Delta Dental of California and Subsidiaries

Consolidated Financial Statements

December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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, 2015

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

	December 31	
	2014	**2013**
ASSETS		
Cash and cash equivalents	$ 213,234	$ 239,197
Marketable securities	790,074	704,848
	1,003,308	944,045
Premiums and other receivables		
Receivables from groups	403,391	330,504
Other receivables	45,633	28,217
	449,024	358,721
Property and equipment, net	235,166	240,177
Deferred compensation plans investments	36,468	37,057
Other assets	30,946	30,660
TOTAL ASSETS	$ 1,754,912	$ 1,610,660
LIABILITIES AND GENERAL RESERVES		
Liabilities		
Unpaid claims and claims adjustment expenses	$ 391,496	$ 363,457
Accounts payable and accrued expenses	208,254	210,241
Deferred revenue	74,259	68,053
Refundable group balances	161,421	159,965
Deferred compensation plans	36,468	37,057
Accrued retirement benefits	61,670	67,240
Other liabilities	15,849	13,860
	949,417	919,873
General reserves		
Accumulated other comprehensive loss	(4,826)	(23,694)
General reserves	810,321	714,481
	805,495	690,787
TOTAL LIABILITIES AND GENERAL RESERVES	$ 1,754,912	$ 1,610,660

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	
	2014	**2013**
Premiums and other income		
Commercial groups	$ 5,104,665	$ 4,854,430
State programs	852,186	669,480
Federal programs	689,213	459,904
	6,646,064	5,983,814
Administrative service contracts	(2,709,600)	(2,568,670)
	3,936,464	3,415,144
Investment income, net	22,097	17,096
Other income (expense), net	29,537	(9,688)
	3,988,098	3,422,552
Claims and operating expenses		
Claims incurred	5,855,997	5,228,254
Claims incurred on administrative service contracts	(2,709,600)	(2,568,670)
	3,146,397	2,659,584
Operating expenses	745,861	670,564
	3,892,258	3,330,148
Net income	95,840	92,404
Other comprehensive income		
Pension liability and post-retirement adjustments	9,395	16,803
Unrealized gains on securities	9,473	24,081
	18,868	40,884
Comprehensive income	$ 114,708	$ 133,288

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, 2013	$ (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
Net income	-	95,840	95,840
Pension liability and post-retirement adjustments	9,395	-	9,395
Net unrealized gains on securities	9,473	-	9,473
BALANCE AT DECEMBER 31, 2014	$ (4,826)	$ 810,321	$ 805,495

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	
	2014	**2013**
Cash flows from operating activities		
Net income	$ 95,840	$ 92,404
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	28,233	31,323
Amortization of bond premiums	8,422	5,954
Realized gains on securities	(95)	(407)
Disposal of assets	20,286	60,559
Changes in operating assets and liabilities		
Receivables from groups	(72,887)	(9,746)
Other receivables	(17,416)	(3,743)
Other assets	(286)	(2,596)
Unpaid claims and claims adjustment expenses	28,039	(32,238)
Accounts payable and accrued expenses	(1,987)	39,839
Deferred revenue	6,206	35,266
Refundable group balances	1,456	(7,647)
Accrued retirement benefits	3,825	255
Other liabilities	1,989	1,683
Net cash provided by operating activities	101,625	210,906
Cash flows from investing activities		
Purchases of marketable securities	(232,497)	(344,533)
Redemptions of marketable securities	148,417	84,356
Development and purchases of computer software systems	(32,295)	(27,138)
Purchases of property and equipment	(11,213)	(7,763)
Net cash used in investing activities	(127,588)	(295,078)
Net decrease in cash and cash equivalents	(25,963)	(84,172)
Cash and cash equivalents, beginning of year	239,197	323,369
Cash and cash equivalents, end of year	$ 213,234	$ 239,197
Supplemental disclosure		
Interest paid	$ 180	$ 176

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)	63.9%
Celebration Dental Services (CDS)	100.0%
PaCa Management. LLC (PaCa)	50.0%

In 2014, Delta paid $6.1 million to purchase additional shares of common stock for DDPR increasing Delta's ownership percentage to 63.9% from 47.6%.

