

**STATE OF OREGON  
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES  
DIVISION OF FINANCIAL REGULATION**

BEFORE THE INSURANCE COMMISSIONER

In the Matter of the Proposed Plan of Acquisition of )	Findings of Fact, Conclusions of
Control of Advantage Dental Plan, Inc. by Dental )	Law and Order
Service of Massachusetts, Inc.; DentaQuest Group, )	
Inc.; DentaQuest Management, Inc.; DentaQuest )	Case No. INS-FR 16-06-003
Massachusetts Business Trust; DentaQuest, LLC; )	
and DentaQuest Care Group Management, LLC )	

INTRODUCTION

Dental Service of Massachusetts, Inc., (“DSM”), a Massachusetts non-profit corporation and several of its direct and indirect subsidiaries, (collectively, the “Applicants”), filed with the Oregon Department of Consumer and Business Services, Division of Financial Regulation, formerly the Insurance Division, (the “DFR”) a Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer dated January 22, 2016, to acquire control of Advantage Dental Plan, Inc., an Oregon health care service contractor (“Advantage”), as required by ORS 732.517 through 732.546 (as amended as of March 4, 2016, and otherwise supplemented, the “Form A”). The filing fee required under OAR 836-009-0007(12) was received by the DFR on January 27, 2016. The acquisition described in the Form A (the “activity” or the “Proposed Acquisition”) is an activity described in ORS 732.521(1). The Proposed Acquisition is a consequence of a Unit Purchase Agreement dated December 29, 2015 between a DSM subsidiary and Advantage Consolidated, LLC, which currently indirectly controls 100% of Advantage.

Upon the filing of the Form A, the DFR engaged Morgan, Lewis & Bockius LLP (“MLB”) as legal advisers. MLB provided both written and verbal advice to the DFR in connection with the Proposed Transaction.

Notice of a public hearing on the Form A was issued on March 23, 2016 and published by the Applicants on March 26, 2016. The public hearing was held on April 20, 2016. A public comment period was open until May 4, 2016. The Form A and the presentation at the public hearing by the Applicants and Advantage were posted on the DFR’s web site.

The following Findings of Fact are made in reliance on the Form A, as amended; the presentation made and testimony taken at the public hearing and the reports and other advice provided by MLB.

#### FINDINGS OF FACT

(1) Advantage was formerly known as RDS Dental Plan, Inc., which was incorporated in Oregon on October 13, 1994 as a for-profit corporation that received its Certificate of Authority as a health care services (restricted to dental) insurer on March 3, 1995. On November 20, 1996, Advantage changed its name from RDS Dental Plan, Inc. to Advantage Dental Plan, Inc.

(2) Advantage is a health care services (restricted to dental) insurer organized and licensed under the laws of Oregon and is a wholly owned direct subsidiary of Advantage Community Holding Company, LLC (“Holding Company”), a privately held Oregon Limited Liability Company. Holding Company also directly and indirectly owns and controls additional subsidiaries that (a) operate approximately forty dental clinics in Oregon, and (b) contract to administer and arrange for dental services with sixteen

Coordinated Care Organizations throughout the State of Oregon as well as the Oregon Health Plan.

(3) Advantage Consolidated, LLC, an Oregon limited liability company (“Consolidated”) currently owns 100% of the outstanding units of Holding Company and currently indirectly controls 100% of Advantage. After the Proposed Acquisition, Consolidated will own 20% of Holding Company and Holding Company will continue to directly own and control Advantage.

(4) DSM is a Massachusetts non-profit corporation with multiple direct and indirect subsidiaries including DentaQuest, LLC, a Delaware limited liability company (“DentaQuest”). DentaQuest entered into a Unit Purchase Agreement (“Purchase Agreement”) dated December 29, 2015 with Consolidated to acquire an 80% controlling interest in Holding Company. At or prior to closing, DentaQuest will assign its rights under the Purchase Agreement to its wholly owned subsidiary, DentaQuest Care Group Management, LLC, a Delaware limited liability company. Neither DSM nor any of its subsidiaries currently has any business activities in Oregon.

(5) DSM will pay the entire purchase price for the Proposed Acquisition in cash. The purchase price has several components and potential adjustments that include paying a portion of the purchase price at closing and the remainder over a three year period in the form of an earn-out that is based on an adjusted EBITDA of Holding Company during each of those three years. No assets or stock of Advantage will be pledged or otherwise offered as security for any financing for the Proposed Acquisition.

(6) The basis and terms of the Purchase Agreement, including the nature and amount of consideration, were determined through arms' length negotiations among the representatives of the Applicants, on the one hand, and the representatives of Advantage, on the other hand, and their respective legal and other advisers.

