

**ANNUAL STATEMENT**

OF THE

**DELTA DENTAL PLAN**

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**OF**

---

**ARKANSAS, INC.**

---

of **SHERWOOD**

---

in the state of **ARKANSAS**

---

**TO THE**

**Insurance Department**

**OF THE**

**STATE OF ARKANSAS**

**FOR THE YEAR ENDED**

**December 31, 2006**

HEALTH

**2006**



47155200620100100

ANNUAL STATEMENT
FOR THE YEAR ENDING DECEMBER 31, 2006
OF THE CONDITION AND AFFAIRS OF THE
Delta Dental Plan of Arkansas, Inc.

NAIC Group Code 0000 (Current Period) 0000 (Prior Period) NAIC Company Code 47155 Employer's ID Number 71-0561140

Organized under the Laws of Arkansas, State of Domicile or Port of Entry Arkansas

Country of Domicile US

Licensed as business type: Life, Accident & Health [ ] Property/Casualty [ ] Hospital, Medical & Dental Service or Indemnity [X]
Dental Service Corporation [ ] Vision Service Corporation [ ] Health Maintenance Organization [ ]
Other [ ] Is HMO Federally Qualified? YES [ ] NO [ ]

Incorporated/Organized: March 15, 1982 Commenced Business: August 1, 1982

Statutory Home Office: 1513 Country Club Road Sherwood, AR 72120

Main Administrative Office: 1513 Country Club Road Sherwood, AR 72120 501-835-3400

Mail Address: 1513 Country Club Road Sherwood, AR 72120

Primary Location of Books and Records: 1513 Country Club Road Sherwood, AR 72120 501-835-3400

Internet Website Address: www.deltadentalar.com

Statutory Statement Contact: Phyllis L Rogers 501-992-1616

progers@deltadentalar.com 501-992-1617

Policyowner Relations Contact: 1513 Country Club Road Sherwood, AR 72120 501-835-3400

OFFICERS

Table with 2 columns: Name, Title. Rows include Eddie Allen Choate (President and CEO), Robert Joe Matlock (Secretary), Ebb Weldon Johnson (Treasurer).

Vice-Presidents

Table with 4 columns: Name, Title, Name, Title. Rows include Ina Lynn Harbert (Senior Vice President and COO), Herman Eldon Hurd (Vice President of Provider Relations), Timothy Wayne Carney # (Vice President of Sales and Marketing), Phyllis Lynn Rogers (Senior Vice President and CFO), Allen Dale Moore (Vice President of Information Technology), James Durette Johnson # (Vice President of Business Development).

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Title, Name, Title. Rows include Ronald Paul Ownbey (Harold Wayne Perrin), Ebb Weldon Johnson (James Talbert Johnston), Paul David Fitzgerald (Susan Jane Fletcher Smith), Robert Joe Matlock, Daniel Austin Lieblong, Robert Howard Gladden, Byron Scott Southern.

State of Arkansas
County of Pulaski ss

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) Eddie Allen Choate (Printed Name) 1. President and CEO (Title)
(Signature) Robert Joe Matlock (Printed Name) 2. Secretary (Title)
(Signature) Ebb Weldon Johnson (Printed Name) 3. Treasurer (Title)

Subscribed and sworn to before me this 20th day of February, 2007

a. Is this an original filing? YES [X] NO [ ]
b. If no: 1. State the amendment number
2. Date filed
3. Number of pages attached

## ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D)	13,590,731		13,590,731	12,984,951
2. Stocks (Schedule D):				
2.1 Preferred stocks				
2.2 Common stocks	11,846,873	2,906,500	8,940,373	7,117,431
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ 0 encumbrances)	6,600,139		6,600,139	6,701,359
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				907,163
5. Cash (\$ 8,232,108, Schedule E-Part 1), cash equivalents (\$ 0, Schedule E-Part 2) and short-term investments (\$ 0, Schedule DA)	8,232,108		8,232,108	3,751,974
6. Contract loans (including \$ 0 premium notes)				
7. Other invested assets (Schedule BA)				
8. Receivables for securities				
9. Aggregate write-ins for invested assets				
10. Subtotals, cash and invested assets (Lines 1 to 9)	40,269,851	2,906,500	37,363,351	31,462,878
11. Title plants less \$ 0 charged off (for Title insurers only)				
12. Investment income due and accrued	193,218		193,218	153,211
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	290,415		290,415	665,698
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 0 earned but unbilled premiums)				
13.3 Accrued retrospective premiums				
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers				
14.2 Funds held by or deposited with reinsured companies				
14.3 Other amounts receivable under reinsurance contracts				
15. Amounts receivable relating to uninsured plans	5,233,219		5,233,219	5,928,158
16.1 Current federal and foreign income tax recoverable and interest thereon				
16.2 Net deferred tax asset				
17. Guaranty funds receivable or on deposit				
18. Electronic data processing equipment and software	2,920,743	1,409,537	1,511,206	1,638,729
19. Furniture and equipment, including health care delivery assets (\$ 0 )	497,835	497,835		
20. Net adjustment in assets and liabilities due to foreign exchange rates				
21. Receivables from parent, subsidiaries and affiliates	20,031		20,031	180,695
22. Health care (\$ 0 ) and other amounts receivable	90,425		90,425	52,212
23. Aggregate write-ins for other than invested assets	158,728	158,728		
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	49,674,465	4,972,600	44,701,865	40,081,581
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
26. Total (Lines 24 and 25)	49,674,465	4,972,600	44,701,865	40,081,581

DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 09 from overflow page				
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)				
2301. Prepaid Expenses	158,728	158,728		
2302.				
2303.				
2398. Summary of remaining write-ins for Line 23 from overflow page				
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	158,728	158,728		

## LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ 0 reinsurance ceded)	2,076,800		2,076,800	2,463,000
2. Accrued medical incentive pool and bonus amounts				
3. Unpaid claims adjustment expenses	82,155		82,155	108,106
4. Aggregate health policy reserves				
5. Aggregate life policy reserves				
6. Property/casualty unearned premium reserves				
7. Aggregate health claim reserves				
8. Premiums received in advance	538,730		538,730	375,916
9. General expenses due or accrued	2,052,389		2,052,389	3,002,757
10.1 Current federal and foreign income tax payable and interest thereon (including \$ 0 on realized capital gains (losses))				
10.2 Net deferred tax liability				
11. Ceded reinsurance premiums payable				
12. Amounts withheld or retained for the account of others	903,515		903,515	504,629
13. Remittances and items not allocated				
14. Borrowed money (including \$ 0 current) and interest thereon \$ 0 (including \$ 0 current)				
15. Amounts due to parent, subsidiaries and affiliates				
16. Payable for securities				
17. Funds held under reinsurance treaties (with \$ 0 authorized reinsurers and \$ 0 unauthorized reinsurers)				
18. Reinsurance in unauthorized companies				
19. Net adjustments in assets and liabilities due to foreign exchange rates				
20. Liability for amounts held under uninsured plans	2,275,365		2,275,365	2,266,857
21. Aggregate write-ins for other liabilities (including \$ 0 current)				
22. Total liabilities (Lines 1 to 21)	7,928,954		7,928,954	8,721,265
23. Aggregate write-ins for special surplus funds	X X X	X X X		
24. Common capital stock	X X X	X X X		
25. Preferred capital stock	X X X	X X X		
26. Gross paid in and contributed surplus	X X X	X X X		
27. Surplus notes	X X X	X X X		
28. Aggregate write-ins for other than special surplus funds	X X X	X X X	50,000	50,000
29. Unassigned funds (surplus)	X X X	X X X	36,722,911	31,310,316
30. Less treasury stock, at cost:				
30.1 0 shares common (value included in Line 24 \$ 0 )	X X X	X X X		
30.2 0 shares preferred (value included in Line 25 \$ 0 )	X X X	X X X		
31. Total capital and surplus (Lines 23 to 29 minus Line 30)	X X X	X X X	36,772,911	31,360,316
32. Total liabilities, capital and surplus (Lines 22 and 31)	X X X	X X X	44,701,865	40,081,581

DETAILS OF WRITE-INS				
2101. ....				
2102. ....				
2103. ....				
2198. Summary of remaining write-ins for Line 21 from overflow page				
2199. Totals (Lines 2101 through 2103 plus 2198) (Line 21 above)				
2301. ....	X X X	X X X		
2302. ....	X X X	X X X		
2303. ....	X X X	X X X		
2398. Summary of remaining write-ins for Line 23 from overflow page	X X X	X X X		
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	X X X	X X X		
2801. Surplus required by the Arkansas Insurance Department	X X X	X X X	50,000	50,000
2802. ....	X X X	X X X		
2803. ....	X X X	X X X		
2898. Summary of remaining write-ins for Line 28 from overflow page	X X X	X X X		
2899. Totals (Lines 2801 through 2803 plus 2898) (Line 28 above)	X X X	X X X	50,000	50,000

## STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months	X X X	1,460,891	1,421,260
2. Net premium income (including \$ 0 non-health premium income)	X X X	59,061,656	56,704,643
3. Change in unearned premium reserves and reserve for rate credits	X X X		
4. Fee-for-service (net of \$ 0 medical expenses)	X X X		
5. Risk revenue	X X X		
6. Aggregate write-ins for other health care related revenues	X X X		
7. Aggregate write-ins for other non-health revenues	X X X	49,026	199,705
8. Total revenues (Lines 2 to 7)	X X X	59,110,682	56,904,348
<b>Hospital and Medical:</b>			
9. Hospital/medical benefits		45,079,351	44,743,106
10. Other professional services			
11. Outside referrals			
12. Emergency room and out-of-area			
13. Prescription drugs			
14. Aggregate write-ins for other hospital and medical			
15. Incentive pool, withhold adjustments, and bonus amounts			
16. Subtotal (Lines 9 to 15)		45,079,351	44,743,106
<b>Less:</b>			
17. Net reinsurance recoveries			
18. Total hospital and medical (Lines 16 minus 17)		45,079,351	44,743,106
19. Non-health claims (net)			
20. Claims adjustment expenses, including \$ 0 cost containment expenses		1,074,879	3,861,694
21. General administrative expenses		7,281,644	5,389,557
22. Increase in reserves for life and accident and health contracts (including \$ 0 increase in reserves for life only)			
23. Total underwriting deductions (Lines 18 through 22)		53,435,874	53,994,357
24. Net underwriting gain or (loss) (Lines 8 minus 23)	X X X	5,674,808	2,909,991
25. Net investment income earned (Exhibit of Net Investment Income, Line 17)		842,489	791,841
26. Net realized capital gains (losses) less capital gains tax of \$ 0		175,476	353,285
27. Net investment gains (losses) (Lines 25 plus 26)		1,017,965	1,145,126
28. Net gain or (loss) from agents' or premium balances charged off [( amount recovered \$ 0 ) (amount charged off \$ 0 )]			
29. Aggregate write-ins for other income or expenses			
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	X X X	6,692,773	4,055,117
31. Federal and foreign income taxes incurred	X X X		
32. Net income (loss) (Lines 30 minus 31)	X X X	6,692,773	4,055,117

