to year end 1996

3. I recommend the Plan immediately comply with the provision of ORS 750.015 as it relates to the structure of the Board of Directors and hereafter maintain such compliance at all times.

The Board of Directors now include two members who are members of the public. In addition, the Bylaws have been amended to reflect compliance with ORS 750.015

4. I recommend the Plan immediately make the necessary arrangements to reduce the insurance deductibles and hereafter comply with the provisions of ORS 731.302 and NAIC Examiners Handbook at all times.

The Plan signed an insurance agreement with its Parent UCCI where the Parent agrees to provide insurance coverage for the Plan without cost or payment of deductibles. (See Management Agreements)

5. I recommend the Plan adopt a procedure to send members notifications of acknowledgment and delay in accordance with OAR 836-80-235(1) and (3).

Comment to this recommendation is waived as no market conduct examination was performed.

6. I recommend the Plan comply with the provisions of ORS 732.245 and 733.170 by keeping all records in Oregon and hereafter maintain such compliance at all times.

Significant improvement in maintaining records in the Portland, Oregon office of the Plan. (See Recordkeeping)

7. I recommend the Plan comply with the provisions of OAR 141-45-041(5) by properly submitting form 1A with Oregon Division of State Lands.

The Plan is properly accounting for its escheatable items as required by OAR 141-45-041(5)

UNITED CONCORDIA DENTAL PLANS OF OREGON, INC.
STATEMENT OF ASSETS, LIABILITIES, RESERVES AND OTHER FUNDS
As of September 30, 2000

<u>ASSETS</u>	<u>Ledger Assets</u>	<u>Examination Adjustment</u> \$	<u>Examination Balance</u>
Cash and short-term investments	\$130,839		\$130,839
Uncollected premiums	15,512		15,512
Aggregate write-ins other assets	<u>71</u>	<u>0</u>	<u>71</u>
Total Assets	<u>\$146,422</u>		<u>\$146,422</u>
 <u>LIABILITIES</u>			
Claims unpaid (Note 1)	\$ 13,750		\$ 13,750
Unpaid claims adjustment expense (Note 2)	1,031		1,031
Unearned premiums	5,113		5,113
Federal income taxes	14,711		14,711
Other expenses due or accrued	10,081		10,081
Amounts withheld for account of others			1,805
Aggregate write-ins for other liabilities	<u>4,881</u>	<u>0</u>	<u>4,881</u>
Total Liabilities	<u>\$ 49,547</u>	<u>0</u>	<u>\$ 49,547</u>
 <u>RESERVES AND OTHER FUNDS</u>			
Statutory reserve	\$ 50,000		\$ 50,000
Aggregate write-ins for reserves and other funds	410,000		410,000
Unassigned funds	<u>(363,125)</u>		<u>(363,125)</u>
Total Reserves and Unassigned Funds	<u>\$ 96,875</u>		<u>\$ 96,875</u>
Total Liabilities and Unassigned Funds	<u>\$146,422</u>	<u>0</u>	<u>\$146,422</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

UNITED CONCORDIA DENTAL PLANS OF OREGON, INC.
UNDERWRITING AND INVESTMENT EXHIBIT
For the Nine Month Period Ended September 30, 2000

UNDERWRITING INCOME

Premiums earned	\$ 212,638
Claims incurred net of reinsurance	<u>151,503</u>
Expenses incurred:	
a. Claim adjustment	1,939
b. Administrative	1,016
c. Soliciting	<u>17,401</u>
Total Underwriting Deductions	171,859
Net Underwriting Gain	<u>40,779</u>

INVESTMENT INCOME

Net investment income earned	<u>1,256</u>
Net investment gain	<u>1,256</u>

OTHER INCOME OR EXPENSE

Net gain before Federal income tax	42,035
Federal income taxes incurred	<u>14,711</u>
Net Gain	<u>\$ 27,324</u>

RESERVES AND UNASSIGNED FUNDS

Reserves and unassigned funds December 31, 1999	\$ 69,551
Gains and (Losses)	
Net Gain	<u>\$ 27,324</u>
Reserves and Unassigned Funds	<u>\$ 96,875</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

Note 1 – Claims Unpaid

Loss reserves were determined to be adequate by the Oregon Insurance Division's examiners.

Note 2 – Unpaid Claims Adjustment Expenses

The Plan applies a 7.5% factor to unpaid claims reserves to determine unpaid claims adjustment expenses. This reserve was determined to be adequate by the Oregon Insurance Division's examiners.

CONCLUSION

During the three year and nine month period covered by this examination, the reserves and unassigned funds of the Plan have increased from \$43,681, as presented in the December 31, 1996, report of examination, to \$96,875, as shown in this report of examination.

The comparative assets, liabilities, reserves and unassigned funds are shown below:

	September 30, 31, <u>2000</u>	December <u>1996</u>	<u>Change</u>
Assets	\$146,422	\$57,457	\$88,965
Liabilities	<u>49,547</u>	<u>13,776</u>	<u>35,771</u>
Reserves & other funds	<u>\$ 96,875</u>	<u>\$43,681</u>	<u>\$53,194</u>

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following are issues and concerns the examiner believes should be brought to management's attention as a result of this examination.

Page

- 14 I recommend the Company, at all times, comply with the provisions of ORS 732.245(1) by maintaining all records in the State of Oregon and to keep records in a form that is readily verifiable by the director pursuant to ORS 733.170.
- 15 I recommend the Plan immediately take the corrective action to address this problem. This recommendation is made pursuant to the provision of ORS 732.245 which requires every domestic insurer to maintain its principal place of business in this state.

SUBSEQUENT EVENTS

The following has occurred subsequent to September 30, 2000:

1. The Board of Directors amended the Bylaws of the Plan on December 22, 2000. A revision was made to Article II, Section 1, to read that at least one-third of the directors to be “representatives of the public” as opposed to “subscriber directors.”
2. On February 13, 2001, the Plan notified the Insurance Division that it plans to merge with United Concordia Insurance Company, an Arizona corporation. The surviving entity will be United Concordia Insurance Company. All business will be transferred to United Concordia Insurance Company and new business in Oregon will be written by that company.

ACKNOWLEDGMENT

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

In addition to the undersigned, Patricia G. Neesham, CPA, CFE, insurance examiner, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

Timothy R. Hurley, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Timothy R. Hurley, CFE, being duly sworn, deposes and says that the foregoing report of examination as of September 30, 2000, of United Concordia Dental Plans of Oregon, Inc., Portland, Oregon, subscribed by him is true to the best of his knowledge and belief.

Timothy R. Hurley, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this _____ day of _____ 2001.

Notary Public in and for the State of Oregon