(7) The Proposed Acquisition was approved by the Board of Directors of DSM and by the Board of Managers and the equity holders of Consolidated. DSM's Board of Directors retained the national valuation firm of Alvarez and Marsal to obtain a fairness opinion in support of the terms of the Unit Purchase Agreement.

(8) Following consummation of the Proposed Acquisition, DentaQuest and Consolidated will enter into a new Operating Agreement for Holding Company reflecting their respective ownership interests and membership rights and obligations. The Holding Company Board of Managers will consist of six individuals. DentaQuest will appoint four individuals to the Board and Consolidated will appoint two individuals to the Board.

(9) The Applicants have no present plans or proposals to cause Advantage to declare an extraordinary dividend, liquidate Advantage, sell any of Advantage's assets (other than in ordinary course), merge Advantage with any person or persons or make any other material changes in its corporate structure, business operations or management.

(10) Currently, the Applicants intend to continue the business of Advantage without any material modification to Advantage's existing plan of operations including its business or capital structure, its leadership, employees, contracts or affiliation agreements. Advantage will continue to operate as it has historically, acting as the dental insurer for the employees of all of the Advantage companies, as well as receiving revenue for the use

of its networks from PacificSource. There are no present plans for Advantage to offer any insurance products to the public or to make any other use of its insurance license. DentaQuest will continue to evaluate the quality and effectiveness of the ongoing operations of Advantage. If at some future point, following closing, changes are desirable, Advantage will file any required filing with the DFR.

(11) On the basis of the findings of fact above, the Director of the Department of Consumer and Business Services of the State of Oregon (the "Director") enters the following:

#### CONCLUSIONS OF LAW

(1) The Form A is properly supported by the required documents and meets the requirements of the Oregon Insurance Code for approval with respect to acquisitions and mergers pursuant to ORS 732.517 to 732.546.

(2) The Director finds that there is no evidence that:

(a) The activity is contrary to law or would result in a prohibited combination of risks or classes of insurance.

The acquisition of control of Advantage by the Applicants is permitted by ORS 732.517 to 732.546.

(b) The activity is inequitable or unfair to the policyholders or shareholders of any insurer involved in, or to any other person affected by, the proposed activity.

Advantage is the insurer involved in the Proposed Acquisition. The activity and consideration for the Proposed Acquisition is not inequitable or unfair to the policyholders or shareholders of Advantage or to any other person affected by the proposed activity. The Proposed Acquisition is part of a larger transaction whereby DSM will acquire an 80% controlling interest in Advantage Community Holding Company, LLC, which has (through its wholly-owned subsidiaries) (a) approximately forty owned dental clinics in Oregon, and (b) contracts to administer and arrange for dental services with sixteen Coordinated Care Organizations throughout the State of Oregon as well as the Oregon Health Plan, in addition to controlling Advantage.

The Proposed Acquisition will be effectuated pursuant to the terms of a Unit Purchase Agreement dated December 29, 2015 between a DSM subsidiary and Advantage Consolidated, LLC, which currently indirectly controls 100% of Advantage. The Unit Purchase Agreement has been approved by the Board of Directors of DSM, the Board of Managers and the equity holders of Advantage Consolidated, LLC.

The purchase price for the overall larger transaction was negotiated at arm's length. Prior to approving the Proposed Acquisition, DSM's Board of Directors obtained a fairness opinion in support of the terms of the Unit

Purchase Agreement from the national valuation firm of Alvarez and Marsal.

The Applicants do not anticipate any changes in the business plans of Advantage. Rather, Advantage will continue to operate as it has historically, acting as the dental insurer for the employees of all of the Advantage companies, as well as receiving revenue for the use of its networks from PacificSource. There are no current plans for Advantage to offer any insurance products to the public or to make any other use of its insurance license. Correspondingly, the policyholders of Advantage can expect to receive the same level of service as prior to the Proposed Acquisition because no material changes are anticipated with respect to the products or services which they receive from Advantage.

- (c) The activity would substantially reduce the security of and service to be rendered to policyholders of any domestic insurer involved in the proposed activity, or would otherwise prejudice the interests of such policyholders in this state or elsewhere.

