Delta Dental of California and Subsidiaries

Consolidated Financial Statements

December 31, 2013 and 2012

armanino

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Delta Dental of California
San Francisco, California

We have audited the accompanying consolidated financial statements of Delta Dental of California and Subsidiaries (a non-profit California corporation), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income and expense and comprehensive income, general reserves and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Delta Dental of California and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Armanino LLP

Armanino^LLP
San Francisco, California

April 8, 2014

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31	
	2013	**2012**
ASSETS		
Cash and cash equivalents	$ 338,157	$ 430,442
Marketable securities	704,848	426,137
	1,043,005	856,579
Premiums and other receivables		
Receivables from groups	330,504	320,758
Other receivables	28,217	24,474
	358,721	345,232
Property and equipment, net	240,177	297,158
Deferred compensation plans investments	37,057	37,366
Other assets	30,660	28,064
TOTAL ASSETS	$ 1,709,620	$ 1,564,399
LIABILITIES AND GENERAL RESERVES		
Liabilities		
Unpaid claims	$ 353,850	$ 385,389
Accounts payable and accrued expenses	318,808	287,781
Deferred revenue	68,053	32,787
Refundable group balances	159,965	167,612
Deferred compensation plans	37,057	37,366
Accrued retirement benefits	67,240	83,788
Other liabilities	13,860	12,177
	1,018,833	1,006,900
General reserves		
Accumulated other comprehensive loss	(23,694)	(64,578)
General reserves	714,481	622,077
	690,787	557,499
TOTAL LIABILITIES AND GENERAL RESERVES	$ 1,709,620	$ 1,564,399

The accompanying notes are an integral part of these consolidated financial statements.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND EXPENSE
AND COMPREHENSIVE INCOME
(In thousands)

	Years Ended December 31	
	2013	**2012**
Premiums and other income		
Commercial groups	$ 4,854,430	$ 4,599,904
State programs	669,480	1,050,794
Federal programs	459,904	423,990
	5,983,814	6,074,688
Administrative service contracts	(2,568,146)	(2,463,432)
	3,415,668	3,611,256
Investment income, net	17,096	15,177
Other expense, net	(9,688)	(1,971)
	3,423,076	3,624,462
Claims and operating expenses		
Claims incurred	5,228,254	5,357,960
Claims incurred on administrative service contracts	(2,568,146)	(2,463,432)
	2,660,108	2,894,528
Operating expenses	670,564	654,609
	3,330,672	3,549,137
Net income	92,404	75,325
Other comprehensive income		
Pension liability and post-retirement adjustments	16,803	3,896
Unrealized gains on securities	24,081	9,985
	40,884	13,881
Comprehensive income	$ 133,288	$ 89,206

The accompanying notes are an integral part of these consolidated financial statements.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF GENERAL RESERVES
(In thousands)

	Accumulated Other Comprehensive Income (Loss)	General Reserves	Total
BALANCE AT JANUARY 1, 2012	$ (78,459)	$ 546,752	$ 468,293
Net income	-	75,325	75,325
Pension liability and post-retirement adjustments	3,896	-	3,896
Net unrealized gains on securities	9,985	-	9,985
BALANCE AT DECEMBER 31, 2012	$ (64,578)	$ 622,077	$ 557,499
Net income	-	92,404	92,404
Pension liability and post-retirement adjustments	16,803	-	16,803
Net unrealized gains on securities	24,081	-	24,081
BALANCE AT DECEMBER 31, 2013	$ (23,694)	$ 714,481	$ 690,787

The accompanying notes are an integral part of these consolidated financial statements.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31	
	2013	**2012**
Cash flows from operating activities		
Net income	$ 92,404	$ 75,325
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	31,323	31,451
Amortization of bond premiums	5,954	1,457
Realized gains on securities	(407)	(563)
Disposal of assets	60,559	32,392
Changes in operating assets and liabilities		
Receivables from groups	(9,746)	(1,666)
Other receivables	(3,743)	5,605
Other assets	(2,596)	1,405
Unpaid claims	(31,539)	37,106
Accounts payable and accrued expenses	31,027	633
Deferred revenue	35,266	(4,178)
Refundable group balances	(7,647)	14,242
Accrued retirement benefits	255	(6,506)
Other liabilities	1,683	1,315
Net cash provided by operating activities	202,793	188,018
Cash flows from investing activities		
Purchases of marketable securities	(344,533)	(166,904)
Redemptions of marketable securities	84,356	66,906
Development and purchases of computer software systems	(27,138)	(22,469)
Purchases of property and equipment	(7,763)	(5,011)
Net cash used in investing activities	(295,078)	(127,478)
Net increase (decrease) in cash and cash equivalents	(92,285)	60,540
Cash and cash equivalents, beginning of year	430,442	369,902
Cash and cash equivalents, end of year	$ 338,157	$ 430,442
Supplemental disclosure		
Interest paid	$ 176	$ 178

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Organization

Delta Dental of California (Delta, or with its subsidiaries, referred to as the Company), is a non-profit California corporation regulated by the Department of Managed Health Care (DMHC). Delta has ownership in the following companies listed in the table below:

Company Name	% Ownership
DDC Insurance Holdings, Inc. (DDCIH)	100.0%
Delta Dental of Puerto Rico, Inc. (DDPR)	47.6%
Celebration Dental Services (CDS)	100.0%
PaCa Management. LLC (PaCa)	50.0%

Effective January 1, 2012, DDC assigned all of its interests in certain subsidiaries to DDCIH in order for the subsidiaries to properly enter into a Federal Tax Sharing agreement for the preparation of a consolidated federal tax return. Those subsidiaries included:

Company Name	% Ownership
Delta Dental Insurance Company (DDIC)	91.1%
Dentegra Insurance Company (DIC)	80.0%
Dentegra Insurance Company of New England (DICNE)	100.0%
The Alphas:	
Alpha Dental Programs, Inc.	100.0%
Alpha Dental of Alabama, Inc.	100.0%
Alpha Dental of Arizona, Inc.	100.0%
Alpha Dental of Nevada, Inc.	100.0%
Alpha Dental of New Mexico, Inc.	100.0%
Alpha Dental of Utah, Inc.	100.0%

DDCIH also holds 100% of the preferred stock of DDIC.