On 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 under agreements with various subscriber groups and individuals. 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 individuals, 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 at December 31, 2013. There were no impairments at December 31, 2014.

Fair value measurements

The Company applies the provisions of ASC No. 820, *Fair Value Measurements and Disclosures (ASC 820),* which establishes a hierarchy for inputs used in measuring fair value, as follows:

Level 1 - Valuations are based on quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are readily and regularly available, valuation of Level 1 assets and liabilities does not require a significant degree of judgment. The Company considers U.S. Treasuries and equity securities as Level 1 assets.

Level 2 - Valuations are based on quoted prices for similar assets in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly. 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. The Company currently does not own any assets measured as Level 2 assets.

2. Summary of Significant Accounting Policies (continued)

Fair value measurements (continued)

Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. The Company considers common stock that is not actively traded as Level 3 assets. Valuation is based on cost.

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.

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, 2014 and 2013 was $9.3 million and $9.6 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.

2. Summary of Significant Accounting Policies (continued)

Goodwill and other intangible assets

Included in other assets are goodwill and intangible assets of $7.6 million as of December 31, 2014 and 2013. 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, 2014 and 2013.

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 $20.3 million and $60.6 million at December 31, 2014 and 2013, respectively.

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 and claims adjustment expenses

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 $311.3 million and $268.8 million at December 31, 2014 and 2013, respectively. Claims adjustment expenses related to claims unpaid are accrued based on an estimate of expenses to adjudicate and pay such claims.

While management believes that the liability for unpaid claims and claims adjustment expenses at December 31, 2014 and 2013 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.

2. Summary of Significant Accounting Policies (continued)

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.

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.

Subsidiaries of DDCIH are included in a consolidated federal income tax return with DDCIH. A Federal Tax Sharing agreement sets forth the manner in which the total combined federal income tax is allocated to each entity which is party to the consolidation. Pursuant to this agreement each party has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. In accordance with accounting guidance, current and deferred taxes are allocated to members of the consolidated group using the separate return allocation method. Income tax expense for the years ended December 31, 2014 and 2013 was $9.8 million and $8.9 million, respectively, and is included in operating expenses on the consolidated statements of income and expense.

2. Summary of Significant Accounting Policies (continued)

Income tax status (continued)

For subsidiaries of DDCIH, deferred tax provisions and benefits are calculated for certain transactions and events because of differing treatments between generally accepted accounting principles and the currently enacted tax laws. The effects of these differences on a cumulative basis result in the recognition and measurement of the deferred tax assets and liabilities. Net deferred tax assets in the amount of $1.8 million and $1.0 million at December 31, 2014 and 2013, respectively, are included in other assets on the consolidated balance sheets. Deferred tax liabilities in the amount of $1.5 million and $1.1 million at December 31, 2014 and 2013, respectively, are included in accounts payable and accrued expenses on the consolidated balance sheets.

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 Delta's tax exempt status and with respect to income taxes on unrelated business income. The Company has determined that such tax positions do not result in uncertainties requiring recognition.

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.

Business concentration

PaCa receives all of its operating income from the following sources: (1) Delta Dental of New York (DDNY) and Delta Dental of District of Columbia (DDDC) cede administrative fee income to PaCa; (2) DDP cedes administrative fee income earned on the state of Maryland programs to PaCa; and (3) PaCa may receive contractual income from DDP in an amount equal to the portion of Delta Reinsurance Corporation (DRC) net profits attributable to the reinsurance of DDNY and DDDC risk-based programs if DDP receives a dividend from DRC.

2. Summary of Significant Accounting Policies (continued)

Business concentration (continued)

Additionally, PaCa receives contractual income from DDP for the settlement of underwriting results on the state of Maryland programs. The Maryland contractual income was $1.8 million and $1.0 million for the periods ending December 31, 2014 and 2013, respectively. PaCa also received contractual income from DDP in the amount of $7.5 million as a result of the DRC dividend declared and paid in 2014.

Subsequent Events

The Company has evaluated subsequent events through April 8, 2015, the date the consolidated financial statements were available to be issued. As of April 8, 2015, the Company did not have any subsequent events that require recognition or disclosure.

