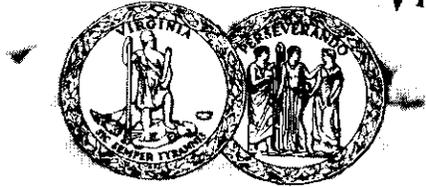


EXAMINATION REPORT
of
LEGAL RESOURCES OF VIRGINIA, INC.
Virginia Beach, Virginia
as of
December 31, 2014

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Legal Resources of Virginia, Inc. as of December 31, 2014, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 30th day of June, 2015

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham". The signature is written in black ink and is positioned above a horizontal line.

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
March 20, 2015

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the affairs and financial condition of

LEGAL RESOURCES OF VIRGINIA, INC.

Virginia Beach, Virginia

has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

Legal Resources of Virginia, Inc. is a legal services plan operating pursuant to Chapter 44 of Title 38.2 of the Code of Virginia. The last examination was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2014.

HISTORY

Legal Resources of Virginia, Inc. (the previously licensed Corporation) was incorporated under the laws of Virginia on November 13, 1990 and was licensed to operate as a legal services plan pursuant to Chapter 44 of Title 38.2 of the Code of Virginia. On June 9, 1997, Legal Resources of Virginia, Inc. (the previously licensed Corporation) changed its name to Legal Benefits, Inc. and continued to operate as a legal services plan. On July 1, 1997, Legal Benefits, Inc. assigned its insurance assets and liabilities to a newly formed corporation, Legal Resources of Virginia, Inc. (hereinafter referred to as the Corporation), which was licensed pursuant to Chapter 44 of Title 38.2 of the Code of Virginia. Legal Benefits, Inc. withdrew its insurance license effective August 4, 1997. As a result of the reorganization, the Corporation became a wholly owned subsidiary of Legal Benefits, Inc.

MANAGEMENT AND CONTROL

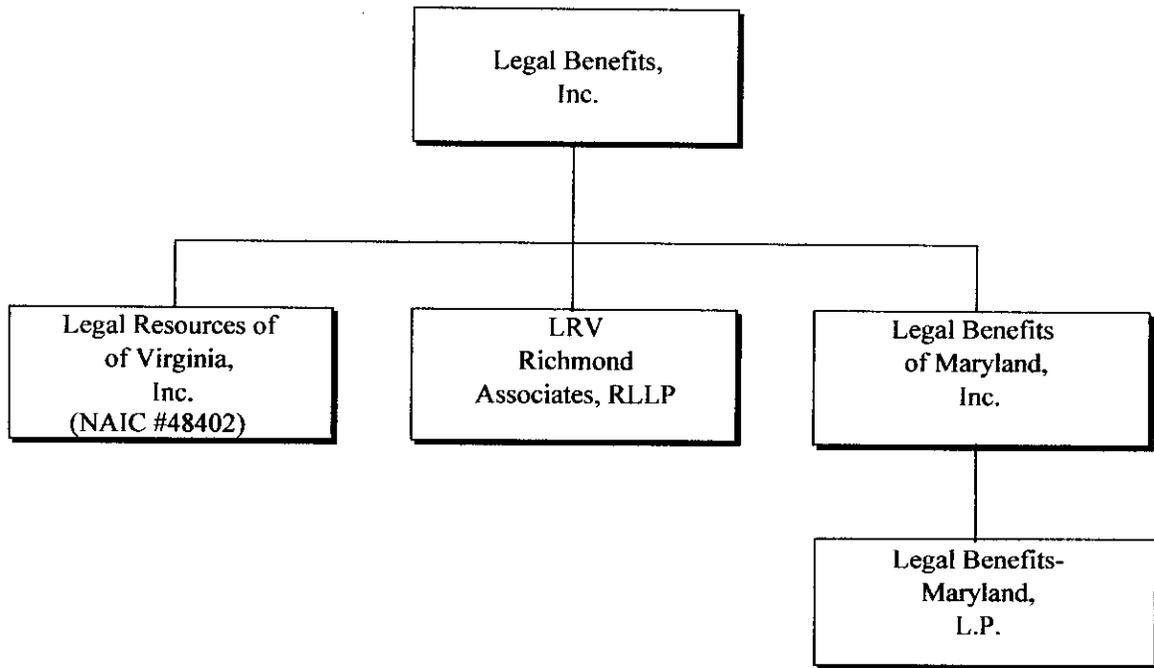
Management of the Corporation is vested in a board of up to five directors elected annually by the stockholders for a one year term, or until a successor is elected and qualified. The Board of Directors shall annually choose a President, a Secretary and any other officers deemed necessary, none of whom need be a member of the board.