The activity will not substantially reduce the security of and service to be rendered to policyholders of Advantage or otherwise prejudice the interests of such policyholders in this state or elsewhere. DSM is a Massachusetts not-for-profit corporation and, through its various subsidiaries, is one of the largest dental benefits administrators in the United States. DSM is regulated by the Massachusetts Commissioner of

Insurance, pursuant to Massachusetts General Laws Chapter 176E. Its subsidiaries are part of the holding company system regulated by the Massachusetts Commissioner of Insurance pursuant to the Massachusetts Insurance Holding Company Act. The financial information submitted at Exhibit 6 of the Form A demonstrates that DSM is adequately capitalized and the description of its business activities over the last five years in Item 2 of the Form A demonstrates that DSM is prudently managed.

- (d) The activity provides for a foreign or alien insurer to be an acquiring party, and the insurer cannot satisfy the requirements of this state for transacting an insurance business involving the classes of insurance affected by the activity.

The Proposed Acquisition does provide for a foreign insurer to be an acquiring party. Advantage currently meets the requirements for transacting business as a health care service contractor in Oregon. No evidence indicates that Advantage would become unable to satisfy the requirements for transacting business as a health care service contractor in Oregon as a result of the Proposed Acquisition.

- (e) The activity or its consummation would substantially diminish competition in insurance in this state or tend to create a monopoly.

The Applicants have no business currently in Oregon. Accordingly, the Proposed Acquisition will not substantially diminish competition of insurance in this state or another state or tend to create a monopoly.



(f) After the change of control or ownership, the domestic insurer to which the activity applies would not be able to satisfy the requirements for the issuance of a certificate of authority to transact the line or lines of insurance for which the insurer is currently authorized.

The Applicants have no plans to change the business or capital structure of Advantage. Consequently, Advantage's ability to satisfy the requirements for receiving a certificate of authority will not be impacted by the Proposed Acquisition.

(g) The financial condition of any acquiring party might jeopardize the financial stability of the insurer.

Proposed Acquisition will not jeopardize the financial stability of Advantage. The financial information submitted at Exhibit 6 of the Form A demonstrates that the Applicants are adequately capitalized.

(h) The plans or proposals that the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in the insurer's business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest.

Following the Proposed Acquisition, the Applicants do not plan any changes in Advantage's business plans and the Applicants have no plans or proposals to have Advantage declare an extraordinary dividend or to

liquidate Advantage, sell its assets, merge it with another person, or make any material changes in its corporate structure or management.

- (i) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the activity or its consummation.

There is nothing in the DFR's investigation or the biographical information provided regarding the persons that will control the operation of Advantage that suggests that the competence, experience and integrity of those persons who will control the operations of Advantage will be contrary to the interest of the policyholders of Advantage or the public.

- (j) The activity or its consummation is likely to be hazardous or prejudicial to the insurance-buying public.

There is nothing to suggest that the Proposed Acquisition will be hazardous or prejudicial to the insurance-buying public.

- (k) The activity is subject to other material and reasonable objections.

After considering all relevant information provided to the DFR, the DFR finds that there are no material or reasonable objections to the Proposed Acquisition.

## ORDER

Based on the foregoing Findings of Fact and Conclusions of Law, it is hereby ordered that:

- (1) The acquisition of control of Advantage by the Applicants is hereby approved;
- (2) The Applicants shall provide the DFR with a definitive set of the final closing documents within thirty days of the closing of the Proposed Acquisition;
- (3) The Applicants shall provide notice of any decision by the Applicants to relocate the headquarters of Advantage at least three business days prior to the announcement of such decision;
- (4) The Applicants shall advise the DFR if the Proposed Acquisition does not close within ninety days of the date hereof;
- (5) The Applicants shall cause to be paid the fees of any actuaries, accountants and other experts not otherwise a part of the DFR's staff that the DFR incurred in connection with the Proposed Acquisition;
- (6) Within thirty days of the closing of the Proposed Acquisition, the Applicants shall cause to be filed an amended holding company act statement;
- (7) Advantage shall submit an enterprise risk report under ORS 732.569 each year during which the Applicants control Advantage and an acknowledgment that Advantage and any affiliates that are within the Applicants' control will provide, at the Director's request, information the Director needs to evaluate enterprise risk to Advantage; and
- (8) The effective date of closing the Transaction shall be no sooner than sixty days after the date of this Order.

DATED this 1<sup>st</sup> day of August, 2016.



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LAURA N. CALI  
Oregon Insurance Commissioner  
Administrator Division of Financial  
Regulation

#### NOTICE

Pursuant to ORS 732.528 (6), any insurer or other Party to the proposed activity, including Advantage, within sixty days after receipt of a notice of approval or disapproval, may appeal the final order of the Director as provided in ORS 183.310 to 183.550. For purposes of the judicial review the specifications required to be set forth in the written notice from the Director will be deemed the findings of fact and conclusions of law of the DFR.