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, 2014			
		Unrealized		
	Cost	Gains	Losses	Fair Value
Held-to-maturity				
Debt securities				
Corporate & municipalities	$ 546,547	$ 9,611	$ 3,631	$ 552,527
U.S. government & agencies	33,450	794	58	34,186
Mortgage backed	25,090	2,346	39	27,397
Foreign government	17,637	129	177	17,589
Certificate of deposits	650	-	-	650
	623,374	12,880	3,905	632,349
Available-for-sale				
Equity securities	114,139	37,640	79	151,700
Common stock	15,000	-	-	15,000
	129,139	37,640	79	166,700
	$ 752,513	$ 50,520	$ 3,984	$ 799,049

3. Marketable Securities (continued)

	December 31, 2013			
		Unrealized		
	Cost	Gains	Losses	Fair Value
Held-to-maturity				
Debt securities				
Corporate & municipalities	$ 423,768	$ 6,251	$ 10,454	$ 419,565
U.S. government & agencies	26,145	407	212	26,340
Mortgage backed	33,189	2,585	125	35,649
Foreign government	5,617	184	238	5,563
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

The contractual maturities of debt securities at December 31, 2014 are summarized in the table (in thousands) below:

	Amortized Cost	Fair Value
Due within one year	$ 15,568	$ 16,042
Due after one year through five years	248,682	253,817
Due after five years through ten years	354,769	358,048
Due after ten years	4,355	4,442
	$ 623,374	$ 632,349

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, 2014 and 2013, using quoted prices in active markets for identical assets (Level 1) or measured upon significant unobservable inputs (Level 3). The Company currently does not own assets measured by significant other inputs (Level 2):

	Level 1: Quoted For Identical Assets	Level 3: Significant Unobservable Inputs	Total at December 31, 2014
Available-for-sale securities	$ 151,700	$ 15,000	$ 166,700

	Level 1: Quoted For Identical Assets	Level 3: Significant Unobservable Inputs	Total at December 31, 2013
Available-for-sale securities	$ 215,479	$ -	$ 215,479

Realized gains included in earnings for the year ended December 31, 2014 and 2013 are reported in investment income as follows (in thousands):

	2014	2013
Realized gains, net	$ 95	$ 407

5. Property and Equipment

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

	2014	2013
Leasehold improvements	$ 35,830	$ 31,335
Computer equipment and office furniture	85,420	79,073
Computer software systems	423,538	418,302
	544,788	528,710
Less accumulated depreciation and amortization	(309,622)	(288,533)
Property and equipment, net	$ 235,166	$ 240,177

Depreciation and amortization expense for 2014 and 2013 was $28.2 million and $31.3 million, respectively.

6. State and Federal Programs and Reinsurance

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.

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 $134.0 million and $112.1 million for 2014 and 2013, respectively. Delta is also required to maintain segregated investments of $32.9 million and $25.6 million for 2014 and 2013, respectively, and a letter of credit of $5.0 million. Delta was in compliance with these contract requirements during 2014 and 2013. Denti-Cal revenues, included in State programs, were $839.4 million and $651.0 million and incurred claims were $748.8 million and $576.8 million for the years ended December 31, 2014 and 2013, 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 $6.6 million and $30.0 million and incurred claims were $3.9 million and $23.0 million for the years ended December 31, 2014 and 2013, respectively.

On September 1, 2013, DDIC and the State of Utah Department of Health entered into a dental services contract to provide insurance under the Utah Medicaid Dental Services program through June 30, 2015, with two one-year extension options. DDIC entered into a quota share reinsurance agreement with DDC. Under this agreement, 90% of the risk associated with the underwriting of the Utah Medicaid Dental Services contract was ceded to DDC. Utah Medicaid revenues, included in State programs, were $10.3 million and $3.4 million and incurred claims were $11.1 million and $3.6 million for the years ended December 31, 2014 and 2013, respectively.

