STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Advantica Insurance Company, Inc

ORDER

After full consideration and review of the report of the financial examination of Advantica Insurance Company, Inc for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER, Advantica Insurance Company, Incto take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 25th day of May, 2011.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF

FINANCIAL EXAMINATION

Advantica Insurance Company, Inc.

As of:

DECEMBER 31, 2009

FILED
JUN 0 4 2011
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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March 17, 2011

Honorable Joseph Torti III, Superintendent
Division of Insurance Regulation
State of Rhode Island
Chairman, Financial Condition (E) Committee, NAIC

Honorable Stephen Robertson, Commissioner
Department of Insurance
State of Indiana
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Advantica Insurance Company, Inc.

hereinafter referred to as such or as "AIC" or as the "Company." The Company's statutory home office is located at 12399 Gravois Road, St. Louis, MO 63127, telephone number (314) 656-3000. This examination began on December 6, 2010 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

This is the first full scope financial examination of the Company. The examination covers the period from January 1, 2006, through December 31, 2009, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating. This examination also included material transactions or events occurring subsequent to December 31, 2009.

Procedures

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration ("DIFP") or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and

identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating systems controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The following key activities were identified: Investments, Treasury, Reserves, Claims Handling, Premiums, Underwriting, Reinsurance, and Intercompany.

The examiners relied upon information and workpapers provided by the Company's independent auditor, BKD LLP, for its audit covering the period from January 1, 2009, through December 31, 2009. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

Fidelity Bond

The Company is a named insured on a financial institution bond policy purchased by its parent, Delta Dental of Missouri, which provides $750,000 in coverage with a $10,000 deductible. This coverage does not equal the minimum amount of fidelity insurance recommended by the NAIC of $900,000.

SUBSEQUENT EVENTS

On March 24, 2010, the Company filed an amendment to its articles of incorporation to change its name to Advantica Insurance Company, Inc.

COMPANY HISTORY

General

Advantica Insurance Company, Inc. was organized on February 6, 2004, and received a certificate of incorporation from the Missouri Secretary of State on September 12, 2004, as Essex Benefits Insurance Company, Inc. On March 7, 2005, the Missouri Department of Insurance issued the Company a Certificate of Authority to write property, liability, and accident and health insurance pursuant to Chapter 379 RSMo. Subsequent to the examination period AIC modified its Missouri Certificate of Authority to authorize only accident and health insurance, and changed its name to Advantica Insurance Company, Inc.

Capital Stock and Paid-In Surplus

The Company is authorized to issue 15,000 shares of common stock at a par value of $100 per share. The Company was initially capitalized with $3 million. The Company reported 12,000 common shares issued and outstanding as of December 31, 2009, resulting in a common capital stock account of $1.2 million. The remainder of the $3

million initial capitalization is reported as gross paid in and contributed surplus of $1.8 million.

Dividends
The Company has paid no dividends.

Acquisitions, Mergers and Major Corporate Events
Effective December 31, 2007, Delta Dental of Missouri formed a new subsidiary, Essex Holding Company ("EHC"), and transferred all former direct subsidiaries, including the Company, into EHC. EHC was subsequently renamed Advantica Holding Company, Inc.

Surplus Debentures
The Company has had no outstanding surplus notes during the examination period.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to the bylaws or articles of incorporation during the exam period.

The joint unanimous written consents of the board of directors and sole shareholders (in lieu of special meetings) were reviewed and appear to properly support and approve the corporate transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors
The management of the Company is vested in a board of 9 directors authorized by the Company's articles of incorporation and bylaws. The directors serving at December 31, 2009, were as follows:

Name and Address	Principal Occupation and Business Affiliation
Steve Gaal III Saint Louis, MO	Retired (2010) President Delta Dental of Missouri
Richard Klassen Saint Louis, MO	Chief Marketing and Sales Officer Delta Dental of Missouri
Janice Lees Saint Louis, MO	Vice President Board Relations Delta Dental of Missouri
Dennis Lowry Saint Louis, MO	Manager Finance and Accounting Delta Dental of Missouri
Pam Martin Saint Louis, MO	Senior Vice President, Chief Operating Officer Delta Dental of Missouri
Alcides Martinez Saint Louis, MO	Vice President Government and Dental Affairs Delta Dental of Missouri