DETAILS OF WRITE-INS			
0601.	X X X		
0602.	X X X		
0603.	X X X		
0698. Summary of remaining write-ins for Line 6 from overflow page	X X X		
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	X X X		
0701. Miscellaneous Income	X X X	49,026	199,705
0702.	X X X		
0703.	X X X		
0798. Summary of remaining write-ins for Line 7 from overflow page	X X X		
0799. Totals (Lines 0701 through 0703 plus 0798) (Line 07 above)	X X X	49,026	199,705
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page			
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)			
2901.			
2902.			
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page			
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)			

**STATEMENT OF REVENUE AND EXPENSES (Continued)**

<b>CAPITAL &amp; SURPLUS ACCOUNT</b>	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting year .....	31,360,316	26,646,909
34. Net income or (loss) from Line 32 .....	6,692,773	4,055,117
35. Change in valuation basis of aggregate policy and claim reserves .....		
36. Change in net unrealized capital gains (losses) less capital gains tax of \$ 0 .....	874,057	56,731
37. Change in net unrealized foreign exchange capital gain or (loss) .....		
38. Change in net deferred income tax .....		
39. Change in nonadmitted assets .....	(2,154,235)	601,559
40. Change in unauthorized reinsurance .....		
41. Change in treasury stock .....		
42. Change in surplus notes .....		
43. Cumulative effect of changes in accounting principles .....		
44. Capital Changes:		
44.1 Paid in .....		
44.2 Transferred from surplus (Stock Dividend) .....		
44.3 Transferred to surplus .....		
45. Surplus adjustments:		
45.1 Paid in .....		
45.2 Transferred to capital (Stock Dividend) .....		
45.3 Transferred from capital .....		
46. Dividends to stockholders .....		
47. Aggregate write-ins for gains or (losses) in surplus .....		
48. Net change in capital and surplus (Lines 34 to 47) .....	5,412,595	4,713,407
49. Capital and surplus end of reporting year (Line 33 plus 48) .....	36,772,911	31,360,316

<b>DETAILS OF WRITE-INS</b>		
4701. ....		
4702. ....		
4703. ....		
4798. Summary of remaining write-ins for Line 47 from overflow page .....		
4799. Totals (Lines 4701 through 4703 plus 4798) (Line 47 above) .....		

## CASH FLOW

	1	2
	Current Year	Prior Year
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance	59,436,939	56,758,756
2. Net investment income	1,007,945	806,516
3. Miscellaneous income	49,026	239,142
4. Total (Lines 1 through 3)	60,493,910	57,804,414
5. Benefit and loss related payments	45,465,551	44,701,106
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	9,332,842	10,323,569
8. Dividends paid to policyholders		
9. Federal and foreign income taxes paid (recovered) \$ 0 net of tax on capital gains (losses)		
10. Total (Lines 5 through 9)	54,798,393	55,024,675
11. Net cash from operations (Line 4 minus Line 10)	5,695,517	2,779,739
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	7,997,406	11,095,487
12.2 Stocks	2,930,789	6,362,484
12.3 Mortgage loans		
12.4 Real estate	851,314	
12.5 Other invested assets		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	223,470	
12.7 Miscellaneous proceeds	2,516,846	694,689
12.8 Total investment proceeds (Lines 12.1 to 12.7)	14,519,825	18,152,660
13. Cost of investments acquired (long-term only):		
13.1 Bonds	8,430,702	8,591,829
13.2 Stocks	6,979,824	9,264,977
13.3 Mortgage loans		
13.4 Real estate	41,954	506,646
13.5 Other invested assets		
13.6 Miscellaneous applications	282,728	3,448,857
13.7 Total investments acquired (Lines 13.1 to 13.6)	15,735,208	21,812,309
14. Net increase (decrease) in contract loans and premium notes		
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	(1,215,383)	(3,659,649)
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes		
16.2 Capital and paid in surplus, less treasury stock		
16.3 Borrowed funds		(2,000,000)
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders		
16.6 Other cash provided (applied)		
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)		(2,000,000)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	4,480,134	(2,879,910)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	3,751,974	6,631,884
19.2 End of year (Line 18 plus Line 19.1)	8,232,108	3,751,974

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001.		
20.0002.		
20.0003.		



**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 1 - PREMIUMS**

Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Ceded	4 Net Premium Income (Cols. 1 + 2 - 3)
1. Comprehensive (hospital and medical)				
2. Medicare Supplement				
3. Dental only	59,061,656			59,061,656
4. Vision only				
5. Federal Employees Health Benefits Plan				
6. Title XVIII - Medicare				
7. Title XIX - Medicaid				
8. Stop loss				
9. Disability income				
10. Long-term care				
11. Other health				
12. Health subtotal (Lines 1 through 11)	59,061,656			59,061,656
13. Life				
14. Property / casualty				
15. Totals (Lines 12 to 14)	59,061,656			59,061,656

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2 - CLAIMS INCURRED DURING THE YEAR**

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Payments during the year:													
1.1 Direct	45,465,551			45,465,551									
1.2 Reinsurance assumed													
1.3 Reinsurance ceded													
1.4 Net	45,465,551			45,465,551									
2. Paid medical incentive pools and bonuses													
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct	2,076,800			2,076,800									
3.2 Reinsurance assumed													
3.3 Reinsurance ceded													
3.4 Net	2,076,800			2,076,800									
4. Claim reserve December 31, current year from Part 2D:													
4.1 Direct													
4.2 Reinsurance assumed													
4.3 Reinsurance ceded													
4.4 Net													
5. Accrued medical incentive pools and bonuses, current year													
6. Net healthcare receivables (a)													
7. Amounts recoverable from reinsurers December 31, current year													
8. Claim liability December 31, prior year from Part 2A:													
8.1 Direct	2,463,000			2,463,000									
8.2 Reinsurance assumed													
8.3 Reinsurance ceded													
8.4 Net	2,463,000			2,463,000									
9. Claim reserve December 31, prior year from Part 2D:													
9.1 Direct													
9.2 Reinsurance assumed													
9.3 Reinsurance ceded													
9.4 Net													
10. Accrued medical incentive pools and bonuses, prior year													
11. Amounts recoverable from reinsurers December 31, prior year													
12. Incurred benefits:													
12.1 Direct	45,079,351			45,079,351									
12.2 Reinsurance assumed													
12.3 Reinsurance ceded													
12.4 Net	45,079,351			45,079,351									
13. Incurred medical incentive pools and bonuses													

(a) Excludes \$ 0 loans or advances to providers not yet expensed

**UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR**

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Reported in Process of Adjustment:													
1.1 Direct													
1.2 Reinsurance assumed													
1.3 Reinsurance ceded													
1.4 Net													
2. Incurred but Unreported:													
2.1 Direct	2,076,800			2,076,800									
2.2 Reinsurance assumed													
2.3 Reinsurance ceded													
2.4 Net	2,076,800			2,076,800									
3. Amount Withheld from Paid Claims and Capitations:													
3.1 Direct													
3.2 Reinsurance assumed													
3.3 Reinsurance ceded													
3.4 Net													
4. TOTALS:													
4.1 Direct	2,076,800			2,076,800									
4.2 Reinsurance assumed													
4.3 Reinsurance ceded													
4.4 Net	2,076,800			2,076,800									

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE**

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year		
1. Comprehensive (hospital and medical)						
2. Medicare Supplement						
3. Dental Only	2,241,028	43,224,523		2,076,800	2,241,028	2,463,000
4. Vision Only						
5. Federal Employees Health Benefits Plan						
6. Title XVIII - Medicare						
7. Title XIX - Medicaid						
8. Other health						
9. Health subtotal (Lines 1 to 8)	2,241,028	43,224,523		2,076,800	2,241,028	2,463,000
10. Healthcare receivables (a)						
11. Other non-health						
12. Medical incentive pools and bonus amounts						
13. Totals (Lines 9 - 10 + 11 + 12)	2,241,028	43,224,523		2,076,800	2,241,028	2,463,000

(a) Excludes \$ 0 loans or advances to providers not yet expensed.

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
 (000 Omitted)  
**Hospital & Medical**  
**Section A - Paid Health Claims**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	0	0	0	0
4. 2004	X X X	X X X	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section B - Incurred Health Claims**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	0	0	0	0
4. 2004	X X X	X X X	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio**

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	0	0	0	0.000	0	0.000	0	0	0	0.000
2. 2003	0	0	0	0.000	0	0.000	0	0	0	0.000
3. 2004	0	0	0	0.000	0	0.000	0	0	0	0.000
4. 2005	0	0	0	0.000	0	0.000	0	0	0	0.000
5. 2006	0	0	0	0.000	0	0.000	0	0	0	0.000

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2C - DEVELOPMENT OF INCURRED HEALTH CLAIMS  
(000 Omitted)**

**Medicare Supplement**

**Section A - Paid Health Claims**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	0	0	0	0
4. 2004	X X X	X X X	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section B - Incurred Health Claims**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	0	0	0	0
4. 2004	X X X	X X X	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio**

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	0	0	0	0.000	0	0.000	0	0	0	0.000
2. 2003	0	0	0	0.000	0	0.000	0	0	0	0.000
3. 2004	0	0	0	0.000	0	0.000	0	0	0	0.000
4. 2005	0	0	0	0.000	0	0.000	0	0	0	0.000
5. 2006	0	0	0	0.000	0	0.000	0	0	0	0.000

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2C - DEVELOPMENT OF INCURRED HEALTH CLAIMS  
(000 Omitted)**

**Dental Only**

**Section A - Paid Health Claims**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	31,953	31,953	31,953	31,953	31,953
2. 2002	34,221	36,527	36,527	36,527	36,527
3. 2003	X X X	38,239	40,988	40,988	40,988
4. 2004	X X X	X X X	41,076	43,322	43,322
5. 2005	X X X	X X X	X X X	42,539	44,780
6. 2006	X X X	X X X	X X X	X X X	43,225