At December 31, 2014, the Board of Directors and officers were as follows:

<u>Directors</u>	<u>Business Affiliations</u>
Barry J. Case	Retired Richmond, Virginia
V. James Garofalo	President/Secretary Legal Resources of Virginia, Inc. Virginia Beach, Virginia
William H. Thumel, Jr.	President and CEO Abacus Services, Inc. Virginia Beach, Virginia
 <u>Officers</u>	
V. James Garofalo	President/Secretary
Patricia A. Miltz	Assistant Secretary

RELATED PARTIES

According to its Articles of Incorporation, the Corporation has the authority to issue 5,000 shares of common stock with a par value of \$1 per share. At December 31, 2014, there were 1,000 issued and outstanding shares, which were owned by Legal Benefits, Inc. The following chart illustrates the relationship between the Corporation and its parent and affiliates:



TRANSACTIONS WITH AFFILIATES

Administrative Agreement

Effective May 26, 1997, the Corporation entered into an administrative agreement with Legal Benefits, Inc. According to the agreement, Legal Benefits, Inc. shall provide the Corporation with various services including, but not limited to, management, administration, claims, operations, accounting and personnel. The term of the agreement shall be on a calendar year basis, and shall be automatically renewed unless written notice of intent to cancel is given no later than 120 days prior to the effective date of such termination. In return for the services, the Corporation shall pay Legal Benefits, Inc. a monthly amount that approximates cost. Total administrative fees paid to Legal Benefits, Inc. for calendar year 2014 were \$408,233.

Dividends to Stockholders

The Corporation paid the following cash dividends to its parent, Legal Benefits, Inc., during the five-year period under review:

<u>For the Calendar Ended</u>	<u>Total Dividend Paid</u>
December 31, 2010	\$ 755,000
December 31, 2011	742,000
December 31, 2012	565,000
December 31, 2013	836,836
December 31, 2014	992,970

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to transact business in the Commonwealth of Virginia. Participation is offered to individuals, employees of a participating employer, or members of a participating group. Current efforts are directed at group sales in order to increase subscribers and contain production costs. In most instances, premiums are collected monthly through payroll deduction for the employee/employer groups. Other payment options include monthly, quarterly, semi-annual and annual advance premium remittances by the subscriber.

Each participating attorney/law firm receives 40% of the monthly premium for each subscriber who has selected that attorney/law firm as their plan legal service provider. As of December 31, 2014, the Corporation had retainer agreements in effect with 63 attorney/law firms and had enrolled 27,600 subscribers. Services provided under the contract include, but are not limited to, the following:

General Consultation Advice	Defense of Juveniles
Traffic Violations	Landlord-Tenant Matters
Civil Actions	Real Estate Transactions
Family Law	Preparation of Wills
Uncontested Divorces	Credit Protection
Misdemeanor Criminal Violations	Consumer/Seller Issues
Civil Administration Proceedings	Preventive Law

Covered services are limited to those of an attorney and exclude costs incidental to legal matters such as: court fees, fees for service of summons, fines, penalties or damages. Other exclusions include expenses incurred by the attorney such as travel expenses and long distance telephone calls.

FIDELITY BOND AND OTHER INSURANCE

The Corporation had fidelity bond coverage in effect at December 31, 2014, with a \$120,000 limit of liability subject to a \$500 deductible. Additionally, the Corporation had comprehensive business liability, workers' compensation and key employee coverage policies in force at December 31, 2014.

