STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Dental Source of Missouri and Kansas, Inc. for the period ended December 31, 2012.

ORDER

After full consideration and review of the report of the financial examination of Dental Source of Missouri and Kansas, Inc. for the period ended December 31, 2012, 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 examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Dental Source of Missouri and Kansas, Inc. as of December 31, 2012 be and is hereby ADOPTED as filed and for Dental Source of Missouri and Kansas, Inc. to 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 16th day of June, 2014.

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

REPORT OF THE

FINANCIAL EXAMINATION OF

DENTAL SOURCE OF MISSOURI AND KANSAS, INC.

AS OF

DECEMBER 31, 2012

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND

PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Kansas City, Missouri
December 12, 2013

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

Director Huff:

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

Dental Source of Missouri and Kansas, Inc.

hereinafter referred to as such, as Dental Source, or as the Company. Its administrative office is located at 101 Parklane Blvd., Suite 301, Sugar Land, Texas, 77478, telephone number (800) 369-3485. This examination began on August 21, 2013, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope financial examination of Dental Source of Missouri and Kansas, Inc. was made as of December 31, 2007, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope financial examination covered the period from January 1, 2008, through December 31, 2012, and was a coordinated multi-state examination of the Dental Economics Group led by the Texas Department of Insurance with participation from the insurance departments of Missouri and Louisiana.

Companies within the Dental Economics Group included in the coordinated examination were:

First Continental Life & Accident Insurance Company
Dental Source of Missouri and Kansas, Inc.
Guaranty Assurance Company
MNM – 1997, Inc.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook required 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 system controls and procedures used to mitigate those risks. The examination also included assessing the principals used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to Missouri domestic state regulations.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

On October 23, 2012, the shareholders of the Company approved and executed an agreement and plan of merger pursuant to which the Company would merge with an affiliate, MNM – 1997, Inc. In accordance with the merger agreement, the Company will cease to exist with MNM – 1997, Inc. being the surviving entity. In 2013, the Company received approval for the merger from the Texas Department of Insurance and the DIFP and the merger was consummated on September 1, 2013.

HISTORY

General

Dental Source was incorporated on December 21, 1989, and commenced business on January 1, 1990, under Chapter 354 RSMo (Health Services Corporation-Health Maintenance Organizations-Prepaid Dental Plans). Dental Source is a prepaid dental plan that provides dental memberships to groups and individuals in Missouri and Kansas.

On June 5, 1998, Dental Source was purchased by Dental Economics, LLC, a Texas company, pursuant to the terms and conditions of a Stock Purchase Agreement. On June 26, 1998, Dental Economics, LLC entered into an agreement with Dental Economics, LP whereby 100 percent ownership interest in Dental Source was assigned to Dental Economics, LP.

Simultaneous to the acquisition of Dental Source, Dental Economics, LP also purchased Corporate Dental Care, Inc., a Missouri domiciled prepaid dental plan, and merged its operations into Dental Source.

Effective January 1, 2005, the ownership of Dental Source was transferred from Dental Economics, LP to First Continental Life & Accident Insurance Company, a newly acquired subsidiary of Dental Economics, LP.

Capital Stock

The Company is authorized to issue 50,000 shares of common capital stock with a par value of $1.00. As of December 31, 2012, all 50,000 authorized shares were issued and outstanding for a common capital stock account balance of $50,000. All the issued and outstanding shares are wholly owned by First Continental Life & Accident Insurance Company, the immediate parent of the Company.

Dividends

The Company paid a dividend of $200,000 to its immediate parent, First Continental Life & Accident Insurance Company on December 22, 2008. No other dividends were declared or paid during the examination period.