6. State and Federal Programs and Reinsurance (continued)

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 at December 31, 2013, was 50.55%. For the contract which began on January 1, 2014, the Company entered into risk sharing agreements with Federal Marketing Group partners. Under this contract, the Company records 100% of the contract activity, retains 40.36% and provisions the remaining 59.64% to non-enterprise risk-share partners. Under the previous contract, the Company recorded only their net share of the program revenues and incurred claims. The program revenues included in Federal programs were $498.3 million and $309.4 million and incurred claims were $473.0 million and $225.1 million for the years ended December 31, 2014 and 2013, respectively.

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 $158.9 million and $146.7 million and incurred claims of $76.9 million and $71.5 million for the years ended December 31, 2014 and 2013, respectively.

Effective January 1, 2014, DDIC and DIC entered into separate contracts with the United States Office of Personnel Management (OPM) to offer benefits in the Federal Employees Dental Insurance Program (FEDIP) and with the United States Department of Veteran Affairs (VA) to provide dental benefits in the Veteran Affairs Dental Insurance Program (VADIP). Delta provides operational and administrative services for these contracts. DDIC and DIC entered into reinsurance agreements with DDC to cede 100% of the risk associated with the underwriting for these programs. FEDIP and VADIP program revenues, included in Federal programs, were $18.1 million and $9.3 million and incurred claims of $15.1 million and $8.5 million, respectively, for the year ended December 31, 2014.

DDIC maintains a quota share reinsurance agreement with DRC of which DDIC owns a 5.93% minority share. Under the terms of this agreement, DDIC cedes 90% of all premiums earned less administrative fees and claims incurred for business written in the State of New York and the District of Columbia. Ceded amounts for the years ended December 31, 2014 and 2013 were $9.1 million and $9.8 million, respectively.

6. State and Federal Programs and Reinsurance (continued)

Additionally at December 31, 2014 and 2013, DDIC was in receipt of a reinsurance deposit in the amount of $1.0 million from DRC for the maintenance of a statutory net credit for unauthorized reinsurance. The deposit amount is included in other liabilities.

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.

7. Liability for Unpaid Claims and Claims Adjustment Expenses

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. Claims adjustment expenses related to unpaid claims are accrued based on an estimate of expenses to adjudicate and pay such claims.

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

	2014	2013
Balance, January 1	$ 353,850	$ 385,389
Incurred related to:		
Current year	5,884,439	5,313,097
Prior years	(28,442)	(84,843)
	5,855,997	5,228,254
Paid related to:		
Current year	5,502,388	4,959,247
Prior years	325,408	300,546
	5,827,796	5,259,793
Balance, December 31	382,051	353,850
Unpaid claims adjustment expenses	9,445	9,607
Total unpaid claims and claims adjustment expenses	391,496	363,457
Ceded claims unpaid	4,158	4,665
Gross unpaid claims and claims adjustment expenses	$ 395,654	$ 368,122

7. Liability for Unpaid Claims and Claims Adjustment Expenses (continued)

As a result of changes in estimate of insured events in prior years, the liability for unpaid claims decreased by $28.4 million and $84.8 million in 2014 and 2013, respectively. The Company retains the risk and received the benefit of $13.0 million and $33.0 million from these reserve changes for December 31, 2014 and 2013, respectively.

8. 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		
2015	$	26,038
2016	$	23,575
2017	$	22,033
2018	$	14,696
2019	$	6,306
Thereafter	$	9,262

Rental expense, including software licensing fees, was $36.1 million and $40.7 million in 2014 and 2013, 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%. CDS maintained a $1.0 million line of credit with an interest rate indexed to the one month LIBOR plus 2.00% per annum. These lines of credit are used for periodic short-term cash flow requirements. The outstanding balances were $0.8 million and $0.9 million at December 31, 2014 and 2013, respectively.

Delta maintained credit facilities of $29.0 million for unsecured letters of credit with $15.8 million and $12.7 million outstanding at December 31, 2014 and 2013, respectively.

9. Related Party Transactions

DDP performs claims processing functions for Delta and DDIC under administrative services agreement. The Company paid DDP $9.0 million and $9.6 million for processing functions for 2014 and 2013, 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 2014 and 2013, Delta paid DDP $3.1 million and $3.6 million, respectively.