EMPLOYMENT AGREEMENT

The Corporation had an employment agreement in effect at December 31, 2014, with its President, V. James Garofalo, providing for annual compensation of \$90,000. The President's annual salary during the term of the agreement may be adjusted by the affirmative vote of the Board of Directors. The President's salary was adjusted on May 1, 1996 to provide compensation of \$100,000 annually. Beginning December 1, 1997, the agreement shall automatically renew from year to year. Provisions of the agreement include, but are not limited to, the following:

Basic Compensation	Automobile Expenses
Discretionary Bonus Awards	Travel and Entertainment Expenses
Benefits Plan	Disability Provision
Renewal Commissions	Arbitration Clause

CONFLICT OF INTEREST

At December 31, 2014, the Corporation had not adopted a formal conflict of interest policy covering its directors, officers and employees. However, conflict of interest disclosure statements were completed by the Corporation's directors and officers

for the period under review and each director and officer is required to complete a disclosure statement on an annual basis.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2014. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2005	\$341,473	\$126,549	\$214,924
2006	479,165	107,681	371,484
2007	815,605	507,481	308,124
2008	1,047,536	286,308	761,228
2009	653,253	484,662	168,591
2010	895,400	637,264	258,136
2011	811,761	591,487	220,274
2012	925,491	527,904	397,587
2013	855,877	525,354	330,523
2014	748,502	612,437	136,065

<u>Year</u>	<u>Total Revenue</u>	<u>Net</u>			<u>Net Income</u>
		<u>Investment Gains</u>	<u>Legal Expenses</u>	<u>Administrative Expenses</u>	
2005	\$3,858,298	\$0	\$1,271,998	\$2,470,218	\$116,082
2006	4,201,900	5,094	1,352,931	2,691,112	162,951
2007*	6,843,787	8,685	2,577,080	3,673,752	601,640
2008	7,462,879	10,383	2,811,660	3,776,057	885,545
2009	7,983,328	2,296	3,012,931	3,940,330	1,032,363
2010	7,792,389	2,509	2,911,744	4,038,609	844,545
2011	7,718,939	126	2,846,839	4,168,088	704,138
2012	7,946,940	220	2,971,536	4,233,311	742,313
2013	8,620,298	165	3,216,221	4,634,470	769,772
2014	9,145,780	116	3,389,575	4,957,809	798,512

* Prior to 2007, Legal Benefits of Maryland, Inc. revenues, expenses including broker fees, were not included in the Corporation's financial data.

The Corporation's enrollment data at year end is illustrated as follows:

<u>Year</u>	<u>Number of Subscribers</u>
2005	17,638
2006	18,638
2007	22,461
2008	23,591
2009	24,918
2010	21,654
2011	22,551
2012	24,440
2013	25,656
2014	27,600

CAPITAL AND SURPLUS

At December 31, 2014, the Corporation's capital and surplus was \$136,065. Capital and surplus is comprised of 1,000 shares of \$1 par value common stock issued and outstanding, with gross paid in and contributed surplus of \$34,000 and unassigned funds of \$101,065. The Bureau requires the Corporation to maintain total capital and surplus of at least \$35,000.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2010 through December 31, 2014. Assets were verified and liabilities established at December 31, 2014.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Corporation, assess corporate governance, identify and assess inherent risks within the Corporation, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2014, a statement of revenue and expenses for the year ending December 31, 2014, a reconciliation of capital and surplus for the period under review and a statement of cash flow for the year ending December 31, 2014. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Cash and short-term investments	\$454,322		\$454,322
Uncollected premiums and agents' balances in the course of collection	293,701		293,701
Aggregate write-ins for other than invested assets	<u>479</u>		<u>479</u>
Total assets	<u><u>\$748,502</u></u>	<u><u>\$0</u></u>	<u><u>\$748,502</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Unpaid claims adjustment expenses	\$14,494
Premiums received in advance	196,023
General expenses due or accrued	146,672
Amounts due to parent, subsidiaries and affiliates	<u>255,248</u>
 Total liabilities	 <u>\$612,437</u>
 Common capital stock	 \$1,000
Gross paid in and contributed surplus	34,000
Unassigned funds (surplus)	<u>101,065</u>
 Total capital and surplus	 <u>\$136,065</u>
 Total liabilities, capital and surplus	 <u><u>\$748,502</u></u>