Name and Address	Principal Occupation and Business Affiliation
Karl Mudra Saint Louis, MO	Chief Information Officer Delta Dental of Missouri
Carol Nienhaus Saint Louis, MO	Corporate Manager Underwriting Delta Dental of Missouri
Jane Stanhaus Saint Louis, MO	Corporate Manager Human Resources Delta Dental of Missouri

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2009, were as follows:

Name	Position
Steve P. Gaal III	President
David W. Haynes	Treasurer
Alcides Martinez	Secretary

Committees

The Company has no established committees of its own, instead relying on the Committees of the ultimate parent, Delta Dental of Missouri. The various committees of the board established by Delta Dental of Missouri are as follows.

Executive Committee
Richard J. Haffner, Chairperson
Robert M. Tait
Dee A. Joyner
William J. Tunney Jr.
Melvin M. Bloom
H.R. Redohl
Steve P. Gaal III
Staff Liaison – Janice Lees

Compensation Committee
Brian W. Berglund, Chairperson
H.R. Redohl
Robert M. Tait
Kenneth L. Worley
Staff: Jane Stanhaus

Finance and Audit Committee
Melvin M. Bloom, Chairperson
Dee A. Joyner
Guy P. Bates Jr.
Brian W. Berglund
Staff Liaison – David Haynes

Governance Committee
H.R. Redohl, Chairperson
Brian W. Berglund
Melvin M. Bloom
Guy P. Bates Jr.
William J. Tunney Jr.
Staff: Janice Lees

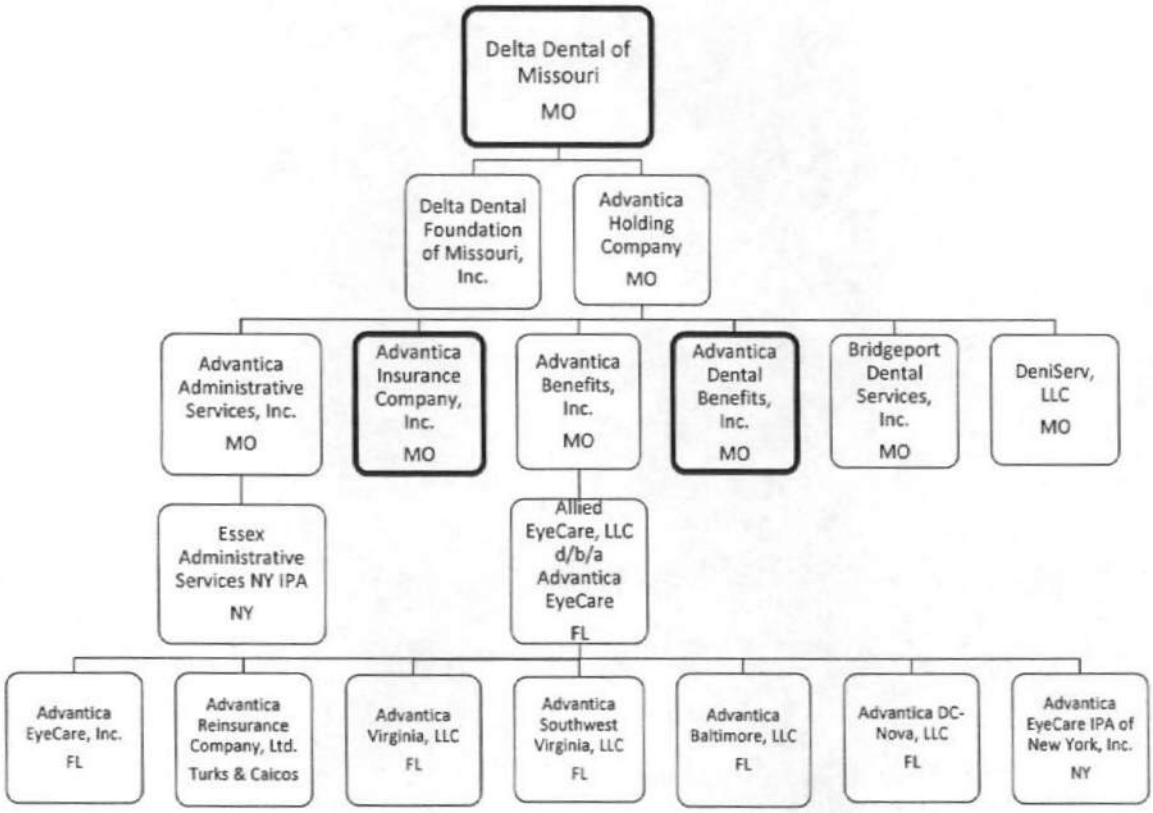
Holding Company, Subsidiaries and Affiliates