Management

The management of the Company is vested in a Board of Directors that are appointed by the sole shareholder. The Company's Bylaws specify the total number of directors shall be three. The directors serving at December 31, 2012, were as follows:

Name	Address	Business Affiliation
James A. Taylor	Richmond, Texas	President and Treasurer, Dental Source of Missouri and Kansas, Inc.
Robert L. Thomas, Jr.	Richmond, Texas	Secretary, Dental Source of Missouri and Kansas, Inc.
Paul S. Kwauk	Houston, Texas	Vice President, Dental Economics, LLC

Officers

Pursuant to its Bylaws, the officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers as the Board of Directors may deem appropriate. Officers serving as of December 31, 2012, were as follows:

Officer	Position with the Corporation
James A. Taylor	President and Treasurer
Robert L. Thomas Jr.	Secretary

Conflict of Interest

The Company requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period with no significant conflict disclosures noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company for the period under examination. No amendments were made to either the Articles of Incorporation or Bylaws during the examination period.

The minutes of the Board of Directors' meetings and Written Consents of the sole shareholder were reviewed for proper approval of corporate transactions. The minutes and records of the Company appear to properly reflect the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

The Company was not party to any acquisitions, mergers, or other major corporate events during the examination period. Subsequent to the examination period, the Company was party to a merger transaction with its affiliate, MNM-1997, Inc. Per the terms of the merger agreement, the Company will cease to exist with MNM-1997, Inc. being the surviving entity. The merger is described in more detail in the Subsequent Events section of this report.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

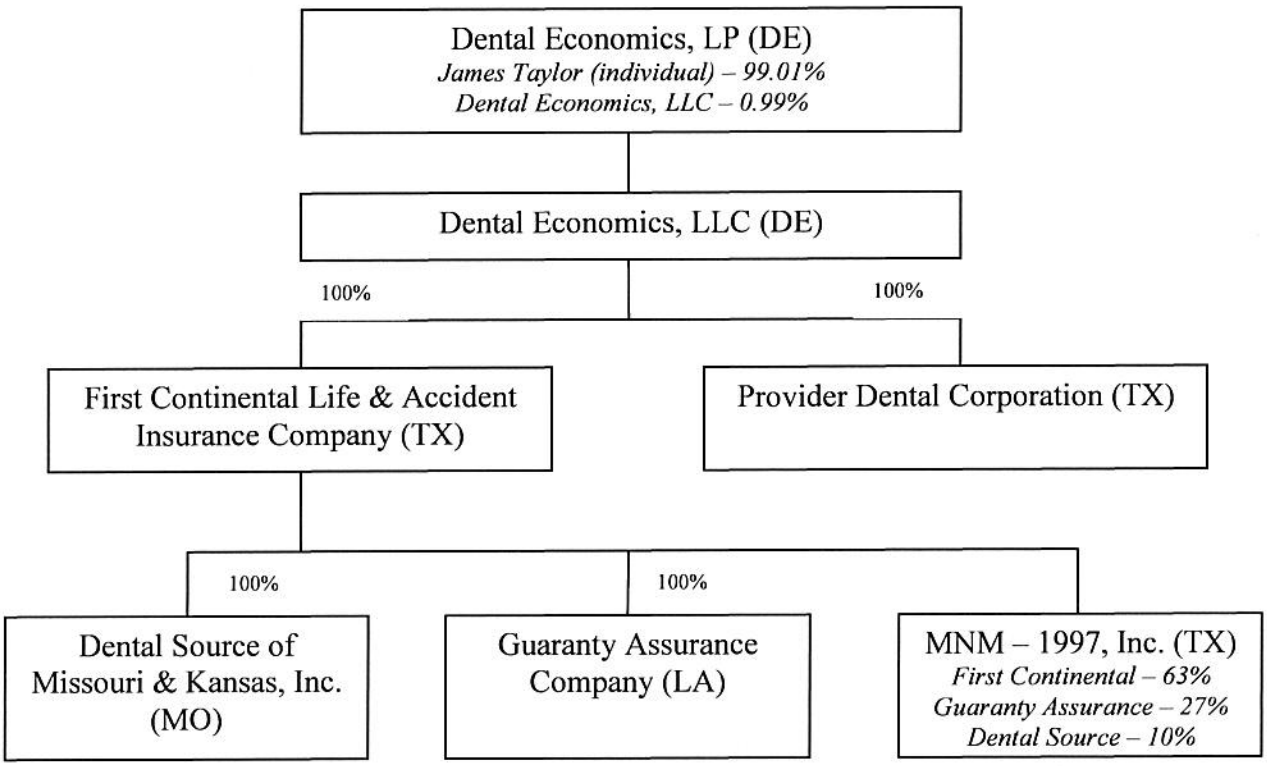
Dental Source is a member of an Insurance Holding Company System pursuant to Section 382 RSMo (Insurance Holding Companies), which incorporates the definition of an insurer under Section 375.012 RSMo (Definitions). As of December 31, 2012, Dental Source was a wholly owned subsidiary of First Continental Life & Accident Insurance Company (FCL), which was a wholly owned subsidiary of Dental Economics, LP.