STATEMENT OF REVENUES AND EXPENSES

Net premium income	\$6,132,700
Aggregate write-ins for other non-health revenues:	
Administrative fee	504,220
Legal Benefits of Maryland, Inc. revenue	2,463,334
Enrollment fees	31,431
Other fees	14,095
Total revenues	<u>\$9,145,780</u>
Legal benefits	\$3,389,575
General administrative expenses	2,306,770
Total underwriting deductions	<u>\$5,696,345</u>
Net underwriting gain	<u>\$3,449,435</u>
Net investment income earned	<u>\$116</u>
Net investment gains	<u>\$116</u>
Broker fees related to Legal Benefits of Maryland, Inc.	<u>(\$2,651,039)</u>
Net income	<u><u>\$798,512</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Capital and surplus prior reporting year	<u>\$168,591</u>	<u>\$258,136</u>	<u>\$220,274</u>	<u>\$397,587</u>	<u>\$330,523</u>
Net income	\$844,545	\$704,138	\$742,313	\$769,772	\$798,512
Dividends to stockholders	<u>(755,000)</u>	<u>(742,000)</u>	<u>(565,000)</u>	<u>(836,836)</u>	<u>(992,970)</u>
Net change in capital and surplus	<u>\$89,545</u>	<u>(\$37,862)</u>	<u>\$177,313</u>	<u>(\$67,064)</u>	<u>(\$194,458)</u>
Capital and surplus end of reporting year	<u><u>\$258,136</u></u>	<u><u>\$220,274</u></u>	<u><u>\$397,587</u></u>	<u><u>\$330,523</u></u>	<u><u>\$136,065</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$6,132,700
Net investment income	116
Miscellaneous income	<u>3,013,080</u>
Total	<u>\$9,145,896</u>
Benefit and loss related payments	\$3,389,575
Commissions, expenses paid and aggregate write-ins for deductions	<u>4,957,809</u>
Total	<u>\$8,347,384</u>
Net cash from operations	<u>\$798,512</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	(\$992,970)
Other cash provided	<u>101,629</u>
Net cash from financing and miscellaneous sources	<u>(\$891,341)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	(\$92,829)
Cash and short-term investments:	
Beginning of year	<u>547,151</u>
End of year	<u>\$454,322</u>

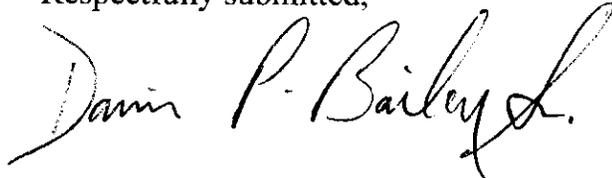
SUBSEQUENT EVENT

On January 27, 2015, the Corporation paid a cash dividend to its parent, Legal Benefits, Inc., totaling \$210,000.

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Kenneth G. Campbell, CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "Darrin P. Bailey, Sr." with a large, stylized initial "D".

Darrin P. Bailey, Sr., CFE, MHP, AIAF, FLMI
Senior Insurance Examiner



Legal Resources of Virginia, Inc.

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LegalResources.com

2877 Guardian Lane, Ste. 101
Virginia Beach, VA 23452

June 25, 2015

David H. Smith
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Re: Legal Resources of Virginia, Inc.
Examination Report as of December 31, 2014

Dear Mr. Smith:

This letter is our acknowledgement of receipt of the above report from the Bureau of Insurance. Please provide five (5) copies of the written report to Legal Resources.

Yours truly,

A handwritten signature in black ink, appearing to read 'V. James Garofalo'.

V. James Garofalo
President