Delta, DDIC, DDPR and the Alphas underwrite and administer prepaid, cost reimbursement and capitation dental care programs. DIC is a single license entity authorized to offer insurance products in fifty jurisdictions. DIC-NE is a single license entity authorized to do business in five jurisdictions. CDS operates dental offices in Celebration, Florida. PaCa assists affiliates of Delta Dental of Pennsylvania (DDP) in the administration of their programs.

Delta and DDP are members of Dentegra Group Inc., a holding company that was formed for the purpose of providing management services for each company and their affiliated organizations.

2. Summary of Significant Accounting Policies

Principles of consolidation and basis of presentation

The consolidated financial statements include the accounts of Delta and all entities in which a controlling interest is held. All significant intercompany transactions and balances have been eliminated in consolidation.

Revenue recognition

The Company administers a variety of dental programs, with the major programs described as follows:

Retention/guaranteed administration
Under retention and guaranteed administration programs, the excess of subscriber premiums over dental claims and administrative fees is refundable to the subscriber group, whereas any excess of dental claims and administrative fees over subscriber premiums can be recovered from future premium rates or absorbed by the Company. Premium revenue is recognized during the coverage period.

Non-retention
Under non-retention programs, the Company retains any excess or absorbs any shortages incurred between subscriber premiums and dental claims incurred and administrative fees. Premium income is recognized during the coverage period.

Administrative services contracts (ASC)
Under ASC programs, the Company receives revenues from subscriber groups on a cost reimbursement basis plus administrative fees. The cost of the dental fees for these groups is charged as incurred and administrative fees are charged to the subscriber group based on a percentage of claims paid or a specific fee per eligible subscriber.

Capitation
Under capitation programs, the Company receives premium revenues from groups, and contracts with certain providers for agreed upon procedures for enrollees. Capitation fees are paid to providers during the contract period and are expensed as incurred. Premium income is recognized during the coverage period.

2. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

The Company considers all highly liquid debt instruments with a maturity of three months or less at purchase to be cash equivalents. The Company places its cash and temporary cash investments with high-credit quality financial institutions. At times, such investments may be in excess of the federally insured limits. The Company has not incurred losses related to these investments.

Marketable securities

The Company classifies certain investments in debt securities as held-to-maturity and, as such, they are carried at amortized cost. Premiums and discounts are amortized over the life of the related securities as an adjustment to yield using the scientific (constant yield) interest method. Certain debt and equity securities are classified as available-for-sale and are carried at fair value. Realized gains and losses on certain debt and equity securities are included in investment income using the specific identification method for determining the cost of securities sold.

Dividend and interest income is recognized when earned. A decline in the fair value of held-to-maturity securities below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. The Company performs regular analysis of its investments to determine the need to record impairment. The Company recorded an impairment charge of $0.7 million and $0.4 million at December 31, 2013 and 2012, respectively.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Company determines the fair value of its assets and liabilities on a recurring basis and segregates them between those assets and liabilities that are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities, which the reporting entity can access at the measurement date (Level 1), direct or indirect observable inputs other than Level 1 quoted prices (Level 2), or unobservable inputs to the extent that observable inputs are not available (Level 3).

2. Summary of Significant Accounting Policies (continued)

Fair value measurements (continued)

The following is a description of the Company's categorization of the inputs used in the recurring fair value measurements of its financial assets included in its consolidated balance sheet as of December 31, 2013:

Level 1 - Represents financial assets whose fair value is determined based upon observable unadjusted quoted market prices for identical financial assets in active markets that the Company has the ability to access. The Company considers U.S. Treasuries and equity securities as Level 1 assets.

Level 2 - Represents financial assets whose fair value is determined based upon: quoted market prices for similar assets in active markets; quoted market prices for identical assets in inactive markets; inputs other than quoted market prices that are observable for the asset such as interest rates or yield curves; or other inputs derived principally from or corroborated from other observable market information. The Company considers U.S. Government agencies, municipal bonds, mortgage-backed securities, collateralized mortgage obligations, asset-backed securities, corporate bonds, and convertible bonds as Level 2 assets.

Level 3 - Represents financial assets whose fair value is determined based upon inputs that are unobservable, including the Company's own determinations of the assumptions that a market participant would use in pricing the asset. The Company currently does not own any assets measured as Level 3 assets.

The Company's investments in fixed income and equity securities are valued through the use of a nationally recognized pricing service. The Company believes the scope of work performed when using data from outside parties is sufficient to validate the prices such that it does not rely upon these independent pricing services as experts, nor would it seek indemnification from them in the event the prices provided were deemed inappropriate. Where independent pricing services provide fair values, the Company has obtained an understanding of the methods, models and inputs used in pricing, and have controls in place to validate that amounts provided represent current exit values. The Company's controls include, but are not limited to, initial and ongoing evaluation of methodologies used by outside parties as well as other techniques and assumptions to calculate fair value and comparing the fair value estimates to the Company's knowledge of the current market. Fixed income securities include U.S. Treasuries, agencies backed by the U.S. Government, municipal bonds, mortgage-backed securities, collateralized mortgage obligations, asset-backed securities, and corporate bonds.