**Section B - Incurred Health Claims**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	2,499	2,499	2,499	2,499	2,499
2. 2002	2,125	2,129	2,129	2,129	2,129
3. 2003	X X X	2,896	2,899	2,899	2,899
4. 2004	X X X	X X X	2,502	2,506	2,506
5. 2005	X X X	X X X	X X X	2,459	2,459
6. 2006	X X X	X X X	X X X	X X X	2,077

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio**

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	42,090	36,527	1,411	3.863	37,938	90.135	0	0	37,938	90.135
2. 2003	48,844	40,988	1,485	3.623	42,473	86.956	0	0	42,473	86.956
3. 2004	52,981	43,322	1,413	3.262	44,735	84.436	0	0	44,735	84.436
4. 2005	56,705	44,780	3,862	8.624	48,642	85.781	0	0	48,642	85.781
5. 2006	59,062	43,225	1,075	2.487	44,300	75.006	2,077	82	46,459	78.661

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2C - DEVELOPMENT OF INCURRED HEALTH CLAIMS**  
(000 Omitted)

Vision Only

**Section A - Paid Health Claims**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	<b>NONE</b>	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section B - Incurred Health Claims**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	<b>NONE</b>	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio**

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	0	0	0	0.000	0	0.000	0	0	0	0.000
2. 2003	0	0	0	0.000	0	0.000	0	0	0	0.000
3. 2004	0	0	0	<b>NONE</b>	0	0.000	0	0	0	0.000
4. 2005	0	0	0	0.000	0	0.000	0	0	0	0.000
5. 2006	0	0	0	0.000	0	0.000	0	0	0	0.000

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2C - DEVELOPMENT OF INCURRED HEALTH CLAIMS**  
(000 Omitted)

**Federal Employees Health Benefits Plan**

**Section A - Paid Health Claims**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	<b>NONE</b>	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section B - Incurred Health Claims**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	<b>NONE</b>	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio**

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	0	0	0	0.000	0	0.000	0	0	0	0.000
2. 2003	0	0	0	0.000	0	0.000	0	0	0	0.000
3. 2004	0	0	0	<b>NONE</b>	0	0.000	0	0	0	0.000
4. 2005	0	0	0	0.000	0	0.000	0	0	0	0.000
5. 2006	0	0	0	0.000	0	0.000	0	0	0	0.000

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2C - DEVELOPMENT OF INCURRED HEALTH CLAIMS  
(000 Omitted)**

**Title XVIII - Medicare**

**Section A - Paid Health Claims**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	X X X	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section B - Incurred Health Claims**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	X X X	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio**

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	0	0	0	0.000	0	0.000	0	0	0	0.000
2. 2003	0	0	0	0.000	0	0.000	0	0	0	0.000
3. 2004	0	0	0	<b>NONE</b>	0	0.000	0	0	0	0.000
4. 2005	0	0	0	0.000	0	0.000	0	0	0	0.000
5. 2006	0	0	0	0.000	0	0.000	0	0	0	0.000

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2C - DEVELOPMENT OF INCURRED HEALTH CLAIMS  
(000 Omitted)**

**Title XIX - Medicaid**

**Section A - Paid Health Claims**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	X X X	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section B - Incurred Health Claims**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	X X X	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio**

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	0	0	0	0.000	0	0.000	0	0	0	0.000
2. 2003	0	0	0	0.000	0	0.000	0	0	0	0.000
3. 2004	0	0	0	<b>NONE</b>	0	0.000	0	0	0	0.000
4. 2005	0	0	0	0.000	0	0.000	0	0	0	0.000
5. 2006	0	0	0	0.000	0	0.000	0	0	0	0.000

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF INCURRED HEALTH CLAIMS**  
 (000 Omitted)

**Other**  
**Section A - Paid Health Claims**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	<b>NONE</b>	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section B - Incurred Health Claims**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	0	0	0	0	0
2. 2002	0	0	0	0	0
3. 2003	X X X	<b>NONE</b>	0	0	0
4. 2004	X X X	<b>NONE</b>	0	0	0
5. 2005	X X X	X X X	X X X	0	0
6. 2006	X X X	X X X	X X X	X X X	0

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio**

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	0	0	0	0.000	0	0.000	0	0	0	0.000
2. 2003	0	0	0	0.000	0	0.000	0	0	0	0.000
3. 2004	0	0	0	0.000	0	0.000	0	0	0	0.000
4. 2005	0	0	0	0.000	0	0.000	0	0	0	0.000
5. 2006	0	0	0	0.000	0	0.000	0	0	0	0.000

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF INCURRED HEALTH CLAIMS**  
 (000 Omitted)

**Grand Total**

**Section A - Paid Health Claims**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	31,953	31,953	31,953	31,953	31,953
2. 2002	34,221	36,527	36,527	36,527	36,527
3. 2003	X X X	38,239	40,988	40,988	40,988
4. 2004	X X X	X X X	41,076	43,322	43,322
5. 2005	X X X	X X X	X X X	42,539	44,780
6. 2006	X X X	X X X	X X X	X X X	43,225

**Section B - Incurred Health Claims**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	2,499	2,499	2,499	2,499	2,499
2. 2002	2,125	2,129	2,129	2,129	2,129
3. 2003	X X X	2,896	2,899	2,899	2,899
4. 2004	X X X	X X X	2,502	2,506	2,506
5. 2005	X X X	X X X	X X X	2,459	2,459
6. 2006	X X X	X X X	X X X	X X X	2,077

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio**

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	42,090	36,527	1,411	3.863	37,938	90.135	0	0	37,938	90.135
2. 2003	48,844	40,988	1,485	3.623	42,473	86.956	0	0	42,473	86.956
3. 2004	52,981	43,322	1,413	3.262	44,735	84.436	0	0	44,735	84.436
4. 2005	56,705	44,780	3,862	8.624	48,642	85.781	0	0	48,642	85.781
5. 2006	59,062	43,225	1,075	2.487	44,300	75.006	2,077	82	46,459	78.661

**NONE**      **Underwriting and Investment Exhibit - Part 2D**

**UNDERWRITING AND INVESTMENT EXHIBIT  
PART 3 - ANALYSIS OF EXPENSES**

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$ 220,500 for occupancy of own building)		132,300	88,200		220,500
2. Salaries, wages and other benefits		3,363,243	4,694,951		8,058,194
3. Commissions (less \$ 0 ceded plus \$ 0 assumed)			3,755,549		3,755,549
4. Legal fees and expenses			68,985		68,985
5. Certifications and accreditation fees					
6. Auditing, actuarial and other consulting services			155,732		155,732
7. Traveling expenses		42,219	249,571		291,790
8. Marketing and advertising			445,166		445,166
9. Postage, express and telephone		1,176,318	135,426		1,311,744
10. Printing and office supplies		133,996	89,331		223,327
11. Occupancy, depreciation and amortization		126,911	90,300		217,211
12. Equipment		63,862	42,574		106,436
13. Cost or depreciation of EDP equipment and software		729,275	526,311		1,255,586
14. Outsourced services including EDP, claims, and other services		1,733,178	256,276		1,989,454
15. Boards, bureaus and association fees			399,053		399,053
16. Insurance, except on real estate		(6,456)	(4,304)		(10,760)
17. Collection and bank service charges		101,511	67,674		169,185
18. Group service and administration fees					
19. Reimbursements by uninsured plans		(7,479,287)	(4,986,191)		(12,465,478)
20. Reimbursements from fiscal intermediaries					
21. Real estate expenses					
22. Real estate taxes					
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes					
23.2 State premium taxes		248,177			248,177
23.3 Regulatory authority licenses and fees					
23.4 Payroll taxes					
23.5 Other (excluding federal income and real estate taxes)			165,452		165,452
24. Investment expenses not included elsewhere				117,532	117,532
25. Aggregate write-ins for expenses		709,632	1,041,588		1,751,220
26. Total expenses incurred (Lines 1 to 25)		1,074,879	7,281,644	117,532 (a)	8,474,055
27. Less expenses unpaid December 31, current year		82,155	2,052,389		2,134,544
28. Add expenses unpaid December 31, prior year		108,106	3,002,757		3,110,863
29. Amounts receivable relating to uninsured plans, prior year					
30. Amounts receivable relating to uninsured plans, current year					
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)		1,100,830	8,232,012	117,532	9,450,374

DETAILS OF WRITE-INS				
2501. Charitable Contributions			478,562	478,562
2502. Claims Conversion Expenses		129,874		129,874
2503. Consulting		239,535	159,690	399,225
2598. Summary of remaining write-ins for Line 25 from overflow page		340,223	403,336	743,559
2599. Totals (Lines 2501 through 2503 + 2598) (Line 25 above)		709,632	1,041,588	1,751,220

(a) Includes management fees of \$ 0 to affiliates and \$ 0 to non-affiliates.

### EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 540,869	577,798
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a)	
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	127,647	127,647
2.21 Common stocks of affiliates	(334,917)	(334,917)
3. Mortgage loans	(c)	
4. Real estate	(d) 190,500	190,500
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 388,313	388,479
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	10,514	10,514
10. Total gross investment income	922,926	960,021

11. Investment expenses		(g)
12. Investment taxes, licenses and fees, excluding federal income taxes		(g) 117,532
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		117,532
17. Net investment income (Line 10 minus Line 16)		842,489

DETAILS OF WRITE-INS		
0901. Loan to Subsidiary	10,514	10,514
0902.		
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page		
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	10,514	10,514
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		
1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15, above)		

- (a) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.
- (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (d) Includes \$ 190,500 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
- (g) Includes \$ 0 investment expenses and \$ 117,532 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$ 0 depreciation on real estate and \$ 0 depreciation on other invested assets.
- (i) Includes \$ 0 depreciation on real estate and \$ 0 depreciation on other invested assets.

### EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Unrealized Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds	(152,195)		294,486	142,291
1.1 Bonds exempt from U.S. tax				
1.2 Other bonds (unaffiliated)				
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)				
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)	323,653		691,857	1,015,510
2.21 Common stocks of affiliates			(129,454)	(129,454)
3. Mortgage loans				
4. Real estate	(55,850)			(55,850)
5. Contract loans				
6. Cash, cash equivalents and short-term investments				
7. Derivative instruments				
8. Other invested assets				
9. Aggregate write-ins for capital gains (losses)	7,856			7,856
10. Total capital gains (losses)	123,464		856,889	980,353

DETAILS OF WRITE-INS				
0901. Vehicle	6,957			6,957
0902. Miscellaneous Fully Depreciated Furniture	899			899
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	7,856			7,856

**EXHIBIT OF NONADMITTED ASSETS**

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks	2,906,500		(2,906,500)
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)			
6. Contract loans			
7. Other invested assets (Schedule BA)			
8. Receivables for securities			
9. Aggregate write-ins for invested assets			
10. Subtotals, cash and invested assets (Lines 1 to 9)	2,906,500		(2,906,500)
11. Title plants ( for Title insurers only )			
12. Investment income due and accrued			
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection			
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due			
13.3 Accrued retrospective premiums			
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers			
14.2 Funds held by or deposited with reinsured companies			
14.3 Other amounts receivable under reinsurance contracts			
15. Amounts receivable relating to uninsured plans			
16.1 Current federal and foreign income tax recoverable and interest thereon			
16.2 Net deferred tax asset			
17. Guaranty funds receivable or on deposit			
18. Electronic data processing equipment and software	1,409,537	1,773,288	363,751
19. Furniture and equipment, including health care delivery assets	497,835	560,494	62,659
20. Net adjustment in assets and liabilities due to foreign exchange rates			
21. Receivables from parent, subsidiaries and affiliates			
22. Health care and other amounts receivable			
23. Aggregate write-ins for other than invested assets	158,728	484,583	325,855
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	4,972,600	2,818,365	(2,154,235)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	4,972,600	2,818,365	(2,154,235)

<b>DETAILS OF WRITE-INS</b>			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 09 from overflow page			
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)			
2301. Prepaid Expenses	158,728	484,583	325,855
2302.			
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	158,728	484,583	325,855

**EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY**

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health Maintenance Organizations .....						
2. Provider Service Organizations .....						
3. Preferred Provider Organizations .....						
4. Point of Service .....						
5. Indemnity Only .....						
6. Aggregate write-ins for other lines of business	120,280	121,944	122,508	120,819	122,776	1,460,891
7. Total	120,280	121,944	122,508	120,819	122,776	1,460,891

DETAILS OF WRITE-INS						
0601. Dental Only .....	120,280	121,944	122,508	120,819	122,776	1,460,891
0602. ....						
0603. ....						
0698. Summary of remaining write-ins for Line 6 from overflow page .....						
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	120,280	121,944	122,508	120,819	122,776	1,460,891

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## NOTES TO FINANCIAL STATEMENTS

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### 1: Summary of Significant Accounting Policies

The Organization's financial statements have been prepared in conformity with the NAIC Annual Statement Instructions and Accounting Practices and Procedures Manual as required by the Arkansas Insurance Department.

The preparation of financial statements in conformity with the Annual Statement Instructions and Accounting Practices and Procedures Manual requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The actual results could differ from these estimates.

Investments are reported in conformity with the Annual Statement Instructions and Accounting Practices and Procedures Manual, as follows:

- (1) Short-term investments with a maturity of three months or less at the time of purchase are reported as cash equivalents.
- (2) Corporate bonds are stated at fair (market) value.
- (3) Common stocks are stated at fair (market) value.
- (4) US Treasury Bonds and government agency securities are stated at the amortized cost.
- (5) The Organization's investment in Omega Administrators, Inc. (a wholly-owned subsidiary) is reported using the equity method.

Dental premiums are billed in advance and are included in income ratably over the period to which they apply; accordingly, the portion of dental premiums applicable to future periods is included in the statements of admitted assets, liabilities, capital and surplus - statutory basis as unearned premiums. Dental care costs are accrued as services are rendered, including estimates of costs incurred but not yet reported.

Claims incurred and unpaid include both claims in process and a provision for incurred but not reported claims. The provision for incurred but not reported claims is an actuarially determined and certified estimate based on claims experience and accumulated statistical data. The methods for making such actuarially determined and certified estimates and for establishing the resulting liability are continually reviewed. Provision is also made for estimated claims processing costs to be incurred in paying such claims and is included in unpaid claims adjustment expenses. Management believes the amounts reflected for these liabilities are adequate; however, the ultimate liabilities may differ from the amounts recorded. Any adjustments are reflected in period they are recorded.

Under the Organization's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are included as "Cash and Short-term Investments" in the statements of admitted assets, liabilities, capital and surplus - statutory basis.

The Organization maintains deposits from certain employer groups with administrative services contracts. These deposits represent a prefunding of expected costs under the contract.

### 2: Accounting Changes and Corrections of Errors

None

### 3: Business Combinations and Goodwill

None.

### 4: Discontinued Operations

None.

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## NOTES TO FINANCIAL STATEMENTS

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### 5: Investments

Loan-backed securities (government agencies) are stated at the amortized cost.

### 6: Joint Ventures, Partnerships and Limited Liability Companies

None.

### 7: Investment Income

Due and accrued investment income is recorded in compliance with the NAIC Annual Statement Instructions and Accounting Practices and Procedure Manual.

The total amount excluded was \$0.

### 8: Derivative Instruments

None.

### 9: Income Taxes

As a 501(c)(4) entity under the Internal Revenue Code, the Organization is not subject to federal income tax.

### 10: Information Concerning Parent, Subsidiaries and Affiliates

#### ***Omega Administrators, Inc.***

On December 3, 2002, the Organization incorporated Omega Administrators, Inc. (Omega) as a wholly-owned for-profit subsidiary. Omega was incorporated to serve as a third party administrator and provide the Organization with an alternative corporation which it can use to administer dental coverages for other insurance carriers outside the boundaries of the State of Arkansas. The current Delta Dental Association restrictions prevent the Organization from soliciting groups that do not operate within the boundaries of the State of Arkansas.

In order to provide Omega with working capital, the Organization entered into a loan agreement with Omega to provide up to \$111,530 in funding. This loan was revised on September 25, 2004, bears interest at "Fed Funds plus 5.00%" and matures on December 31, 2008. The loan is unsecured and is payable upon demand or at maturity if no demand is made. At December 31, 2006 and 2005, a total of \$0 and \$111,530, respectively, had been advanced by the Organization to Omega. During the years ended December 31, 2006 and 2005, the Organization received \$10,514 and \$7,497, respectively, in interest income from Omega.

On July 31, 2003, Omega and US Able Life (US Able) entered into an administrative services agreement, where Omega "will provide product support, underwriting, administrative claims adjudication and related services necessary to administer the product after the sale". US Able will "provide all services related to the sale and marketing of the product, product filing and regulatory compliance, sales materials, premium billing and collection, producer licensing and commission payments and related matters." The initial term of this agreement is for a period of five years and will expire on July 31, 2008.

Simultaneous to the Omega administrative services agreement with US Able, the Organization entered into a reinsurance agreement with US Able, whereby US Able will underwrite and sell dental insurance, fifty percent of which will be reinsured by the Organization. Any profit or loss will be shared equally between the Organization and US Able after the deduction of all expenses, costs and reserves from the total amount of premiums.

On August 1, 2003, Omega and Group Benefit Administrators, LLC (GBA) entered into an administrative services agreement, where GBA will provide:

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**NOTES TO FINANCIAL STATEMENTS**

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- (1) Processing and payment of claims and related data processing based upon claims data provided by Omega
- (2) Printing and mailing of claim payment checks
- (3) Furnish Omega's bank with a positive pay file for claim payments
- (4) Printing and mailing "Notifications of Benefits"
- (5) Establish web-site based interface for Omega's customer services, employer and subscriber web sites
- (6) Assistance to Omega staff for complaint handling
- (7) Eligibility maintenance based upon the information provided by Omega to GBA
- (8) Access to data files detailing the claims paid
- (9) Establish group records based upon information provided by Omega
- (10) Standard system reports via the web-site
- (11) Produce group billings

GBA is paid a monthly administrative fee for these services equal to sixty-eight cents per enrolled employee, with enrollment based upon the employees shown on the respective month's billing for groups. The initial agreement was amended on November 1, 2005, to reflect an increase in the administration fee to \$1.36 per enrolled employee to be effective January 1, 2006. Administrative fees incurred by Omega during the years ended December 31, 2006 and 2005, totaled \$118,660 and \$41,819, respectively.

On October 31, 2003, the Organization and Omega entered into an administrative services agreement, where the Organization "will provide product support, customer service and related services necessary to administer dental insurance contracts administered by Omega". The Organization will remit monthly invoices to Omega for "the cost of services to include the salary of employees for the time worked on Omega business plus thirty percent for employee benefits plus any expense incurred due to the administration of Omega's business". The initial term of this agreement is for a period of five years and will expire on October 31, 2008. The Organization received administration fees of \$245,660 and \$142,302 during the years ended December 31, 2006 and 2005.

***Omega Administrators of Mississippi, Inc.***

On October 24, 2003, Omega incorporated Omega Administrators of Mississippi, Inc. (Omega - Mississippi) as a wholly-owned for-profit subsidiary. Omega - Mississippi was incorporated to meet the domestic corporation requirements of the state of Mississippi. After Omega meets Mississippi's Third Party Administrator requirement for number of years in operation, the Organization anticipates merging Omega - Mississippi into Omega.

As part of its incorporation, Omega - Mississippi issued a promissory note to Omega in the amount of \$4,700. This loan was revised on September 25, 2004, bears interest at "Fed Funds plus 5.00%" and matures on December 31, 2008. The loan is unsecured and is payable upon demand or at maturity if no demand is made. During the years ended December 31, 2006 and 2005, Omega received \$445 and \$376 in interest income from Omega - Mississippi.

On October 31, 2003, Omega and Omega - Mississippi entered into an administrative services agreement, where Omega "will provide product support, customer service and related services necessary to administer dental insurance contracts administered by Omega - Mississippi". Omega - Mississippi will be billed monthly at a rate of \$2.25 per subscriber, per month based upon the number of subscribers at the end of each respective month. The initial term of this agreement is for a period of five years and will expire on October 31, 2008. Omega received administration fees of \$22,739 and \$22,579 during the years ended December 31, 2006 and 2005.

Pursuant to Omega's administrative services contract with GBA, Omega - Mississippi incurred claims administration fees during the year ended December 31, 2006 and 2005, of \$13,583 and \$6,774, respectively.

***The Incorporated PAC of Delta Dental Plan of Arkansas, Inc.***

On October 27, 2004, the Organization incorporated The Incorporated PAC of Delta Dental Plan of Arkansas, Inc. (the PAC) as a wholly-owned subsidiary. The PAC was incorporated to serve as

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## NOTES TO FINANCIAL STATEMENTS

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a political committee which may make contributions to and expenditures on behalf of state candidates, and other committees, and all matters thereto. During the year ended December 31, 2006, the PAC received \$5,000 in donations from both Omega and Omega – Mississippi and during the year ended December 31, 2005, received \$5,000 in donations from Omega. During the years ended December 31, 2006 and 2005, the PAC made \$9,000 and \$1,500, respectively, in campaign contributions.