Dental Economics, LP, the ultimate controlling entity within the holding company system, was organized on June 26, 1998. As of December 31, 2012, the majority ownership interest in Dental Economics, LP was James A. Taylor, who held a 99.01 percent interest. Dental Economics, LLC held the remaining minority 0.99 percent interest.

Dental Economics, LLC, a Delaware corporation, was formed to acquire, hold and operate prepaid dental health maintenance organizations. FCL is a Texas domiciled life and health insurance company.

Organizational Chart

The following organizational chart depicts the holding company system of Dental Source as of December 31, 2012:



Intercompany Transactions

The Company is a party to the intercompany agreements outlined below.

1. **Type:** Management Services Agreement

   Affiliates: FCL

   Effective: January 1, 2006

   Terms: Under the terms and conditions of this agreement, FCL agrees to provide Dental Source with facilities, equipment, supplies and management, which include, but are not limited to, marketing, accounting, data processing and overall management of the Company. In consideration for the services provided, Dental Source pays a management fee based on the percentage of the Company's active group contracts to the total active group contracts in the holding company system, plus the cost of office space directly provided by FCL. Payment is due on or before the 30th day of the following month.

2. **Type:** Affiliated Partners Administrative Agreement

   Affiliates: FCL

   Effective: January 1, 2006

   Terms: Under the terms and conditions of this agreement, Dental Source shall provide FCL, billing, collection, remittance services and applicable premium reports for indemnity dental group policies sold on behalf of FCL. The FCL indemnity dental plan is available to the Company's new and existing group business. Dental Source will deduct an administrative fee of two percent (2%) of gross premium after any applicable third party commissions. All premiums deemed funds of FCL will be remitted to FCL net of applicable administrative fees and commissions within 45 days of the premium due date.

3. **Type:** Tax Allocation Agreement

   Affiliates: FCL, MNM-1997, Guaranty Assurance Company

   Effective: December 10, 2010

   Terms: Under the Agreement, FCL will file a consolidated tax return for itself and all controlled subsidiaries. Each entity will compute and accrue its separate federal income tax liability independent of any other members of the consolidated group. The computation will be made at least annually as

of the end of each calendar year. The full amount of subsidiary's tax liability will be paid to FCL at least annually.

The following is a table of amounts incurred and/or (received) under the intercompany agreements summarized above for the five years under examination.