2. Summary of Significant Accounting Policies (continued)

Premiums and other receivables

Premiums and other receivables are monitored by management on an on-going basis and are written off by the Company when it has been determined that all available collection avenues have been exhausted. The allowance for doubtful accounts at December 31, 2013 and 2012 was $9.6 million and $10.3 million, respectively.

Property and equipment

Property and equipment, including computer software systems, are carried at cost and depreciated by the straight-line method over the shorter of the estimated useful lives of the assets, ranging from three to ten years, or the lease term. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals, leasehold improvements and betterments are capitalized.

Goodwill and other intangible assets

Included in other assets are goodwill and intangible assets of $7.6 million as of December 31, 2013 and 2012. These assets represent goodwill on Delta's capitation line of business and the excess of the purchase price of DIC, DIC-NE and CDS over the net assets acquired. Under accounting guidance, the Company does not amortize goodwill and other intangible assets with indefinite lives, however, Delta reviews the assets for impairment annually and also whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. There were no impairments at December 31, 2013 and 2012.

Long-lived assets

The Company reviews long-lived assets held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. The Company recorded an impairment charge of $60.6 million and $32.3 million at December 31, 2013 and 2012, respectively.

2. Summary of Significant Accounting Policies (continued)

Deferred compensation plans

Delta provides deferred compensation plans, other than pension plans, for Delta dentists. Investments and liabilities related to these programs consist of participant contributions and investment income. Contributions to the dentists' plan were discontinued in 1992.

Liability for unpaid claims

Liability for unpaid claims represents estimated unpaid dental services rendered and reported to the Company, as well as a provision for dental claims incurred but not reported prior to the end of the year. The provision is actuarially determined based upon claims experience. The provision for claims incurred but not reported amounted to $259.2 million and $286.6 million at December 31, 2013 and 2012, respectively.

While management believes that the liability for unpaid claims at December 31, 2013 and 2012 is adequate to cover the ultimate net cost of claims, the liability is based on estimates and the amount ultimately paid may be more or less than the estimates. Adjustments and changes resulting from revisions of these estimates are reported in the period in which the revisions are made.

Deferred revenue

Premiums received in advance for the unexpired contractual coverage periods are reflected in the accompanying consolidated balance sheets as deferred revenue.

Refundable group balances

Certain contracts provide that dues received in excess of claims incurred and administrative fees are either refundable to the groups at the expiration of the agreements or applied against future dues payments.

Pension and other post-retirement benefits

The Company provides a range of benefits to eligible and retired employees, including pensions and post-retirement healthcare. The Company records annual amounts relating to these plans based on calculations which include various actuarial assumptions such as discount rates, expected rates of return on plan assets, compensation increases, turnover rates and healthcare cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when appropriate. As required, the effect of the modifications is generally amortized over future periods.

2. Summary of Significant Accounting Policies (continued)

Income tax status

Delta is a tax-exempt organization organized under Section 501(c)(4) of the Internal Revenue Code and, as such, no provision for income taxes has been made in the financial statements.

Current accounting guidance clarifies how uncertainties in tax positions are recognized in an entity's financial statements. The guidance prescribes a recognition threshold and measurement process for tax positions taken or expected to be taken in a tax return. Positions include those with respect to the Company's tax exempt status and with respect to income taxes on unrelated business income. The Company has evaluated the impact of the accounting pronouncement on positions taken and has determined that there are no impacts on the Company's financial statements.

Estimates and assumptions

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses reported for the periods presented. The Company regularly assesses these estimates and, while actual results may differ, management believes these estimates are reasonable.

Comprehensive income (loss)

Accumulated other comprehensive income (loss) of the Company consists of net unrealized gains or losses on equity securities and adjustments to pension and other post-retirement benefit plans.

Reclassification

Certain reclassifications have been made to prior year balances to conform with current year presentation.

3. Marketable Securities

The following tables (in thousands) set forth the amortized cost, unrealized gains and losses, and fair value for debt and equity securities:

	December 31, 2013			
		Unrealized		
	Cost	Gains	Losses	Fair Value
Held-to-maturity				
Debt securities				
Corporate & municipalities	$ 429,385	$ 6,435	$ 10,692	$ 425,128
U.S. government & agencies	26,145	407	212	26,340
Mortgage backed	33,189	2,585	125	35,649
Certificate of deposits	650	-	-	650
	489,369	9,427	11,029	487,767
Available-for-sale				
Equity securities	187,390	28,484	395	215,479
	$ 676,759	$ 37,911	$ 11,424	$ 703,246

	December 31, 2012			
		Unrealized		
	Cost	Gains	Losses	Fair Value
Held-to-maturity				
Debt securities				
Corporate & municipalities	$ 241,746	$ 10,215	$ 423	$ 251,538
U.S. government & agencies	36,640	2,403	4	39,039
Commercial mortgage backed	19,273	934	-	20,207
Mortgage backed	13,898	1,543	178	15,263
Certificate of deposits	550	-	-	550
	312,107	15,095	605	326,597
Available-for-sale				
Debt securities				
Corporate & municipalities	3,602	-	-	3,602
U.S. government & agencies	1,604	-	-	1,604
	5,206	-	-	5,206
Equity securities	104,817	4,007	-	108,824
	110,023	4,007	-	114,030
	$ 422,130	$ 19,102	$ 605	$ 440,627

3. Marketable Securities (continued)

The contractual maturities of debt securities at December 31, 2013 are summarized in the table (in thousands) below:

	Amortized Cost	Fair Value
Due within one year	$ 34,332	$ 34,576
Due after one year through five years	147,842	153,252
Due after five years through ten years	303,472	296,354
Due after ten years	3,723	3,585
	$ 489,369	$ 487,767

4. Fair Value

The following table (in thousands) reflects the major categories of assets measured at fair value on a recurring basis during the years ended December 31, 2013 and 2012, using quoted prices in active markets for identical assets (Level 1) or significant other observable inputs (Level 2). The Company currently does not own assets measured upon significant unobservable inputs (Level 3).