### ***Delta Dental Foundation, Inc.***

On December 15, 2004, the Organization incorporated Delta Dental Foundation, Inc. (The Foundation) as a 501(c)(3) Organization to promote oral health in the State of Arkansas. In addition to its promotion of oral health, the Foundation will make gifts, grants and contributions to other charitable Organizations as well as promote educational endeavors as permitted by the Internal Revenue Code. As of December 31, 2006, the Foundation had transacted no business activity and is in the process of completing the Internal Revenue Service Exemption Application Form 1023.

### **11: Debt**

At December 31, 2006, the Organization had two lines of credit totaling \$2,350,000 available for use in its business operations.

- (1) The first line of credit (with 1<sup>st</sup> Security) totals \$2,000,000 and was established for use "in case of emergencies or instance of natural disaster". This line of credit is unsecured and matures on May 2, 2007. Interest accrues at a variable rate and is determined periodically as the "Wall Street Journal Prime Rate less .25%". Currently, the interest rate approximates 8%. Payment in full is due upon demand. If no demand is made, interest only payments are due on the 30th of each month with one payment of the outstanding principal plus any accrued unpaid interest due on May 2, 2007. At December 31, 2006 and 2005, no amounts had been drawn and none were outstanding on this line of credit.
- (2) The second line of credit (with Metropolitan National) totals \$350,000 and was established for use as "overdraft protection". This line of credit is unsecured and matures on June 30, 2007. Interest accrues at a variable rate and is determined periodically as the "Wall Street Journal Prime Rate less .25%". Currently, the interest rate approximates 8%. Payment in full is due upon demand. If no demand is made, all outstanding principal plus any accrued interest is due on June 30, 2007. At December 31, 2006 and 2005, no amounts had been drawn and none were outstanding on this line of credit.

### **12: Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans**

The Organization provides three retirement plans for its eligible employees.

The first, a profit sharing plan, has an effective date of July 1, 1994, and covers all full-time employees of the Organization who have completed one year of service. Organization contributions are discretionary and limited by the internal revenue code. Total costs related to this plan were approximately \$302,800 and \$258,400 for the years ended December 31, 2006 and 2005, respectively.

The second, a 401 (k) Profit Sharing Plan, was established on July 1, 1994, and was restated effective January 1, 1997 and January 1, 2003. To be eligible to participate, an employee must have reached eighteen (18) years of age and have completed three (3) months of eligibility service. Pursuant to this plan, participant contributions cannot exceed 20% of compensation and are 100% vested and nonforfeitable. The Organization will match 100% the first 3% of deferred wages and 50% of the next 2% of deferred wages. Effective January 1, 2007, the five year vesting period was revoked and the matching contributions were vested for each participant to 100%. Total costs related to this plan were approximately \$123,800 and \$119,600 for the years ended December 31, 2006 and 2005, respectively.

The third, a Nonqualified 457 (b) Retirement Plan was established by the Organization on April 1, 2003, "as an inducement and motivation to its key managerial and highly compensated employees

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**NOTES TO FINANCIAL STATEMENTS**

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and its Board of Directors". Participation in the plan is determined at the sole discretion of the Organization's Board of Directors. At December 31, 2006 and 2005, plan assets totaled \$430,137 and \$276,007, respectively, and plan liabilities totaled \$424,834 and \$274,267, respectively, resulting in gains reported in the statements of activities of \$4,095 and \$1,271, respectively.

On August 2, 2000, the date of his retirement, the Organization agreed to pay biweekly retirement benefits of \$1,750.16 to its former President and CEO. These benefits are to be paid for the rest of his life or ten years, whichever is greater. In the event of his death during the ten year period following retirement, one-half of the retirement benefit will be paid to his widow for the remainder of the ten year period. At December 31, 2006 an accrual of \$89,258 was recorded representing the total of the remaining payments, which will end on November 26, 2010.

**13: Capital and Surplus, Shareholders' Dividend Restrictions and Quasi- Reorganizations**

Unrealized gains/(losses) on US Treasury Bonds and agency securities totaled \$(201,606) and (\$292,179), respectively, at December 31, 2006 and 2005.

Non-admitted assets totaled \$4,972,600 and \$2,818,365, respectively, at December 31, 2006 and 2005.

**14: Contingencies*****DTC Consulting, LLC***

In 2005, the Organization entered into a consulting agreement with DTC Consulting, LLC (DTC) to act as the project manager for the claims system conversion project. Under terms of the contract, the Organization is billed \$125 an hour for consulting services and will reimburse DTC for "all reasonable expenses" associated with its consulting services. Monthly expenditures relating to the agreement approximate \$22,000. Services relating to this agreement were terminated in January 2007.

***Delta Dental Plan of Virginia, Inc.***

In early 2005, the Organization made the decision to convert claims processing systems. The new claims processing system is owned by Delta Dental Plan of Virginia, Inc. (Virginia) and will be licensed to the Organization for its use. An initial software licensing fee of \$1,250,000 and a \$1,650 per workstation fee were paid to Virginia during the initial installation. A maintenance fee calculated as "18% of the total licensing fee" will be paid annually to Virginia for technical support and servicing upgrades.

***Edgewater Technology, Inc.***

As part of the claims processing system, the Organization is having a Small Group Rating System developed and programmed by Edgewater Technology, Inc. At December 31, 2006 and 2005, a total of \$512,524 and \$266,100, respectively, had been spent in the development of the system, with total development and programming costs expected to approximate \$525,000, respectively.

***Risk Share Purchase***

At December 31, 2006, the Organization purchased a 40% share of the potential net profits of dental products sold and marketed by Transamerica Life Insurance Company, that are administered by Omega Administrators, Inc. This Risk Sharing Agreement was purchased for \$100,000 and will cover an initial period of 5 years beginning sometime in 2007.

***Avesis Third Party Administrators, Inc.***

On October 19, 2006, the Organization entered into a vision marketing and third party claims administration agreement with Avesis Third Party Administrators, Inc. (Avesis). The agreement calls for Avesis to provide vision plan designs, group underwriting, claim processing and payment and customer service. The Organization has exclusive rights to market in Arkansas through

## NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and will extend the agreement if certain sales goals are met. Avesis will be the Organization's exclusive vision insurance partner as long as network growth goals are achieved.

### ***Avesis Insurance Incorporated***

On October 19, 2006, the Organization also entered into a risk sharing agreement with Avesis Insurance Incorporated (Avesis Insurance). The agreement provides for equal risk sharing in the vision insurance product's net income and has an initial contract period of October 19, 2007 through December 31, 2009. The contract will automatically renew for an additional two year period unless terminated by either entity.

### **15: Leases**

On March 31, 2005, the Organization executed a two year rental agreement with a board member to lease 4,000 square feet of office space for use as a temporary disaster recovery site. The agreement has an effective date of March 1, 2005, and requires monthly lease payments of \$2,500 plus reimbursement of utility costs in excess of \$500. The agreement expires on February 28, 2007 and may be terminated with 180 days prior notice. Rent expense incurred during the years ended December 31, 2006 and 2005, totaled \$30,000 and \$25,000, respectively.

On September 7, 2005, the Organization purchased an 11,000 square foot building in Jacksonville, Arkansas for approximately \$390,000 to use as its permanent disaster recovery site. The Organization expects to have this permanent facility operational by the third quarter of 2007 and will terminate the lease on the temporary facilities accordingly.

### **16: Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk**

None.

### **17: Sale, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities**

None.

### **18: Gain or Loss to the Reporting Entity From Uninsured Plans and From the Uninsured Portion of Partially Insured Plans**

The gain from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans were as follows for the years ended December 31, 2006 and 2005:

	2006	2005
Gross reimbursement for medical costs incurred	\$ 185,745,154	\$ 170,902,425
Gross administrative fees accrued	12,465,481	10,908,439
Gross expenses incurred	(198,210,635)	(181,810,864)
Total net gain or loss from operations	<u>\$ 0</u>	<u>\$ 0</u>

### **19: Direct Premiums Written or Produced by Managing General Agents or Third Party Administrators**

None.

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## NOTES TO FINANCIAL STATEMENTS

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**20: September 11 Events**

None.

**21: Other Items**

None.

**22: Events Subsequent**

Beginning January 1, 2007, all of the Organization's employees were transferred its wholly-owned subsidiary, Omega Administrators, Inc. (Omega). On this date, the Organization entered into a management agreement with Omega and will pay Omega \$.96 per subscriber per month. In addition, Omega will pay the Organization \$49,875 monthly in office facility rent.

**23: Reinsurance**

None.

**24: Retrospectively Rated Contracts and Contracts Subject to Redetermination**

None.

**25: Change in Incurred Claims and Claims Adjustment Expenses**

The reserve for incurred claims and claim adjustment expenses attributable to insured events decreased \$412,151, from \$2,571,106 at December 31, 2005, to \$2,158,955 at December 31, 2006. This decrease is a result of the re-estimation of unpaid claims and claim adjustment expenses principally related to dental insurance. Original estimates are increased and decreased as additional information becomes available regarding individual claims and as a result of the ongoing analysis of recent loss development trends.

**26: Intercompany Pooling Arrangements**

None.

**27: Structured Settlements**

None.

**28: Health Care Receivables**

None.

**29: Participating Policies**

None.

**30: Premium Deficiency Reserves**

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**NOTES TO FINANCIAL STATEMENTS**


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None.

**31: Anticipated Salvage and Subrogation**

None.

**32: Organization and Operation**

Delta Dental Plan of Arkansas, Inc. (the Organization) was organized on March 15, 1982, as a not-for-profit corporation exempt from income tax under section 501(c)(4) of the Internal Revenue Code and is subject to regulation by the Insurance Department of the State Arkansas. The Organization maintains and operates a not-for-profit dental care plan by which professional dental services are provided through employer groups to employees who are subscribers in the plan. Dental services are provided under written contracts with the employer groups which entitle the subscriber to certain dental services by dentists licensed and registered to practice with their state. The Organization reimburses participating dentists for claims to eligible fees after applying deductibles, co-insurance and policy limitations in accordance with the contracts. The Organization has certain contracts with employer groups in which it provides Administrative Services Contracts (ASC). These contract services include: review of claims, payment of benefits, notification to the insured parties, certain cost containment services and accounting reports. For these services, the Organization receives an administrative fee and is reimbursed for all benefit payments. The books and records are maintained and the corporate office is located at 1513 Country Club Lane, Sherwood, Arkansas 72120.

**33: Minimum Net Worth**

Under the laws of the state of Arkansas, the Organization is required to provide a minimum contingency reserve of \$50,000. Pursuant to the Arkansas Statutory Deposit Requirements, the Organization has pledged a certificate of deposit in the amount of \$50,000 to the Insurance Department of Arkansas.

**34: Property and Equipment**

The Organization provides for depreciation on the straight-line basis using lives that range from three to forty years. Depreciation charged to operations totaled \$1,215,458 and \$724,581 for the years ended December 31, 2006 and 2005. The following is a summary of Admitted Property and Equipment at December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Land	\$ 2,195,333	\$ 2,195,333
Building	4,842,927	4,760,849
Furniture and fixtures	<u>5,922,342</u>	<u>6,897,536</u>
Total property and equipment	12,960,602	13,853,718
Less accumulated depreciation	<u>(2,941,885)</u>	<u>(3,179,848)</u>
Net property and equipment	10,018,717	10,673,870
Less non-admitted property and equipment	<u>(1,907,372)</u>	<u>(2,333,782)</u>
Net admitted assets	<u>\$ 8,111,345</u>	<u>\$ 8,340,088</u>
Real estate	\$ 6,600,139	\$ 6,701,359
Electronic data processing equipment	<u>1,511,206</u>	<u>1,638,729</u>
Net admitted assets	<u>\$ 8,111,345</u>	<u>\$ 8,340,088</u>

## NOTES TO FINANCIAL STATEMENTS

### 35: Concentrations of Credit Risks

The Organization maintains its cash in bank deposit accounts which may at times exceed the federally insured limits. No losses have been experienced in these accounts and the Organization does not believe it is exposed to any significant credit risk thereon.

### 36: Investments

The Organization reports its U.S. Treasury Bonds and government agency securities at the amortized cost. All other investments with readily determinable fair values are reported at their fair value in the statements of admitted assets, liabilities, capital and surplus - statutory basis. Unrealized gains and losses are included in the change in net assets in the accompanying statements of revenue and expenses and changes in capital and surplus - statutory basis. The following is a summary of Investment Securities held at December 31, 2006 and 2005:

	2006		
	Amortized Cost	Market Value	Reported Value
U.S. Treasury bonds	\$ 4,095,527	\$ 4,013,771	\$ 4,095,527
Government agencies	9,495,204	9,375,350	9,495,204
Index and value equity funds	1,990,585	1,994,208	1,990,585
Common stocks (Mid Caps)	3,880,512	4,422,299	4,422,299
Common stocks (Large Caps)	3,127,215	3,525,602	3,525,602
Parent, subsidiaries and affiliates	1,908,387	1,908,387	1,908,387
Total	<u>\$ 24,497,430</u>	<u>\$ 25,239,617</u>	<u>\$ 25,437,604</u>

	2005		
	Amortized Cost	Market Value	Reported Value
U.S. Treasury bonds	\$ 7,794,828	\$ 7,580,472	\$ 7,578,509
Government agencies	5,484,578	5,406,756	5,406,443
Common stocks (Mid Caps)	3,538,771	3,841,410	3,841,410
Common stocks (Large Caps)	2,895,271	3,032,716	3,032,716
Parent, subsidiaries and affiliates	243,304	243,304	243,304
Total	<u>\$ 19,956,752</u>	<u>\$ 20,104,658</u>	<u>\$ 20,102,382</u>

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2006 and 2005:

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	\$ 13,389,125	\$ 201,608	\$ 0	\$ 0	\$ 13,389,125	\$ 201,608

December 31, 2005						
Description of Securities	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	\$ 12,987,228	\$ 292,209	\$ 0	\$ 0	\$ 12,987,228	\$ 292,209

### 37: Reconciliation With GAAP Financial Statements

A reconciliation of statutory capital and surplus, as determined using statutory accounting practices, to net assets, as determined by accounting principles generally accepted in the United States of America, as of December 31, 2006 and 2005, is as follows:

	2006	2005
Statutory capital and surplus	\$ 36,772,911	\$ 31,360,316
Recognition of statutory non-admitted assets		
Prepaid expenses	158,728	484,583
Furniture and fixtures	497,835	560,494
Common Stocks	2,906,500	—
Electronic Data Processing equipment	1,409,537	1,773,288
Investment carrying value	(201,608)	(169,159)
Fund balance per GAAP financial statement	<u>\$ 41,543,903</u>	<u>\$ 34,009,522</u>

In the GAAP financial statements, reimbursements and payments of claims for ASC groups are presented as separate items in the revenue and expense sections of the statements of activities. Statutory accounting principles do not provide for inclusion of those amounts in the statements of revenues and expenses and changes in capital and surplus.

### 38: Administrative Services Contracts

The Organization has certain contracts with employer groups in which it provides administrative services. These services include: review of claims, disbursement of benefits, notification to the insured party, certain cost containment services and accounting reports, as well as credentialing and professional relation services. In its administrative capacity, the Organization paid claims of approximately \$185,745,200 and \$170,902,400 during the years ended December 31, 2006 and 2005. These amounts are not included in the accompanying financial statements. The related subscriber claims reserves and corresponding assets of approximately \$8,489,500 and \$8,094,200 at December 31, 2006 and 2005, are also excluded from the accompanying financial statements. As consideration for these services, the Organization receives an administrative fee and is reimbursed for all benefit payments.

Included in the activity described in the above paragraph is an administrative services contract with a major employer/retailer group. Claims processed and paid for this group were approximately \$146,300,900 and \$137,555,400 during the years ended December 31, 2006 and 2005. Administrative service fees related to the processing of these claims were approximately \$9,396,000 and \$8,761,700 for each respective year.

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**NOTES TO FINANCIAL STATEMENTS**


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**39: Commitments**

The Organization is subject to claims and lawsuits in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect of the Organizations results of operation or financial condition. However, these estimates could change materially in the near term.

***Delta Dental Plan of Michigan, Inc.***

Effective April 1, 2004, the Organization executed a claims processing and support agreement with Delta Dental Plan of Michigan, Inc. (Michigan). The initial agreement will expire on April 1, 2006, and will automatically renew annually thereafter on the anniversary of the effective date. Either party may terminate the agreement by giving the other party 180 days advance written notice of their plans to terminate the agreement. The terms of the agreement require the Organization to pay Michigan eighty-three cents per claim processed. Monthly invoices will be submitted by Michigan to the Organization for payment. Services not covered by the agreement include time and materials related to such services as: System enhancements; report analysis, design, programming and testing; training; and management and technical consulting. These services will be billed using scheduled hourly rates with any materials charged on a pass-through basis. Total processing fees incurred were approximately \$1,722,400 for the year ended December 31, 2005. As a result of converting to the Virginia claims processing system in late 2005, no fees were incurred during the year ended December 31, 2006.

***Recognition Research, Inc.***

Effective April 4, 2003, the Organization executed a licensing agreement with Sungard Workflow Solutions (formerly Recognition Research, Inc.) for the use of Sungard's Formworks claims imaging software. The initial one year term of the agreement began in July 2003 and automatically renews annually for a minimum of three years. Contract fees are based on monthly imaging volume using the following fee schedule:

\$0.15 for each of the first 100,000 monthly documents  
 \$0.14 for each of the next 150,000 monthly documents  
 \$0.13 for each of the next 150,000 monthly documents  
 \$0.12 for any documents over 400,000 per month  
 \$0.01 per claim for 60 Form View Licenses

Total imaging fees incurred were approximately \$303,500 and \$292,900 for the years ended December 31, 2006 and 2005, respectively.

**40: Unpaid Claims, Losses and Loss Adjustment Expenses**

	<u>2006</u>	<u>2005</u>
Unpaid claims and claims adjustment expense		
Claims – beginning of year	\$ 2,463,000	\$ 2,505,000
Claims adjustment expenses – beginning of year	<u>108,106</u>	<u>108,923</u>
	<u>2,571,106</u>	<u>2,613,923</u>
Beginning of year		
Incurred claims and claim adjustment expenses		
Loss events	45,079,351	44,743,106
Actual payments		
Payments	<u>(45,491,502)</u>	<u>(44,785,923)</u>
End of year	<u>\$ 2,158,955</u>	<u>\$ 2,571,106</u>
Unpaid claims and claims adjustment expense		
Claims – end of year	\$ 2,076,800	\$ 2,463,000
Claims adjustment expenses – end of year	<u>82,155</u>	<u>108,106</u>
End of year	<u>\$ 2,158,955</u>	<u>\$ 2,571,106</u>

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## NOTES TO FINANCIAL STATEMENTS

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### **41: Net Investment Income Earned**

Included in the \$1,047,952 and \$791,841 of Net Investment Income Earned during the years ended December 31, 2006 and 2005, respectively, is \$190,500 of income relating to the occupancy of the Organization's own building and \$0 and \$6,571 of interest expense. These amounts were reported separately on the Statement of Revenues and Expenses and Changes in Capital and Surplus in previous years.