9. Related Party Transactions (continued)

The amounts payable to affiliates for administrative services at December 31, 2014 and 2013 was \$2.1 million and \$5.0 million, respectively.

The Company has administrative services agreements with DDP and its affiliates for computer and other administrative support services. The Company recorded \$11.0 million and \$13.9 million in cost reimbursements in 2014 and 2013, respectively. The amounts receivable from affiliates for administrative services at December 31, 2014 and 2013 was \$2.1 million and \$3.1 million.

Pursuant to an administrative services agreement, DDP charges administrative expenses and interest expense to PaCa, based on an allocation of actual expenses, for the performance of certain functions for PaCa, DDNY, DDDC, and the state of Maryland programs. Administrative expenses and interest expense charged by DDP, included within administrative fees, were \$29.7 million and \$ 28.7 million, respectively.

DDNY and DDDC incur direct costs for the payment of salaries, related personnel expenses and certain other expenses in conjunction with soliciting activities. DDNY and DDDC are reimbursed for these costs by PaCa. The amounts incurred for these services, included within administrative fees, were \$11.4 million and \$8.0 million in 2014 and 2013, respectively.

The amount receivable from affiliates for PaCa activity at December 31, 2014 and 2013 was \$3.7 million and \$3.5 million, respectively. The amount payable to affiliates related to PaCa activity at December 31, 2014 and 2013 was \$3.2 million and \$3.9 million, respectively.

Related party (affiliate) transactions are settled on a monthly basis through intercompany cash transfers.

10. 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 \$104.8 million and \$84.9 million at December 31, 2014 and 2013, respectively. Delta's tangible net equity balance was \$703.2 million and \$592.3 million at December 31, 2014 and 2013, respectively, and exceeded the DMHC's requirements.

11. 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.

On January 1, 2013 (for non-union employees) and January 31, 2014 (for union employees), the cash balance defined benefit pension plan was frozen to new contributions and replaced with a 6% contribution to the 401(k) Plan noted below.

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 $9.4 million and $16.8 million for the years ended December 31, 2014 and 2013, 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 $260,000 and $255,000 as of December 31, 2014 and 2013, respectively. The annual expense for the plan was $15.6 million and $13.7 million, respectively, for the years ended December 31, 2014 and 2013. The Company may elect to make discretionary contributions to the Plan. The Company elected to reserve for a discretionary contribution in the amount of $10.7 million and $10.1 million at December 31, 2014 and 2013, respectively.

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.

11. Employee Benefit Plans (continued)

	Pension		Post-Retirement Health	
	2014	2013	2014	2013
Change in benefit obligation				
Benefit obligation, beginning of year	$ 226,363	$ 221,373	$ 23,714	$ 28,373
Service cost	641	635	842	1,450
Interest cost	8,958	7,674	1,180	1,174
Actuarial (gain)/loss	6,474	7,228	3,546	(6,488)
Gross benefits paid	(1,344)	(1,209)	(830)	(795)
Administrative expenses paid	(246)	(183)	-	-
Curtailments	-	(61)	-	-
Settlements	(35,601)	(9,094)	-	-
Benefit obligation, end of year	$ 205,245	$ 226,363	$ 28,452	$ 23,714
Accumulated benefit obligation, end of year	$ 195,378	$ 217,269	N/A	N/A
Weighted-average assumptions used to determine benefit obligation at end of year:				
Qualified plan				
- Discount rate	3.47%	4.24%	3.99%	4.89%
- Rate of compensation increase	0.00%	2.50%	N/A	N/A
Non-qualified plan				
- Discount rate	2.97%	3.71%	N/A	N/A
- Rate of compensation increase	4.50%	4.50%	N/A	N/A
Cash balance interest credit rate	0.07%	0.10%	N/A	N/A
Health care cost trend rate				
- Initial rate	N/A	N/A	7.50%	7.75%
- Ultimate rate	N/A	N/A	5.00%	5.00%
- Years to ultimate	N/A	N/A	6	7
Effect of one-percentage point change in assumed health care cost trend rate on post retirement obligation				
- Increase	N/A	N/A	$ 1,212	$ 967
- Decrease	N/A	N/A	$ (989)	$ (798)
Change in plan assets				
Fair value of plan assets, beginning of year	$ 182,837	$ 165,958	$ -	$ -
Actual return on plan assets	16,087	26,977	-	-
Employer contributions	10,294	388	830	795
Gross benefits paid	(1,344)	(1,209)	(830)	(795)
Settlements	(35,600)	(9,094)	-	-
Administrative expenses paid	(246)	(183)	-	-
Fair value of plan assets, end of year	$ 172,028	$ 182,837	$ -	$ -