	Level 1: Quoted For Identical Assets	Level 2: Significant Observable Inputs	Total at December 31, 2013
Equity securities	$ 215,479	$ -	$ 215,479

	Level 1: Quoted For Identical Assets	Level 2: Significant Observable Inputs	Total at December 31, 2012
Equity securities	$ 108,824	$ -	$ 108,824
Available-for-sale debt securities	-	5,206	5,206
	$ 108,824	$ -	$ 114,030

4. Fair Value (continued)

Realized gains included in earnings for the year ended December 31, 2013 and 2012 are reported in investment income as follows (in thousands):

	2013	2012
Realized gains, net	$ 407	$ 563

5. Property and Equipment

Property and equipment as of December 31 are summarized in the table (in thousands) below:

	2013	2012
Leasehold improvements	$ 31,335	$ 30,095
Computer equipment and office furniture	79,073	74,469
Computer software systems	418,302	464,342
	528,710	568,906
Less accumulated depreciation and amortization	(288,533)	(271,748)
Property and equipment, net	$ 240,177	$ 297,158

Depreciation and amortization expense for 2013 and 2012 was $31.3 million and $31.4 million, respectively.

6. State and Federal Programs

On August 30, 2004, the State of California awarded Delta a four-year Medi-Cal dental risk contract (Denti-Cal) with the option of three one-year extensions. During 2008, the State of California exercised all three one-year extension options, resulting in the contract expiring on June 30, 2012. On August 4, 2011, the State of California awarded Delta a five-year Medi-Cal dental risk contract (Denti-Cal) with the option of four one-year extensions. This contract was to begin on July 1, 2012. On July 26, 2012, the State of California Department of Health Care Services (DHCS) informed Delta of their intent to suspend the new contract and extend the old contract for twelve months through June 30, 2013. On July 1, 2013, an additional two-year extension was granted through June 30, 2015.

6. State and Federal Programs (continued)

The terms of the Denti-Cal contract, including extensions, limit Delta's annual underwriting gain or loss to $4.65 million. Delta is also required to maintain a minimum tangible net equity balance, as defined in the contract, of $112.1 million and $126.5 million for 2013 and 2012, respectively. Delta is also required to maintain segregated investments of $25.6 million and $22.4 million for 2013 and 2012, respectively, and a letter of credit of $5.0 million. Delta was in compliance with these contract requirements during 2013 and 2012.

Denti-Cal revenues included in State programs were $651.0 million and $555.9 million and incurred claims were $576.8 million and $499.7 million for the years ended December 31, 2013 and 2012, respectively.

Delta also provides dental services to multiple county programs within the State of California with varying contract terms. The combined program revenues included in State programs were $33.1 million and $98.7 million and incurred claims were $26.5 million and $80.7 million for the years ended December 31, 2013 and 2012, respectively.

Delta contracts with the United States Department of Defense (DOD) to provide dental benefits to retirees of the uniformed services and their dependents through September 2013. During 2012 this contract was extended through December 31, 2013. In November 2012, the DOD awarded Delta a new five-year contract effective January 1, 2014, expiring on December 31, 2018. The contract is underwritten and administered by Delta through risk sharing and administrative agreements. The Company's share of the underwriting risk under the contract is 50.55%. The program revenues included in Federal programs were $309.4 million and $288.5 million and incurred claims were $225.1 million and $212.3 million for the years ended December 31, 2013 and 2012, respectively.

7. Reinsurance

DDIC has been participating in a contract with the State of Texas since April 1, 2006. Prior to March 1, 2012, all gains are returned to the State of Texas with the exception of a contracted fixed fee per eligible. Current year gains can be used to offset losses from the prior year's contract. The dental portion of the Texas CHIP Dental Services is underwritten by DDIC and administered by Delta subject to regulations by the Texas Health and Human Services Commission (HHSC). Delta entered into a quota share reinsurance agreement with DDIC. Under this agreement, 100% of the risk associated with the underwriting of this contract is ceded to Delta.

The Texas CHIP Dental services contract was combined with the state's Medicaid program and DDIC was one of three carriers awarded this combined contract effective March 1, 2012. This contract was underwritten by DDIC and administered by Delta subject to the regulations of Texas HHSC. Delta maintains a quota share reinsurance agreement with DDIC and assumes 100% of the risk of the combined program. Net underwriting and administrative gains are shared between Texas HHSC and Delta in accordance with a tiered

7. Reinsurance (continued)

sharing formula as defined by the contract. The Texas HHSC and DDIC ended the contract effective November 30, 2012. The combined program revenues included in State programs were $396.1 million and incurred claims were $343.4 million for the year ended December 31, 2012.

The Company has a multi-state dental contract covering all fifty states, Puerto Rico and the U.S. Virgin Islands with the AARP Dental Insurance Trust to provide dental insurance for AARP members. Direct underwriting by selective state is assigned among DDIC, DIC and DICNE with Delta providing operational and administrative services for this contract. Delta has also entered into a 56% quota share reinsurance agreement with DDIC, DIC and DIC-NE. In addition, DDIC, DIC, and DIC-NE have each entered into a 33% and 10% quota share reinsurance agreement with Hannover Life and Reassurance Company of America (HLRC) and Renaissance Life and Health Insurance Company of America (RLHIC), respectively. As part of this agreement, Delta maintains a trust account balance for the purpose of collateralization of the reinsurance credit. The AARP program revenues included in Federal programs were $146.7 million and $134.1 million and incurred claims of $71.5 million and $67.9 million for the years ended December 31, 2013 and 2012, respectively.