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	4,095,518	10.170	4,095,518	10.961
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies				
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations				
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA				
1.512 Issued or guaranteed by FNMA and FHLMC	7,050,113	17.507	7,050,113	18.869
1.513 All other	2,445,100	6.072	2,445,100	6.544
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA				
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other				
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)				
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated	1,908,387	4.739	1,908,387	5.108
3.42 Unaffiliated	9,938,486	24.680	7,031,986	18.821
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company	6,600,139	16.390	6,600,139	17.665
5.2 Property held for production of income (including \$ 0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (including \$ 0 property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities				
8. Cash, cash equivalents and short-term investments	8,232,108	20.442	8,232,108	22.033
9. Other invested assets				
10. Total invested assets	40,269,851	100.000	37,363,351	100.000

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

#### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [ X ] No [ ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [ ] No [ X ] N/A [ ]
- 1.3 State Regulating? \_\_\_\_\_
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ X ] No [ ]
- 2.2 If yes, date of change: \_\_\_\_\_ 12/01/2006
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. \_\_\_\_\_ 08/10/2005
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. \_\_\_\_\_ 09/19/2005
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). \_\_\_\_\_ 09/19/2005
- 3.4 By what department or departments? Arkansas Insurance Department
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [ ] No [ X ]
- 4.12 renewals? Yes [ ] No [ X ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [ ] No [ X ]
- 4.22 renewals? Yes [ ] No [ X ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [ X ]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) ~~Yes~~ Yes ~~extended~~ or revoked by any governmental entity during the reporting period?
- 6.2 If yes, give full information \_\_\_\_\_
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [ X ]
- 7.2 If yes,
- 7.21 State the percentage of foreign control \_\_\_\_\_ 0%
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [ X ]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [X]  
 8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
 .....  
 .....  
 10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?  
 .....  
 .....  
 11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [X]  
     11.11 Name of real estate holding company \_\_\_\_\_  
     11.12 Number of parcels involved \_\_\_\_\_ 0  
     11.13 Total book/adjusted carrying value \$ \_\_\_\_\_ 0  
 11.2 If yes, provide explanation .....  
 .....  
 12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:  
 12.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?  
 .....  
 .....  
 12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [X]  
 12.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [X]  
 12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [X] N/A [ ]

### BOARD OF DIRECTORS

13. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No [ ]  
 14. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]  
 15. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No [ ]

### FINANCIAL

- 16.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):  
     16.11 To directors or other officers \$ \_\_\_\_\_ 0  
     16.12 To stockholders not officers \$ \_\_\_\_\_ 0  
     16.13 Trustees, supreme or grand (Fraternal only) \$ \_\_\_\_\_ 0  
 16.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):  
     16.21 To directors or other officers \$ \_\_\_\_\_ 0  
     16.22 To stockholders not officers \$ \_\_\_\_\_ 0  
     16.23 Trustees, supreme or grand (Fraternal only) \$ \_\_\_\_\_ 0  
 17.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [ ] No [X]  
 17.2 If yes, state the amount thereof at December 31 of the current year:  
     17.21 Rented from others \$ \_\_\_\_\_ 0  
     17.22 Borrowed from others \$ \_\_\_\_\_ 0  
     17.23 Leased from others \$ \_\_\_\_\_ 0  
     17.24 Other \$ \_\_\_\_\_ 0  
 18.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [ ] No [X]  
 18.2 If answer is yes:  
     18.21 Amount paid as losses or risk adjustment \$ \_\_\_\_\_ 0  
     18.22 Amount paid as expenses \$ \_\_\_\_\_ 0  
     18.23 Other amounts paid \$ \_\_\_\_\_ 0  
 19.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No [ ]

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

19.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ 0

#### INVESTMENT

20.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes  No

20.2 If no, give full and complete information, relating thereto  
 .....  
 .....

21.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 17.1). Yes  No

21.2 If yes, state the amount thereof at December 31 of the current year:

21.21 Loaned to others		\$ <u>0</u>
21.22 Subject to repurchase agreements		\$ <u>0</u>
21.23 Subject to reverse repurchase agreements		\$ <u>0</u>
21.24 Subject to dollar repurchase agreements		\$ <u>0</u>
21.25 Subject to reverse dollar repurchase agreements		\$ <u>0</u>
21.26 Pledged as collateral		\$ <u>0</u>
21.27 Placed under option agreements		\$ <u>0</u>
21.28 Letter stock or securities restricted as to sale		\$ <u>0</u>
21.29 Other		\$ <u>0</u>

21.3 For category (21.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

22.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes  No

22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes  No  N/A   
 If no, attach a description with this statement.

23.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes  No

23.2 If yes, state the amount thereof at December 31 of the current year. \$ 0

24. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook? Yes  No

24.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
Stephens Capital Management	111 Center Street, Little Rock, AR 72201

24.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

24.03 Have there been any changes, including name changes, in the custodian(s) identified in 24.01 during the current year? Yes  No

24.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

24.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of brokers/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

25.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes [ ] No [ X ]

25.2 If yes, complete the following schedule:

1 CUSIP#	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
25.2999	Total	

25.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation

26. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
26.1 Bonds			
26.2 Preferred stocks			
26.3 Totals			

26.4 Describe the sources or methods utilized in determining the fair values: .....

.....

27.1 Have all the filing requirements of the Purposes and Procedures manual of the NAIC Securities Valuation Office been followed? Yes [ X ] No [ ]

27.2 If no, list exceptions: .....

.....

### OTHER

28.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$ 202,983

28.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Delta Dental Plans Association	\$ 202,983
	\$
	\$

29.1 Amount of payments for legal expenses, if any? \$ 68,985

29.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Southern & Allen	\$ 32,695
	\$
	\$

30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$ 19,500

30.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
Phillips Management & Consulting	\$ 19,500
	\$
	\$

## GENERAL INTERROGATORIES

### PART 2 - HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? YES [ ] NO [ X ]

1.2 If yes, indicate premium earned on U.S. business only. \$ \_\_\_\_\_

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ \_\_\_\_\_

1.31 Reason for excluding \_\_\_\_\_

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above \$ \_\_\_\_\_

1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$ \_\_\_\_\_

1.6 Individual policies:

Most current three years:

1.61 Total premium earned \$ \_\_\_\_\_

1.62 Total incurred claims \$ \_\_\_\_\_

1.63 Number of covered lives \_\_\_\_\_

All years prior to most current three years:

1.64 Total premium earned \$ \_\_\_\_\_

1.65 Total incurred claims \$ \_\_\_\_\_

1.66 Number of covered lives \_\_\_\_\_

1.7 Group policies:

Most current three years:

1.71 Total premium earned \$ \_\_\_\_\_

1.72 Total incurred claims \$ \_\_\_\_\_

1.73 Number of covered lives \_\_\_\_\_

All years prior to most current three years:

1.74 Total premium earned \$ \_\_\_\_\_

1.75 Total incurred claims \$ \_\_\_\_\_

1.76 Number of covered lives \_\_\_\_\_

2. Health Test:

	1	2
	Current Year	Prior Year
2.1 Premium Numerator	\$ 59,061,656	\$ 56,704,643
2.2 Premium Denominator	\$ 59,061,656	\$ 56,704,643
2.3 Premium Ratio (2.1/2.2)	1.00	1.00
2.4 Reserve Numerator	\$ 2,076,800	\$ 2,463,000
2.5 Reserve Denominator	\$ 2,076,800	\$ 2,463,000
2.6 Reserve Ratio (2.4/2.5)	1.00	1.00

3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits? YES [ ] NO [ X ]

3.2 If yes, give particulars: \_\_\_\_\_

4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? YES [ ] NO [ X ]

4.2 If not previously filed furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? YES [ ] NO [ X ]

5.1 Does the reporting entity have stop-loss reinsurance? YES [ ] NO [ X ]

5.2 If no, explain: The amount of each individual dental claim is small, therefore reinsurance is not necessary. \_\_\_\_\_

5.3 Maximum retained risk (see instructions)

5.31 Comprehensive Medical		\$ _____
5.32 Medical Only		\$ _____
5.33 Medicare Supplement		\$ _____
5.34 Dental		\$ _____ 2,500
5.35 Other Limited Benefit Plan		\$ _____
5.36 Other		\$ _____

6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements: We maintain sufficient cash reserves to protect against the risk of insolvency. In additional, a large portion of our investments are held in US Treasury Securities to minimize the risk to those assets. \_\_\_\_\_

7.1 Does the reporting entity set up its claim liability for provider services on a service date basis? YES [ ] NO [ X ]

7.2 If no, give details \_\_\_\_\_

8. Provide the following information regarding participating providers:

8.1 Number of providers at start of reporting year		990
8.2 Number of providers at end of reporting year		988

9.1 Does the reporting entity have business subject to premium rate guarantees? YES [ ] NO [ X ]

9.2 If yes, direct premium earned:

9.21 Business with rate guarantees between 15-36 months		
9.22 Business with rate guarantees over 36 months		

### GENERAL INTERROGATORIES

- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contracts? YES [ ] NO [ X ]
- 10.2 If yes:
- |  |   |          |
|--|---|----------|
|  | 10.21 Maximum amount payable bonuses          | \$ _____ |
|  | 10.22 Amount actually paid for year bonuses   | \$ _____ |
|  | 10.23 Maximum amount payable withholds        | \$ _____ |
|  | 10.24 Amount actually paid for year withholds | \$ _____ |
- 11.1 Is the reporting entity organized as:
- |  |   |                  |
|--|---|------------------|
|  | 11.12 A Medical Group/Staff Model,                  | YES [ ] NO [ X ] |
|  | 11.13 An Individual Practice Association (IPA), or, | YES [ ] NO [ X ] |
|  | 11.14 A Mixed Model (combination of above)?         | YES [ X ] NO [ ] |
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements? YES [ X ] NO [ ]
- 11.3 If yes, show the name of the state requiring such net worth.
- 11.4 If yes, show the amount required. \$ \_\_\_\_\_ 50,000
- 11.5 Is this amount included as part of contingency reserve in stockholder's equity? YES [ X ] NO [ ]
- 11.6 If the amount is calculated, show the calculation \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area		

## FIVE-YEAR HISTORICAL DATA

	1	2	3	4	5
	2006	2005	2004	2003	2002
<b>BALANCE SHEET</b> (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	44,701,865	40,081,581	36,101,630	30,291,766	27,464,025
2. Total liabilities (Page 3, Line 22)	7,928,954	8,721,265	9,454,721	9,944,000	6,106,408
3. Statutory surplus				50,000	50,000
4. Total capital and surplus (Page 3, Line 31)	36,772,911	31,360,782	26,646,909	20,347,766	21,357,617
<b>INCOME STATEMENT</b> (Page 4)					
5. Total revenues (Line 8)	59,061,656	56,904,348	53,075,795	48,844,265	42,089,864
6. Total medical and hospital expenses (Line 18)	45,079,351	44,743,106	43,430,187	41,318,009	36,011,966
7. Claims adjustment expenses (Line 20)	1,074,879	3,861,694	1,412,907		
8. Total administrative expenses (Line 21)	7,281,644	5,389,557	4,650,186	3,870,421	3,254,317
9. Net underwriting gain (loss) (Line 24)	5,674,808	2,909,991	3,582,515	2,056,065	1,412,405
10. Net investment gain (loss) (Line 27)	1,017,965	1,145,126	719,345	524,684	1,335,872
11. Total other income (Lines 28 plus 29)				215,747	185,281
12. Net income or (loss) (Line 32)	6,692,773	4,055,117	4,301,860	2,796,496	2,933,558
<b>RISK-BASED CAPITAL ANALYSIS</b>					
13. Total adjusted capital	36,772,911	31,360,316	26,646,909	20,347,766	21,357,617
14. Authorized control level risk-based capital	3,156,471	2,386,801	1,906,948	1,732,052	1,762,520
<b>ENROLLMENT</b> (Exhibit 1)					
15. Total members at end of period (Column 5, Line 7)	122,776	120,280	118,331	114,202	104,766
16. Total members months (Column 6, Line 7)	1,460,891	1,421,260	1,384,797	1,331,574	1,227,487
<b>OPERATING PERCENTAGE</b> (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100.0					
17. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
18. Total hospital and medical plus other non-health (Line 18 plus Line 19)	76.3	78.9	82.0	84.6	85.6
19. Cost containment expenses			2.7	X X X	X X X
20. Other claims adjustment expenses	1.8	6.8	8.8		
21. Total underwriting deductions (Line 23)	90.5	95.2	93.4	95.8	96.6
22. Total underwriting gain (loss) (Line 24)	9.5	5.1	6.6	4.2	3.4
<b>UNPAID CLAIMS ANALYSIS</b> (U&I Exhibit, Part 2B)					
23. Total claims incurred for prior years (Line 13, Col. 5)	2,241,028	2,250,585	2,752,050	2,310,193	2,166,415
24. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	2,463,000	2,505,000	2,900,000	2,127,000	2,500,000
<b>INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES</b>					
25. Affiliated bonds (Sch. D Summary, Line 25, Col. 1)					
26. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1)					
27. Affiliated common stocks (Sch. D Summary, Line 53, Col. 2)	1,908,387	243,304	49,208	(3,265)	
28. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11)					
29. Affiliated mortgage loans on real estate					
30. All other affiliated					
31. Total of above Lines 25 to 30	1,908,387	243,304	49,208	(3,265)	