	2008	2009	2010	2011	2012
Management Agreement	$496,880	$486,179	$425,818	$291,111	$318,850
Administration Agreement	(45,616)	(46,336)	(37,718)	(18,534)	(20,327)
Tax Allocation Agreement	0	0	0	2,033	46,540
Totals	$451,264	$439,843	$388,100	$274,610	$345,063

FIDELITY BOND AND OTHER INSURANCE

Dental Source is a named insured on a crime policy with a total liability limit of $500,000 and a $2,500 deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to the NAIC guidelines. The Company is not a named insured on any other insurance policies.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Dental Source employees are paid by, and receive benefits from, the Company's direct parent, FCL, in accordance with the Management Services Agreement. FCL provides facilities, equipment, supplies, and personnel to manage the day-to-day operations of the Company. FCL offers a voluntary 401(k) plan and provides a variety of other benefits which include, but are not limited to, medical, dental, and life insurance. FCL allocates these costs to Dental Source and other subsidiaries monthly based on the number of active contracts per subsidiary.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2012, as reflected below, were sufficient in par and fair value to meet the deposit requirement for the State of Missouri in accordance with Section 354.707 RSMo (Capital, surplus, security required).

Type of Security	Par Value	Fair Value	Statement Value
Bonds	$200,000	$200,550	$200,548

Deposits with Other States and Territories

The Company also has funds on deposit with the State of Kansas. The funds on deposit as of December 31, 2012, were as follows:

Type of Security	Fair Value	Statement Value
Certificate of Deposit	$75,000	$75,000

TERRITORY AND PLAN OF OPERATION

The Company is licensed by DIFP under Chapter 354 RSMo, to offer prepaid dental plans to organizations and/or individuals. Dental Source operates exclusively as a prepaid dental plan with no other lines of business. The Company is also licensed in the State of Kansas.

The prepaid dental plans offered by Dental Source are an alternative approach to the fee-for-service method of reimbursing dentists for services rendered. It is a system by which specific predetermined dental services are provided to eligible subscribers by independent dental providers or entities contracting with the Company who, in turn, are compensated at a fixed per capita rate, usually on a monthly basis. In consideration for the dental coverage provided, the covered or eligible subscriber is required to pay for the coverage through periodic payroll deductions, bank drafts or direct billings.

The Company also offers an indemnity plan that is underwritten by its parent company, FCL, with the special feature of no network restrictions. Under this plan, each subscriber is given the option of using the dentist of his or her choice. Basic and major services are subject to a combined lifetime deductible of $100 per person and a maximum calendar year benefit of $1,200 per person, excluding orthodontic services.

The Company's products are marketed through a combination of internal sales staff and a network of independent agents and brokers. The Company's advertising efforts are limited to random mailings to prospective groups and the distribution of informational brochures to prospective members.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

The Company's capital and surplus has steadily increased during the examination period, from $462,766 in 2008 to $616,973 in 2012. Net premium income has decreased from $4,236,563 in 2008 to $2,981,911 in 2012, with corresponding decreases in the related expense categories. The Company reported moderate net income in each of the years under examination and operating income in four of the five years.

The decrease in net premium income is primarily due to the overall trend of its membership electing to choose the dental indemnity plan offered by its parent, as opposed to the prepaid

dental plan option offered by the Company. The growth and loss experience of the Company is summarized in the following schedule:

	2012	2011	2010	2009	2008
Net Written Premiums	2,891,911	3,093,052	3,410,684	3,671,619	4,236,563
Total Members	13,481	14,172	16,477	17,997	20,608
Net Underwriting Gain (Loss)	113,723	5,171	(42,329)	34,532	40,039
Net Income (Loss)	90,342	24,776	588	60,548	73,300
Net Loss & CAE Reserves	65,343	111,481	105,300	189,557	229,497
Total Capital & Surplus	616,973	550,213	527,522	526,374	462,766
Net Written Premium to Surplus	468.73%	562.16%	646.55%	697.53%	915.49%
Net Loss & CAE Reserves to Surplus	10.59%	20.26%	19.96%	36.01%	49.59%

REINSURANCE

The Company did not assume business from or cede any business to other insurers during the period under examination.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm, BDO Seidman, LLP, of Houston, Texas, for the years ending December 31, 2008 and 2009. The Company's financial statements were audited by the CPA firm, BDO USA, LLP, of Houston, Texas for the year ending December 31, 2010. The Company's financial statements were audited by the CPA firm, White, Garrison & Hill, of Houston, Texas for the year ending December 31, 2011. The Company's financial statements were audited by the CPA firm, Briggs & Veselka Company, of Houston, Texas for the year ending December 31, 2012.