DDIC and the United States Department of Veterans Affairs (VA) have entered into a dental service contract (VA HERO) whereby DDIC has agreed to arrange for eligible VA patients to obtain access to dental services from Delta Dental network dentists and to pay for those dental services in return for a fixed price per procedure reimbursement from the VA when such dental services are not otherwise available at the VA. The VA terminated this program on September 30, 2012. DDIC has multiple quota share agreements with certain Delta Dental Plan Association (DDPA) members. Under the terms of the agreements, DDIC ceded 62% of all premiums earned less administrative fees and claims incurred, to the participating DDPA members. The VA HERO program revenues included in Federal programs were $1.3 million and incurred claims of $1.0 million for the year ended December 31, 2012.

Amounts ceded by reinsurance contracts do not relieve the Company from its obligations to policy holders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities and economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

8. Liability for Unpaid Claims

The liability for unpaid claims is based on the estimated amount payable on claims reported prior to the balance sheet date that have not yet been settled, claims reported subsequent to the balance sheet date that have been incurred during the period then ended and an estimate based on experience incurred but unreported claims relating to such period.

Activity in the liability for unpaid claims is summarized in the table below (in thousands):

	2013	2012
Balance, January 1	$ 385,389	$ 348,283
Incurred related to:		
Current year	5,313,097	5,370,750
Prior years	(84,843)	(12,790)
	5,228,254	5,357,960
Paid related to:		
Current year	4,959,247	4,985,362
Prior years	300,546	335,492
	5,259,793	5,320,854
Balance, December 31	$ 353,850	$ 385,389

As a result of changes in estimate of insured events in prior years, the liability for unpaid claims decreased by $84.8 million and $12.8 million in 2013 and 2012, respectively. The Company retains the risk and received the benefit of $33.0 million and $9.7 million from these reserve changes for December 31, 2013 and 2012, respectively.

9. Commitments and Contingencies

The Company has operating leases for office facilities, equipment and computer hardware. Future minimum lease payments required under these agreements are summarized in the table below (in thousands):

Year Ending December 31		
2014	$	28,307
2015		24,630
2016		21,989
2017		19,882
2018		11,790
Thereafter		14,121

Rent expense, including software licensing fees, was $30.6 million and $27.8 million in 2013 and 2012, respectively.

Delta maintained a $50.0 million unsecured revolving bank line of credit at the bank's prime rate and DDIC maintained a $10.0 million unsecured revolving bank line of credit at an interest rate of LIBOR plus 1.50%. These lines of credit are used for periodic short-term cash flow requirements. There were no outstanding balances at December 31, 2013 and 2012.

Delta maintains $24.0 million in available unsecured letters of credit with $6.5 million and $9.1 million outstanding at December 31, 2013 and 2012, respectively.

10. Related Party Transactions

DDP performs claims processing functions for Delta and DDIC under administrative services agreement. The Company paid DDP $9.6 million and $7.2 million for processing functions for 2013 and 2012, respectively.

In accordance with an administrative services agreement for the AARP contract, Delta reimburses DDP for 100% of the pooled administrative costs incurred by DDP. For the years ended 2013 and 2012, Delta paid DDP $3.6 million and $4.3 million, respectively.

11. Minimum Tangible Net Equity Requirements

Under the requirements of the DMHC, Delta is required to maintain a minimum tangible net equity balance, as defined by the DMHC, of $84.9 million and $98.6 million at December 31, 2013 and 2012, respectively. Delta's tangible net equity balance was $592.3 million and $477.0 million at December 31, 2013 and 2012, respectively, and exceeded the DMHC's requirements.

12. Employee Benefit Plans

The Company sponsors various plans for their employees. These plans include a qualified cash balance defined benefit pension plan and a post-retirement health benefit plan. The Company also maintains a non-qualified, defined benefit plan, Executive Supplemental Pension Plan (ESPP), for certain members of management. The ESPP is unfunded, however the Company has established a rabbi trust which protects the interest of the plan participants.

The Company credits 5% of annual compensation to participant accounts of the cash balance defined benefit pension plan (the Cash Balance Plan). The Company's funding policy for this plan is to contribute, annually, at a minimum, amounts required by applicable laws and regulations. On January 1, 2013, the Cash Balance Plan was frozen to new contributions and replaced with a 6% contribution to the 401(k) Plan noted below for non-union employees.

The Company's post-retirement health benefit plan is offered to eligible retired employees and their survivors. The plan is unfunded and claims are paid from Company funds.

The Company recognized a gain to accumulated other comprehensive income of $16.8 million and $3.9 million for the years ended December 31, 2013 and 2012, respectively, due to pension and post-retirement adjustments.

The Company participates in a 401(k) Plan (the Plan) that is available to all employees. Employees may contribute up to 50% of compensation to the Plan up to the maximum by law and the Company will match 50% of the employees' contributions to the Plan up to 6% of eligible compensation, which is limited to $255,000. The annual expense for the 401(k) Plan was $13.7 million and $3.7 million, respectively, for the years ended December 31, 2013 and 2012. The Company may elect to make discretionary contributions to the Plan. The Company elected to reserve for a discretionary contribution in the amount of $10.1 million at December 31, 2013.

12. Employee Benefit Plans (continued)

The following tables (in thousands) set forth the combined plans' total projected benefit obligations, weighted average assumptions used to determine the benefit obligation, fair value of plan assets, and the funded status as of the measurement date of September 30.