**SCHEDULE D - SUMMARY BY COUNTRY**  
Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1	2	3	4
		Book/Adjusted Carrying Value	Fair Value	Actual Cost	Par Value of Bonds
<b>BONDS</b>	1. United States .....	13,590,731	13,389,121	13,565,905	13,732,000
	2. Canada .....				
	3. Other Countries .....				
	4. Totals	13,590,731	13,389,121	13,565,905	13,732,000
Governments (Including all obligations guaranteed by governments)	5. United States .....				
	6. Canada .....				
	7. Other Countries .....				
	8. Totals				
States, Territories and Possessions (Direct and guaranteed)	9. United States .....				
	10. Canada .....				
	11. Other Countries .....				
	12. Totals				
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	13. United States .....				
	14. Canada .....				
	15. Other Countries .....				
	16. Totals				
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	17. United States .....				
	18. Canada .....				
	19. Other Countries .....				
	20. Totals				
Public Utilities (unaffiliated)	21. United States .....				
	22. Canada .....				
	23. Other Countries .....				
	24. Totals				
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	25. United States .....				
	26. Canada .....				
	27. Other Countries .....				
	28. Totals				
Parent, Subsidiaries and Affiliates	29. United States .....				
	30. Canada .....				
	31. Other Countries .....				
	32. Totals				
<b>26. Total Bonds</b>		<b>13,590,731</b>	<b>13,389,121</b>	<b>13,565,905</b>	<b>13,732,000</b>
<b>PREFERRED STOCKS</b>	33. United States .....				
	34. Canada .....				
	35. Other Countries .....				
	36. Totals				
Public Utilities (unaffiliated)	37. United States .....				
	38. Canada .....				
	39. Other Countries .....				
	40. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	41. United States .....				
	42. Canada .....				
	43. Other Countries .....				
	44. Totals				
Industrial and Miscellaneous (unaffiliated)	45. United States .....				
	46. Canada .....				
	47. Other Countries .....				
	48. Totals				
Parent, Subsidiaries and Affiliates	49. United States .....				
	50. Canada .....				
	51. Other Countries .....				
	52. Totals				
<b>40. Total Preferred Stocks</b>					
<b>COMMON STOCKS</b>	53. United States .....				
	54. Canada .....				
	55. Other Countries .....				
	56. Totals				
Public Utilities (unaffiliated)	57. United States .....				
	58. Canada .....				
	59. Other Countries .....				
	60. Totals				
Banks, Trust and Insurance Companies (unaffiliated)	61. United States .....				
	62. Canada .....				
	63. Other Countries .....				
	64. Totals				
Industrial and Miscellaneous (unaffiliated)	65. United States .....	9,938,486	9,942,109	8,925,541	
	66. Canada .....				
	67. Other Countries .....				
	68. Totals	9,938,486	9,942,109	8,925,541	
Parent, Subsidiaries and Affiliates	69. United States .....				
	70. Canada .....				
	71. Other Countries .....				
	72. Totals				
<b>54. Total Common Stocks</b>		<b>11,846,873</b>	<b>11,850,496</b>	<b>11,310,541</b>	
<b>55. Total Stocks</b>		<b>11,846,873</b>	<b>11,850,496</b>	<b>11,310,541</b>	
<b>56. Total Bonds and Stocks</b>		<b>25,437,604</b>	<b>25,239,617</b>	<b>24,876,446</b>	

**SCHEDULE D - VERIFICATION BETWEEN YEARS**  
Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year .....	<u>20,102,382</u>	7. Amortization of premium .....	<u>14,310</u>
2. Cost of bonds and stocks acquired, Column 7, Part 3 .....	<u>15,410,526</u>	8. Foreign Exchange Adjustment:	
3. Accrual of discount .....	<u>44,507</u>	8.1 Column 15, Part 1 .....	
4. Increase (decrease) by adjustment:		8.2 Column 19, Part 2 Section 1 .....	
4.1 Columns 12 - 14, Part 1 .....	<u>132,835</u>	8.3 Column 16, Part 2, Section 2 .....	
4.2 Column 15 - 17, Part 2, Section 1 .....		8.4 Column 15, Part 4 .....	
4.3 Column 15, Part 2, Section 2 .....	<u>356,940</u>	9. Book/adjusted carrying value at end of current period .....	<u>25,437,604</u>
4.4 Column 11 - 13, Part 4 .....	<u>161,651</u>	10. Total valuation allowance .....	
	<u>651,426</u>	11. Subtotal (Lines 9 plus 10) .....	<u>25,437,604</u>
5. Total gain (loss), Column 19, Part 4 .....	<u>171,268</u>	12. Total nonadmitted amounts .....	<u>2,906,500</u>
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4 .....	<u>10,928,195</u>	13. Statement value of bonds and stocks, current period .....	<u>22,531,104</u>

**SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS**

**Allocated by States and Territories**

State, Etc.	1 Guaranty Fund (Yes or No)	2 Is Insurer Licensed (Yes or No)	Direct Business Only					
			3 Accident & Health Premiums	4 Medicare Title XVIII	5 Medicaid Title XIX	6 Federal Employees Health Benefits Program Premiums	7 Life & Annuity Premiums & Deposit-Type Contract Funds	8 Property/Casualty Premiums
1. Alabama	AL	NO						
2. Alaska	AK	NO						
3. Arizona	AZ	NO						
4. Arkansas	AR	YES	59,061,656					
5. California	CA	NO						
6. Colorado	CO	NO						
7. Connecticut	CT	NO						
8. Delaware	DE	NO						
9. Dist. Columbia	DC	NO						
10. Florida	FL	NO						
11. Georgia	GA	NO						
12. Hawaii	HI	NO						
13. Idaho	ID	NO						
14. Illinois	IL	NO						
15. Indiana	IN	NO						
16. Iowa	IA	NO						
17. Kansas	KS	NO						
18. Kentucky	KY	NO						
19. Louisiana	LA	NO						
20. Maine	ME	NO						
21. Maryland	MD	NO						
22. Massachusetts	MA	NO						
23. Michigan	MI	NO						
24. Minnesota	MN	NO						
25. Mississippi	MS	NO						
26. Missouri	MO	NO						
27. Montana	MT	NO						
28. Nebraska	NE	NO						
29. Nevada	NV	NO						
30. New Hampshire	NH	NO						
31. New Jersey	NJ	NO						
32. New Mexico	NM	NO						
33. New York	NY	NO						
34. North Carolina	NC	NO						
35. North Dakota	ND	NO						
36. Ohio	OH	NO						
37. Oklahoma	OK	NO						
38. Oregon	OR	NO						
39. Pennsylvania	PA	NO						
40. Rhode Island	RI	NO						
41. South Carolina	SC	NO						
42. South Dakota	SD	NO						
43. Tennessee	TN	NO						
44. Texas	TX	NO						
45. Utah	UT	NO						
46. Vermont	VT	NO						
47. Virginia	VA	NO						
48. Washington	WA	NO						
49. West Virginia	WV	NO						
50. Wisconsin	WI	NO						
51. Wyoming	WY	NO						
52. American Samoa	AS	NO						
53. Guam	GU	NO						
54. Puerto Rico	PR	NO						
55. U.S. Virgin Islands	VI	NO						
56. Northern Mariana Islands	MP	NO						
57. Canada	CN	NO						
58. Aggregate other alien	OT	X X X						
59. Subtotal		X X X	59,061,656					
60. Reporting entity contributions for Employee Benefit Plans		X X X						
61. Total (Direct Business)		X X X (a) 1	59,061,656					

DETAILS OF WRITE-INS								
5801.		X X X	X X X					
5802.		X X X	X X X					
5803.		X X X	X X X					
5898.	Summary of remaining write-ins for Line 58 from overflow page	X X X	X X X					
5899.	Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	X X X	X X X					

Explanation of basis of allocation by states, premiums by state, etc.

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(a) Insert the number of yes responses except for Canada and other Alien.

**NONE**

**Schedule Y - Part 1**

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**OVERFLOW PAGE FOR WRITE-INS**

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**OVERFLOW PAGE FOR WRITE-INS**

**Page 14 - Continuation  
UNDERWRITING AND INVESTMENT EXHIBIT  
PART 3 - ANALYSIS OF EXPENSES**

	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses	3 General Administrative Expenses	4 Investment Expenses	5 Total
<b>REMAINING WRITE-INS AGGREGATED AT LINE 25 FOR EXPENSES</b>					
2504. Miscellaneous Other		1,655	1,103		2,758
2505. Record Storage		17,561	11,707		29,268
2506. Risk Share Purchase		100,000			100,000
2507. Risk Share with US Able		156,611			156,611
2508. Seminars		64,396	42,930		107,326
2509. Subscriptions			72,596		72,596
2510. Federal Marketing Group			275,000		275,000
2511.					
2512.					
2513.					
2514.					
2515.					
2516.					
2517.					
2518.					
2519.					
2520.					
2521.					
2522.					
2523.					
2524.					
2525.					
2597. Totals (Lines 2504 through 2525) (Page 14, Line 2598)		340,223	403,336		743,559