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of Advantica

Holding Company, which in turn is wholly owned by Delta Dental of Missouri (DDM), the ultimate controlling entity of the holding company system.

Organization Chart

The following organizational chart depicts the Company within the current holding company system. All subsidiaries shown are wholly owned.



Affiliated Transactions

The Company enters into various agreements with affiliates. Active agreements are discussed below:

1) Management Agreement

Parties: Advantica Dental Benefits, Inc., Advantica Insurance Company, Inc., Deniserv, LLC, and Delta Dental of Missouri.

Effective: January 1, 2007, non-disapproved July 31, 2007

Terms: DDM will provide various administrative services to the other parties to include human resources, financial services, accounting services, information systems services, marketing services and purchasing services.

Rate(s): Fees charged under the Agreement are equal to the cost incurred to render such services to the other parties.

2) Intercompany Tax Allocation Agreement

Parties: Advantica Dental Benefits, Inc., Advantica Insurance Company, Inc., Deniserv, LLC,, Advantica Holding Company, Essex Administrative Services, Bridgeport Dental Services, Inc.

Effective: January 1, 2008, non-disapproved December 1, 2008

Terms: Parties agree to file consolidated federal and state income tax returns.

Rates: Payment is the respective income tax liability arising as if each company filed a separate return.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond policy purchased by its parent, Delta Dental of Missouri, which provides $750,000 in coverage with a $10,000 deductible. This coverage does not equal the minimum amount of fidelity insurance recommended by the NAIC of $900,000.

It is recommended that the Company obtain additional fidelity coverage to comply to the minimum amount recommended by the NAIC.

The Company is also a named insured on policies that provide the following coverages: property, general and excess, auto, directors and officers, fiduciary, and workers' compensation. The Company's insurance coverages, other than the financial institution bond, appear adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Services are provided by affiliates under service agreements described under "Affiliated Transactions." Affiliates' employees are provided benefits typical of the industry including various types of leave, holidays, cafeteria plan, group life, short-term disability, long-term disability, employee group health plan, educational assistance, 401(k) savings plan and a defined contribution retirement plan. In addition, there is a nonqualified, defined benefit, deferred compensation plan for officers.

TERRITORY AND PLAN OF OPERATION

General

The Company is only licensed in Missouri under Chapter 379 RSMo (Insurance other than life) to write accident and health insurance.

AIC assumes dental and vision benefit business under a fronting arrangement with National Guardian Life Insurance Company in states where it is not authorized. Pre-paid group dental business is reinsured on a one hundred percent quota share basis. The vision business was reinsured on a fifty percent quota share basis. It was terminated effective December 31, 2010 and is in runoff.

GROWTH OF COMPANY

The Company has never written direct premium. Net written premium has been due entirely to assumed reinsurance. There has been little variance in total assets, liabilities, or surplus during the examination period.

LOSS EXPERIENCE

The following exhibit reflects the underwriting results of the Company during the examination period.

Year	Net Written Premium	Total Losses & Expenses	Net Income Before FIT
2009	1,711,701	1,929,213	(178,250)
2008	1,200,194	1,365,308	(62,234)
2007	737,633	945,894	(76,867)
2006	513,599	722,300	(126,512)

REINSURANCE

General

The Company had no direct written premium during the examination period. Net written premium is due entirely to assumed reinsurance. The net written premium during the examination period is shown above.

Assumed

AIC assumes dental and vision benefit business under a fronting arrangement with National Guardian Life Insurance Company in states where it is not authorized. Pre-paid group dental business is reinsured on a one hundred percent quota share basis. The vision business was reinsured on a fifty percent quota share basis. It was terminated effective December 31, 2010 and is in runoff.

Ceded

The Company has no ceded reinsurance.