	Pension		Post-Retirement Health	
	2013	2012	2013	2012
Change in benefit obligation				
Benefit obligation, beginning of year	$ 221,373	$ 216,192	$ 28,373	$ 24,103
Service cost	635	5,152	1,450	1,143
Interest cost	7,674	8,801	1,174	1,118
Actuarial (gain)/loss	7,228	17,801	(6,488)	2,791
Gross benefits paid	(1,209)	(11,786)	(795)	(782)
Administrative expenses paid	(183)	(209)	-	-
Curtailments	(61)	(4,249)	-	-
Settlements	(9,094)	(10,330)	-	-
Benefit obligation, end of year	$ 226,363	$ 221,372	$ 23,714	$ 28,373
Accumulated benefit obligation, end of year	$ 217,269	$ 211,269	N/A	N/A

12. Employee Benefit Plans (continued)

	Pension		Post-Retirement Health	
	2013	2012	2013	2012
Weighted-average assumptions used to determine benefit obligation at end of year:				
Qualified plan				
- Discount rate	4.24%	3.56%	4.89%	3.99%
- Rate of compensation increase	2.50%	5.00%	N/A	N/A
Non-qualified plan				
- Discount rate	3.71%	3.48%	N/A	N/A
- Rate of compensation increase	4.50%	4.50%	N/A	N/A
Cash balance interest credit rate	0.10%	0.22%	N/A	N/A
Health care cost trend rate				
- Initial rate	N/A	N/A	7.75%	8.00%
- Ultimate rate	N/A	N/A	5.00%	5.00%
- Years to ultimate	N/A	N/A	7	7
Effect of one-percentage point change in assumed health care cost trend rate on post retirement obligation				
- Increase	N/A	N/A	$ 967	$ 1,165
- Decrease	N/A	N/A	$ (798)	$ (957)
Change in plan assets				
Fair value of plan assets, beginning of year	$ 165,958	$ 146,104	$ -	$ -
Actual return on plan assets	26,977	19,324	-	-
Employer contributions	388	22,855	795	782
Gross benefits paid	(1,209)	(11,786)	(795)	(782)
Settlements	(9,094)	(10,330)	-	-
Administrative expenses paid	(183)	(209)	-	-
Fair value of plan assets, end of year	$ 182,837	$ 165,958	$ -	$ -

12. Employee Benefit Plans (continued)

The following tables (in thousands) provide the amounts recognized in the consolidated balance sheets as of December 31:

	Pension		Post-Retirement Health	
	2013	2012	2013	2012
Funded status, end of year				
Fair value of plan assets	$ 182,836	$ 165,958	$ -	$ -
Benefit obligations	(226,342)	(221,372)	(23,714)	(28,373)
Funded status	$ (43,506)	$ (55,414)	$ (23,714)	$ (28,373)
Amounts recognized in the consolidated balance sheets:				
Current liability	$ (7,876)	$ (453)	$ (811)	$ (795)
Noncurrent liability	(35,649)	(54,961)	(22,903)	(27,578)
	$ (43,525)	$ (55,414)	$ (23,714)	$ (28,373)
Accumulated other comprehensive income:				
Prior service credit	$ (7,915)	$ (10,332)	$ (13,824)	$ (17,093)
Unamortized net loss	64,834	79,881	8,688	16,130
Accumulated other comprehensive income	$ 56,919	$ 69,549	$ (5,136)	$ (963)

The following table provides the asset allocation by asset category for the years ending December 31, along with the target allocation:

	Target Allocation		Actual Allocation	
	2013	2012	2013	2012
Equity securities	55%	55%	57%	56%
Debt securities	43%	43%	41%	42%
Real estate	2%	2%	2%	2%

12. Employee Benefit Plans (continued)

The following tables (in thousands) provide the components of net periodic costs and the weighted-average assumptions used to determine net periodic cost for the years ending December 31:

	Pension		Post-Retirement Health	
	2013	2012	2013	2012
Components of net periodic benefit cost:				
Service cost	$ 635	$ 5,152	$ 1,450	$ 1,143
Interest cost	7,674	8,801	1,174	1,118
Expected return on plan assets	(12,035)	(11,302)	-	-
Amortization:				
Actuarial (gain)/loss	5,349	6,701	953	835
Prior service (credit)/cost	(3,579)	(3,702)	(3,269)	(3,269)
Curtailment (gain)/loss	1,163	3,269	-	-
Settlement (gain)/loss	1,922	8,384	-	-
Net periodic benefit cost	$ 1,129	$ 17,303	$ 308	$ (173)
Weighted-average assumptions used to determine net periodic cost:				
Qualified plan				
- Discount rate	3.56%	4.17%	3.99%	4.50%
- Rate of compensation increase	5.00%	5.00%	N/A	N/A
Non-qualified plan				
- Discount rate	3.48%	3.99%	N/A	N/A
- Rate of compensation increase	4.50%	4.50%	N/A	N/A
Expected long-term rate of return on plan assets	7.50%	7.50%	N/A	N/A
Cash balance interest credit rate:				
Minimum balance	3.80%	2.37%	N/A	N/A
Ongoing balance	0.10%	0.22%	N/A	N/A
Health care cost trend rate				
- Initial rate	N/A	N/A	8.00%	8.25%
- Ultimate rate	N/A	N/A	5.00%	5.00%
- Year of ultimate trend rate	N/A	N/A	2020	2020
Effect of one-percentage point change in assumed health care cost trend rate on aggregate service and interest cost (in thousands)				
- Increase	N/A	N/A	$ 132	$ 112
- Decrease	N/A	N/A	$ (104)	$ (89)

12. Employee Benefit Plans (continued)

The following table (in thousands) provides information about the expected cash flows for the years ending December 31:

	Pension	Post-Retirement Health
Expected cash flows:		
Expected employer contributions	$ 8,021	$ 830
Expected benefits payments		
2014	24,293	830
2015	15,415	852
2016	15,401	902
2017	14,597	977
2018	12,981	1,053
2019 to 2023	93,921	6,657

13. Mexico Operations

In order to meet the need for cross border access to dental care, Delta has been authorized by its Board to fund the formation of a Mexican specialized health insurer in an amount not to exceed $26.0 million less any amount funded by DDP. To date, funding of $18.3 million has been provided. DIC holds a 100% interest in Dentegra Insurance Holdings, LLC (DIH), a California limited liability corporation. DIC also holds a 99% interest in Dentegra Seguros Dentales S.A. (DSD) with the remaining 1% held by DIH. DSD underwrites and administers dental insurance contracts in Mexico. DIC also has a 98% interest in Servicios Dentales Dentegra S.A. de C.V. (SDD). SDD provides claims processing and administrative services to DSD and is located in Mexico City, Mexico. DIH holds the remaining 2% of SDD.

14. Subsequent Events

The Company has evaluated subsequent events through April 8, 2014, the date the consolidated financial statements were available to be issued. The Delta cash balance defined benefit pension plan was amended to stop the employer contribution credits of 5% of eligible annual compensation to the account of union employees after January 31, 2014. In addition, effective February 1, 2014, the Delta 401(k) Plan was amended to add an employer paid retirement contribution of 6% of eligible compensation for union employees. As of April 8, 2014, the Company did not have any other subsequent events that require recognition or disclosure.

SUPPLEMENTARY INFORMATION

armanino

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Delta Dental of California
San Francisco, California

We have audited the consolidated financial statements of Delta Dental of California, as of and for the years ended December 31, 2013 and 2012, and our report thereon dated April 8, 2014, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, and results of operations of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Armanino LLP

Armanino LLP
San Francisco, California

April 8, 2014

An independent firm associated with
MOORE STEPHENS

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEETS
(In thousands)

	December 31, 2013										December 31, 2012
	DDC	**DDIC**	**DIC**	**DICNE**	**Alphas**	**DDPR**	**CDS**	**PACA**	**Eliminations**	**Consolidated**	**Consolidated**
ASSETS											
Cash and cash equivalents	$ 247,784	$ 42,604	$ 31,155	$ 4,705	$ 5,602	$ 6,062	$ 236	$ 9	$ -	$ 338,157	$ 430,442
Marketable securities	592,783	92,411	6,430	1,279	3,680	7,765	-	500	-	704,848	426,137
	840,567	135,015	37,585	5,984	9,282	13,827	236	509	-	1,043,005	856,579
Premiums and other receivables											
Receivables from groups	249,224	70,788	5,344	31	1,075	1,240	-	-	2,802	330,504	320,758
Other receivables	41,837	10,279	12,232	360	1,121	260	448	3,458	(41,778)	28,217	24,474
	291,061	81,067	17,576	391	2,196	1,500	448	3,458	(38,976)	358,721	345,232
Property and equipment, net	236,225	1,239	1,362	-	-	155	1,196	-	-	240,177	297,158
Deferred compensation plans investments	37,057	-	-	-	-	-	-	-	-	37,057	37,366
Other assets	170,375	3,105	1,060	539	14	35	180	-	(144,648)	30,660	28,064
TOTAL ASSETS	$ 1,575,285	$ 220,426	$ 57,583	$ 6,914	$ 11,492	$ 15,517	$ 2,060	$ 3,967	$ (183,624)	$ 1,709,620	$ 1,564,399
LIABILITIES AND GENERAL RESERVES											
Liabilities											
Unpaid claims	$ 292,174	$ 58,637	$ 1,593	$ 1	$ 885	$ 560	$ -	$ -	$ -	$ 353,850	$ 385,389
Accounts payable and accrued expenses	252,595	70,689	19,591	425	1,909	1,114	455	3,849	(31,819)	318,808	287,781
Deferred revenue	66,180	959	345	5	488	76	-	-	-	68,053	32,787
Refundable group balances	159,965	-	-	-	-	-	-	-	-	159,965	167,612
Deferred compensation plans	37,057	-	-	-	-	-	-	-	-	37,057	37,366
Accrued retirement benefits	67,240	-	-	-	-	-	-	-	-	67,240	83,788
Notes payable	-	45,750	20,000	-	-	-	-	-	(65,750)	-	-
Other liabilities	9,287	3,148	-	-	-	520	905	-	-	13,860	12,177
	884,498	179,183	41,529	431	3,282	2,270	1,360	3,849	(97,569)	1,018,833	1,006,900
Capital and general reserves											
General reserves	714,481	19,921	(13,267)	33	3,853	2,339	250	(18,274)	5,145	714,481	622,077
Accumulated other comprehensive income (loss)	(23,694)	1,877	(206)	-	-	-	-	241	(1,912)	(23,694)	(64,578)
Preferred stock	-	10,500	-	-	-	-	-	-	(10,500)	-	-
Common stock	-	1,647	2,600	2,000	33	5,454	450	-	(12,184)	-	-
Additional paid-in capital	-	7,298	26,927	4,450	4,324	5,454	-	18,151	(66,604)	-	-
	690,787	41,243	16,054	6,483	8,210	13,247	700	118	(86,055)	690,787	557,499
TOTAL LIABILITIES AND GENERAL RESERVES	$ 1,575,285	$ 220,426	$ 57,583	$ 6,914	$ 11,492	$ 15,517	$ 2,060	$ 3,967	$ (183,624)	$ 1,709,620	$ 1,564,399