11. 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	
	2014	2013	2014	2013
Funded status, end of year				
Fair value of plan assets	$ 172,028	$ 182,837	$ -	$ -
Benefit obligations	(139,902)	(226,342)	(28,452)	(23,714)
Funded status	$ 32,126	$ (43,505)	$ (28,452)	$ (23,714)
Amounts recognized in the consolidated balance sheets:				
Current liability	$ (135)	$ (7,876)	$ (799)	$ (811)
Noncurrent liability	(33,083)	(35,649)	(27,653)	(22,904)
	$ (33,218)	$ (43,525)	$ (28,452)	$ (23,715)
Accumulated other comprehensive income:				
Prior service credit	$ (5,175)	$ (7,915)	$ (10,555)	$ (13,824)
Unamortized net loss	46,481	64,834	11,637	8,688
Accumulated other comprehensive income	$ 41,306	$ 56,919	$ 1,082	$ (5,136)

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	
	2014	2013	2014	2013
Equity securities	50%	55%	51%	57%
Debt securities	48%	43%	46%	41%
Real estate	2%	2%	3%	2%

11. 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	
	2014	2013	2014	2013
Components of net periodic benefit cost:				
Service cost	$ 641	$ 635	$ 842	$ 1,450
Interest cost	8,957	7,674	1,181	1,174
Expected return on plan assets	(13,107)	(12,035)	-	-
Amortization:				
Actuarial (gain)/loss	6,188	5,349	597	953
Prior service (credit)/cost	(2,742)	(3,579)	(3,269)	(3,269)
Curtailment (gain)/loss	-	1,163	-	-
Settlement (gain)/loss	15,660	1,922	-	-
Net periodic benefit cost	$ 15,597	$ 1,129	$ (649)	$ 308
Weighted-average assumptions used to determine net periodic cost:				
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
Expected long-term rate of return on plan assets	7.50%	7.50%	N/A	N/A
Cash balance interest credit rate:				
Minimum balance	3.04%	3.80%	N/A	N/A
Ongoing balance	0.07%	0.10%	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%
- 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	$ 98	$ 132
- Decrease	N/A	N/A	$ (79)	$ (104)

11. 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	$ 136	$ 814
Expected benefits payments		
2015	$ 44,014	$ 814
2016	$ 12,589	$ 863
2017	$ 10,024	$ 935
2018	$ 9,755	$ 1,005
2019	$ 9,660	$ 1,101
2020 to 2024	$ 93,419	$ 6,948

12. 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 administrative services to DSD and is located in Mexico City, Mexico. DIH holds the remaining 2% of SDD.

SUPPLEMENTARY INFORMATION

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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, 2014 and 2013, and our report thereon dated April 8, 2015, 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, 2015

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

	December 31, 2014										December 31, 2013
	DDC	DDIC	DIC	DICNE	Alphas	DDPR	CDS	PACA	Eliminations	Consolidated	Consolidated
ASSETS											
Cash and cash equivalents	$ 107,391	$ 37,738	$ 32,578	$ 4,917	$ 12,585	$ 11,007	$ 91	$ 6,927	$ -	$ 213,234	$ 239,197
Marketable securities	662,976	102,016	6,253	1,280	5,868	9,134	-	2,547	-	790,074	704,848
	770,367	139,754	38,831	6,197	18,453	20,141	91	9,474	-	1,003,308	944,045
Premiums and other receivables											
Receivables from groups	320,148	73,418	7,346	31	1,213	1,235	-	-	-	403,391	330,504
Other receivables	55,626	7,966	16,475	307	1,135	166	385	3,740	(40,167)	45,633	28,217
	375,774	81,384	23,821	338	2,348	1,401	385	3,740	(40,167)	449,024	358,721
Property and equipment, net	230,885	1,798	1,349	-	-	139	995	-	-	235,166	240,177
Deferred compensation plans investments	36,468	-	-	-	-	-	-	-	-	36,468	37,057
Notes receivable	75,750	-	-	-	-	-	-	-	(75,750)	-	-
Other assets	125,731	3,783	1,047	507	50	177	246	-	(100,595)	30,946	30,660
TOTAL ASSETS	$ 1,614,975	$ 226,719	$ 65,048	$ 7,042	$ 20,851	$ 21,858	$ 1,717	$ 13,214	$ (216,512)	$ 1,754,912	$ 1,610,660
LIABILITIES AND GENERAL RESERVES											
Liabilities											
Unpaid claims and claims adjustment expenses	$ 320,670	$ 65,796	$ 2,429	$ 10	$ 1,981	$ 610	$ -	$ -	$ -	$ 391,496	$ 363,457
Accounts payable and accrued expenses	148,108	58,433	19,184	511	4,142	864	579	3,192	(26,759)	208,254	210,241
Deferred revenue	70,078	2,495	471	17	1,067	131	-	-	-	74,259	68,053
Refundable group balances	161,345	76	-	-	-	-	-	-	-	161,421	159,965
Deferred compensation plans	36,468	-	-	-	-	-	-	-	-	36,468	37,057
Accrued retirement benefits	61,670	-	-	-	-	-	-	-	-	61,670	67,240
Notes payable	-	45,750	30,000	-	-	-	-	-	(75,750)	-	-
Other liabilities	11,141	3,451	-	-	-	506	751	-	-	15,849	13,860
	809,480	176,001	52,084	538	7,190	2,111	1,330	3,192	(102,509)	949,417	919,873
Capital and general reserves											
General reserves	810,321	28,554	(15,632)	54	9,303	2,615	(63)	(8,428)	(16,403)	810,321	714,481
Accumulated other comprehensive income (loss)	(4,826)	2,719	(931)	-	-	126	-	299	(2,213)	(4,826)	(23,694)
Preferred stock	-	10,500	-	-	-	-	-	-	(10,500)	-	-
Common stock	-	1,647	2,600	2,000	33	8,000	450	-	(14,730)	-	-
Additional paid-in capital	-	7,298	26,927	4,450	4,325	9,006	-	18,151	(70,157)	-	-
	805,495	50,718	12,964	6,504	13,661	19,747	387	10,022	(114,003)	805,495	690,787
TOTAL LIABILITIES AND GENERAL RESERVES	$ 1,614,975	$ 226,719	$ 65,048	$ 7,042	$ 20,851	$ 21,858	$ 1,717	$ 13,214	$ (216,512)	$ 1,754,912	$ 1,610,660