ACCOUNTS AND RECORDS

General

The Company's financial statements were prepared using Sage MAS 500 financial accounting software.

Reserves and related actuarial items as of December 31, 2009, were reviewed and certified by F. Ray Martin, FSA, MAAA, president and owner of MarACon, LLC.

The Company is planning to replace the functions of its current premium administration system, Wisddm, with an existing, but unused, Finance Manager module of the customized commercial software, aQDen, which has been used for claims, eligibility and enrollment administration since 1999. Testing of the premium administration system will take place sometime in 2011.

Independent Auditor

The Company's financial statements for the period January 1, 2006 to December 31, 2009, were audited by BKD LLP, Certified Public Accountants. The workpapers and reports of the most recent independent audit were reviewed for this examination. These workpapers and reports were used in the course of this examination as deemed appropriate.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2009, are reflected below. These deposits had sufficient par and market values to meet the deposit requirement for the state of Missouri per Section 379.098 RSMo (Securities to be deposited by all companies, kind and amount).

Type of Security	Par Value	Market Value	Statement Value
US Treasury Notes	$ 1,250,000	$ 1,265,138	$ 1,255,121

Deposits with Other States

The Company has no funds on deposit with other states.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2009, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences, if any, were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 1,255,121	$	$ 1,255,121
Cash, cash equivalents and short-term investments	1,245,946		1,245,946
Investment income due and accrued	6,250		6,250
Other amounts receivable under reinsurance contracts	112,716		112,716
Misc receivables	45		45
Total assets	$ 2,620,078	$	$ 2,620,078

LIABILITIES, SURPLUS AND OTHER FUNDS

	Current Year
Losses	$ 112,716
Other expenses	17,339
Payable to parent, subsidiaries and affiliates	61,157
Total liabilities	$ 191,212
Common capital stock	1,200,000
Gross paid in and contributed surplus	1,800,000
Unassigned funds (surplus)	(571,134)
Surplus as regards policyholders	$ 2,428,866
Totals	$ 2,620,078

STATEMENT OF INCOME

	Current Year
Premiums earned	$ 1,711,701
Losses incurred	1,364,639
Other underwriting expenses incurred	564,574
Total underwriting deductions	$ 1,929,213
Net underwriting gain or (loss)	$ (217,512)
Net investment income earned	$ 30,225
Net realized capital gains or (losses) less capital gains tax	
Net investment gain (loss)	$ 30,225
Miscellaneous income	9,037
Total other income	$ 9,037
Net income before dividends, after capital gains tax and before FIT	$ (178,250)
Dividends to policyholders	
Net gain from operations after dividends and before taxes	$ (178,250)
Federal and foreign income tax	
Net income	$ (178,250)

CAPITAL AND SURPLUS

	Current Year
Surplus as regards policyholders; December 31 prior year	$ 2,607,116
Net income	$ (178,250)
Change in surplus as regards policyholders for the year	$ (178,250)
Surplus as regards policyholders; December 31 current year	$ 2,428,866

COMMENTS ON THE FINANCIAL STATEMENTS

There are no comments on the Company's financial statements.

SUMMARY OF RECOMMENDATIONS

Fidelity Bond

The Company is a named insured on a financial institution bond policy purchased by its parent, Delta Dental of Missouri, which provides $750,000 in coverage with a $10,000 deductible. This coverage does not equal the minimum amount of fidelity insurance recommended by the NAIC of $900,000. The Company should obtain additional fidelity coverage to comply to the minimum amount recommended by the NAIC.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and employees of Advantica Insurance Company, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned; Jennifer Danz, CPA; Shawn Hernandez, CFE; and Andy Balas, AES, CFE, CPA; examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration; participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

ANDREA V. MOFFATT
Notary Public - Notary Seal
STATE OF MISSOURI
City of St. Louis
My Commission Expires 5/11/2012
Commission # 08552590

Wyatt Sample, CFE
Examiner-in-Charge
Missouri Department of Insurance,
Financial Institutions and
Professional Registration

Sworn to and subscribed before me this 21st day of March 2011
My commission expires:
5/11/2012

Andrea V. Moffatt
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael Shadowens, CFE
Audit Manager, St. Louis
Missouri Department of Insurance, Financial
Institutions and Professional Registration