See Independent Auditors' Report on Supplementary Information.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES
CONSOLIDATING STATEMENTS OF INCOME AND EXPENSE AND COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Year Ended December 31, 2013										Year Ended December 31, 2012
	DDC	**DDIC**	**DIC**	**DIC-NE**	**Alphas**	**DDPR**	**CDS**	**PACA**	**Eliminations**	**Consolidated**	**Consolidated**
Premiums and other income											
Commercial groups	$ 3,675,741	$ 1,133,405	$ 16,242	$ -	$ 15,339	$ 13,543	$ -	$ 1,060	$ (900)	$ 4,854,430	$ 4,599,904
State programs	668,715	762	-	-	-	-	-	-	3	669,480	1,050,794
Federal programs	373,193	77,489	9,013	210	-	-	-	-	(1)	459,904	423,990
	4,717,649	1,211,656	25,255	210	15,339	13,543	-	1,060	(898)	5,983,814	6,074,688
Administrative service contracts	(1,954,755)	(610,056)	-	-	-	(4,235)	-	-	900	(2,568,146)	(2,463,432)
	2,762,894	601,600	25,255	210	15,339	9,308	-	1,060	2	3,415,668	3,611,256
Investment income, net	16,730	2,121	617	20	78	223	-	7	(2,700)	17,096	15,177
Other income (expense), net	(34,232)	8	975	42	128	811	6,642	37,135	(21,197)	(9,688)	(1,971)
	2,745,392	603,729	26,847	272	15,545	10,342	6,642	38,202	(23,895)	3,423,076	3,624,462
Claims and operating expenses											
Claims incurred	4,139,632	1,063,638	7,759	14	9,573	8,538	-	-	(900)	5,228,254	5,357,960
Claims incurred on administrative service contracts	(1,954,755)	(610,056)	-	-	-	(4,235)	-	-	900	(2,568,146)	(2,463,432)
	2,184,877	453,582	7,759	14	9,573	4,303	-	-	-	2,660,108	2,894,528
Operating expenses	468,111	133,081	21,017	223	3,999	5,293	6,896	36,664	(4,720)	670,564	654,609
	2,652,988	586,663	28,776	237	13,572	9,596	6,896	36,664	(4,720)	3,330,672	3,549,137
Net income (loss)	92,404	17,066	(1,929)	35	1,973	746	(254)	1,538	(19,175)	92,404	75,325
Other comprehensive gain (loss)											
Pension liability and post-retirement adjustments	16,803	-	-	-	-	-	-	-	-	16,803	3,896
Unrealized gains (losses) on securities	24,081	2,370	-	-	-	(600)	-	113	(1,883)	24,081	9,985
Loss on foreign currency translation	-	-	(342)	-	-	-	-	-	342	-	-
	40,884	2,370	(342)	-	-	(600)	-	113	(1,541)	40,884	13,881
Comprehensive income (loss)	$ 133,288	$ 19,436	$ (2,271)	$ 35	$ 1,973	$ 146	$ (254)	$ 1,651	$ (20,716)	$ 133,288	$ 89,206

See Independent Auditors' Report on Supplementary Information.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES (ALPHAS)
CONSOLIDATING BALANCE SHEETS
(In thousands)

	December 31, 2013							December 31, 2012
	Alpha Dental Programs, Inc.	Alpha Dental Alabama	Alpha Dental of Arizona	Alpha Dental of Nevada	Alpha Dental of New Mexico	Alpha Dental of Utah	Total	Total
ASSETS								
Cash and cash equivalents	$ 4,047	$ 178	$ 171	$ 511	$ 179	$ 516	$ 5,602	$ 3,009
Marketable securities	1,874	386	301	373	144	602	3,680	3,343
	5,921	564	472	884	323	1,118	9,282	6,352
Premiums and other receivables								
Receivables from groups	988	2	44	29	1	11	1,075	629
Other receivables	1,002	4	78	27	2	8	1,121	1,658
	1,990	6	122	56	3	19	2,196	2,287
Other assets	12	-	1	-	1	-	14	258
TOTAL ASSETS	$ 7,923	$ 570	$ 595	$ 940	$ 327	$ 1,137	$ 11,492	$ 8,897
LIABILITIES AND GENERAL RESERVES								
Liabilities								
Unpaid claims	$ 762	$ 1	$ 32	$ 34	$ 10	$ 46	$ 885	$ 846
Accounts payable and accrued expenses	1,585	5	96	89	26	108	1,909	1,530
Deferred revenue	469	-	-	-	-	19	488	284
	2,816	6	128	123	36	173	3,282	2,660
Capital and general reserves								
General reserves	4,413	363	170	(865)	(63)	(165)	3,853	1,881
Common stock	1	1	-	20	1	10	33	33
Additional paid-in capital	693	200	297	1,662	353	1,119	4,324	4,323
	5,107	564	467	817	291	964	8,210	6,237
TOTAL LIABILITIES AND GENERAL RESERVES	$ 7,923	$ 570	$ 595	$ 940	$ 327	$ 1,137	$ 11,492	$ 8,897

See Independent Auditors' Report on Supplementary Information.

DELTA DENTAL OF CALIFORNIA AND SUBSIDIARIES (ALPHAS)

CONSOLIDATING STATEMENTS OF INCOME AND EXPENSE

(In thousands)

	Year Ended December 31, 2013							Year Ended December 31, 2012
	Alpha Dental Programs, Inc.	Alpha Dental Alabama	Alpha Dental of Arizona	Alpha Dental of Nevada	Alpha Dental of New Mexico	Alpha Dental of Utah	Total	Total
Premiums and other income								
Commercial groups	$ 13,774	$ 24	$ 713	$ 531	$ 64	$ 233	$ 15,339	$ 13,275
Investment income, net	37	9	9	6	4	13	78	70
Other income (expense), net	107	1	1	10	6	3	128	(13)
	13,918	34	723	547	74	249	15,545	13,332
Claims and operating expenses								
Claims incurred	8,520	7	485	327	41	193	9,573	8,856
Operating expenses	3,588	13	154	168	28	48	3,999	2,621
	12,108	20	639	495	69	241	13,572	11,477
Net income	$ 1,810	$ 14	$ 84	$ 52	$ 5	$ 8	$ 1,973	$ 1,855

See Independent Auditors' Report on Supplementary Information.