See Independent Auditor's 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, 2014										Year Ended December 31, 2013
	DDC	DDIC	DIC	DIC-NE	Alphas	DDPR	CDS	PACA	Eliminations	Consolidated	Consolidated
Premiums and other income											
Commercial groups	$ 3,785,043	$ 1,254,897	$ 22,398	$ 99	$ 29,768	$ 13,614	$ -	$ -	$ (1,154)	$ 5,104,665	$ 4,854,430
State programs	849,052	3,134	-	-	-	-	-	-	-	852,186	669,480
Federal programs	666,838	12,095	10,066	214	-	-	-	-	-	689,213	459,904
	5,300,933	1,270,126	32,464	313	29,768	13,614	-	-	(1,154)	6,646,064	5,983,814
Administrative service contracts	(2,022,136)	(684,214)	-	-	-	(4,404)	-	-	1,154	(2,709,600)	(2,568,670)
	3,278,797	585,912	32,464	313	29,768	9,210	-	-	-	3,936,464	3,415,144
Investment income, net	20,228	3,258	838	21	97	415	-	23	(2,783)	22,097	17,096
Other income (expense), net	(3,546)	(677)	1,255	(8)	38	470	7,260	50,935	(26,190)	29,537	(9,688)
	3,295,479	588,493	34,557	326	29,903	10,095	7,260	50,958	(28,973)	3,988,098	3,422,552
Claims and operating expenses											
Claims incurred	4,710,789	1,110,343	10,711	63	16,191	9,054	-	-	(1,154)	5,855,997	5,228,254
Claims incurred on administrative service contracts	(2,022,136)	(684,214)	-	-	-	(4,404)	-	-	1,154	(2,709,600)	(2,568,670)
	2,688,653	426,129	10,711	63	16,191	4,650	-	-	-	3,146,397	2,659,584
Operating expenses	510,986	153,731	26,211	242	8,263	5,181	7,573	41,112	(7,438)	745,861	670,564
	3,199,639	579,860	36,922	305	24,454	9,831	7,573	41,112	(7,438)	3,892,258	3,330,148
Net income (loss)	95,840	8,633	(2,365)	21	5,449	264	(313)	9,846	(21,535)	95,840	92,404
Other comprehensive gain (loss)											
Pension liability and post-retirement adjustments	9,395	-	-	-	-	-	-	-	-	9,395	16,803
Unrealized gains on securities	9,473	842	-	-	-	126	-	58	(1,026)	9,473	24,081
Loss on foreign currency translation	-	-	(725)	-	-	-	-	-	725	-	-
	18,868	842	(725)	-	-	126	-	58	(301)	18,868	40,884
Comprehensive income (loss)	$ 114,708	$ 9,475	$ (3,090)	$ 21	$ 5,449	$ 390	$ (313)	$ 9,904	$ (21,836)	$ 114,708	$ 133,288

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

	December 31, 2014							December 31, 2013
	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	$ 9,304	$ 218	$ 403	$ 1,730	$ 248	$ 682	$ 12,585	$ 5,602
Marketable securities	3,826	427	339	529	187	560	5,868	3,680
	13,130	645	742	2,259	435	1,242	18,453	9,282
Premiums and other receivables								
Receivables from groups	982	2	35	181	-	13	1,213	1,075
Other receivables	816	6	110	145	16	42	1,135	1,121
	1,798	8	145	326	16	55	2,348	2,196
Other assets	28	-	-	22	-	-	50	14
TOTAL ASSETS	$ 14,956	$ 653	$ 887	$ 2,607	$ 451	$ 1,297	$ 20,851	$ 11,492
LIABILITIES AND GENERAL RESERVES								
Liabilities								
Unpaid claims and claims adjustment expenses	$ 1,600	$ 7	$ 115	$ 152	$ 37	$ 70	$ 1,981	$ 1,020
Accounts payable and accrued expenses	3,200	32	164	566	80	100	4,142	1,774
Deferred revenue	959	-	-	75	-	33	1,067	488
	5,759	39	279	793	117	203	7,190	3,282
Capital and general reserves								
General reserves	8,503	413	311	132	(20)	(36)	9,303	3,853
Common stock	1	1	-	20	1	10	33	33
Additional paid-in capital	693	200	297	1,662	353	1,120	4,325	4,324
	9,197	614	608	1,814	334	1,094	13,661	8,210
TOTAL LIABILITIES AND GENERAL RESERVES	$ 14,956	$ 653	$ 887	$ 2,607	$ 451	$ 1,297	$ 20,851	$ 11,492

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

	Year Ended December 31, 2014							Year Ended December 31, 2013
	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	$ 23,028	$ 125	$ 1,835	$ 3,781	$ 351	$ 648	$ 29,768	$ 15,339
Investment income, net	55	9	9	6	5	13	97	78
Other income (expense), net	34	-	-	(1)	2	3	38	128
	23,117	134	1,844	3,786	358	664	29,903	15,545
Claims and operating expenses								
Claims incurred	12,605	34	1,342	1,617	217	376	16,191	9,573
Operating expenses	6,423	50	361	1,172	98	159	8,263	3,999
	19,028	84	1,703	2,789	315	535	24,454	13,572
Net income	$ 4,089	$ 50	$ 141	$ 997	$ 43	$ 129	$ 5,449	$ 1,973

See Independent Auditor's Report on Supplementary Information.