Appointed Actuary

Claims Unpaid and Unpaid Claims Adjustment Expenses were reviewed and certified by Donna Deborah Allen FSA, MAAA, EA, of Signature Optimal Solutions of Huntington Beach, California for the years ending December 31, 2008, 2009, 2010, and 2011. Claims Unpaid and Unpaid Claims Adjustment Expenses were reviewed and certified by D. Joeff Williams FSA, MAAA, of Actuarial Management Resources of Winston-Salem, North Carolina for the year ending December 31, 2012.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Dental Source for the period ending December 31, 2012. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 325,548	$ 0	$ 325,548
Common Stocks	50,000	50,000	0
Cash and Short-term Investments	775,360	0	775,360
Investment Income Due and Accrued	2,871	0	2,871
Uncollected Premiums and Agents' Balances In the Course of Collection	99,280	0	99,280
Electronic Data Processing Equipment	1,015	0	1,015
Furniture and Equipment	23,403	23,403	0
Health Care and Other Amounts Receivable	13,311	0	13,311
Aggregate Write-ins – Other Assets, etc.	34,041	4,041	30,000
TOTAL ASSETS	**$1,324,829**	**$77,444**	**$1,247,385**

Liabilities, Surplus and Other Funds

Claims Unpaid	$ 63,615
Unpaid Claims Adjustment Expenses	1,728
Premiums Received in Advance	316,468
General Expenses Due or Accrued	44,038
Current Federal and Foreign Income Tax Payable	50,573
Remittances and Items not Allocated	22,096
Amounts Due to Parents, Subsidiaries and Affiliates	129,939
Aggregate Write-Ins for Other Liabilities	1,955
TOTAL LIABILITIES	**$ 630,412**
Common Capital Stock	50,000
Gross Paid In and Contributed Surplus	174,294
Aggregate Write-in for Other than Special Surplus Funds	150,000
Unassigned Funds (Surplus)	242,679
TOTAL CAPITAL AND SURPLUS	**$ 616,973**
TOTAL LIABILITIES AND SURPLUS	**$1,247,385**

Statement of Revenue and Expenses

Net Premium Income	$2,981,911
Total Revenue	**$2,981,911**
Other Professional Services	1,625,825
Claims Adjustment Expenses	33,081
General Administrative Expenses	1,209,282
Total Underwriting Deductions	**$2,868,188**
Net Underwriting Gain or (Loss)	**$ 113,723**
Net Investment Income Earned	2,832
Aggregate Write-ins for Other Income or Expenses	20,327
Net Income Before Federal Income Taxes	**$ 136,882**
Federal and Foreign Income Taxes Incurred	46,540
Net Income or (Loss)	**$ 90,342**

Capital and Surplus Account

Capital and Surplus, December 31, 2011	$ 550,213
Net Income or (Loss)	90,342
Change in Non-admitted Assets	(23,582)
Net Change in Capital and Surplus	**$ 66,760**
CAPITAL AND SURPLUS, DECEMBER 31, 2012	**$ 616,973**

NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND RECOMMENDATIONS

None

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Dental Source of Missouri and Kansas, Inc. during the course of this examination is hereby acknowledged and appreciated. As a coordinated examination, a material amount of the examination was performed by the various other participating states, led by the Texas Department of Insurance.

VERIFICATION

State of Missouri)
)
County of Jackson)

I, Scott L. Rennick, MBA, CFE 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.

Scott L. Rennick, MBA, CFE
Financial Examiner
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 6th day of May, 2014.

My commission expires: 01/07/2017

Tammy Morales
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

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.

Mark A. Nance, CPA, CFE
Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration