EXAMINATION REPORT
of
MID-ATLANTIC VISION SERVICE PLAN, INC.
Rancho Cordova, California
as of
December 31, 2012

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 Mid-Atlantic Vision Service Plan, Inc. as of December 31, 2012, 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 9th day of January, 2014

Jacqueline K. Cunningham

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
September 20, 2013

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

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

MID-ATLANTIC VISION SERVICE PLAN, INC.

Rancho Cordova, California

hereinafter referred to as the Corporation has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation is a nonstock, nonprofit optometric services plan operating pursuant to Chapter 45 of Title 38.2 of the Code of Virginia. The Corporation was last examined by representatives of the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2012.

HISTORY

The Corporation was incorporated under the laws of Maryland in 1960 as Vision Care Services, Inc. The Corporation changed its name to Mid-Atlantic Vision Service Plan, Inc. in 1982. In March 1988, the Corporation executed an agreement with Vision Service Plan ("VSP") whereby VSP became the sole voting member of the Corporation. The Corporation was licensed in Virginia as an optometric service plan on December 13, 1996. The Corporation redomiciled from Maryland to Virginia effective May 31, 2002 as a non-agent nonstock corporation. According to its amended and restated articles of incorporation, the Corporation was organized to undertake the business of an optometric service plan and to operate one or more Managed Care Health Insurance Plans.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the Board of Directors (the "Board") shall control and manage the affairs and business of the Corporation. The Board shall consist of no fewer than three directors. Directors shall be elected at an annual membership meeting and shall serve until his/her successor has been elected and qualified.

The officers of the Corporation shall be a President, who shall also be the Chairman of the Board, a Secretary, a Treasurer and such other officers as the Board may elect. Officers shall be elected at an annual Board meeting and shall serve until his/her successor has been elected and qualified. Additional officers may be elected by the Board according to its needs.

At December 31, 2012, the Board of Directors and Officers were as follows:

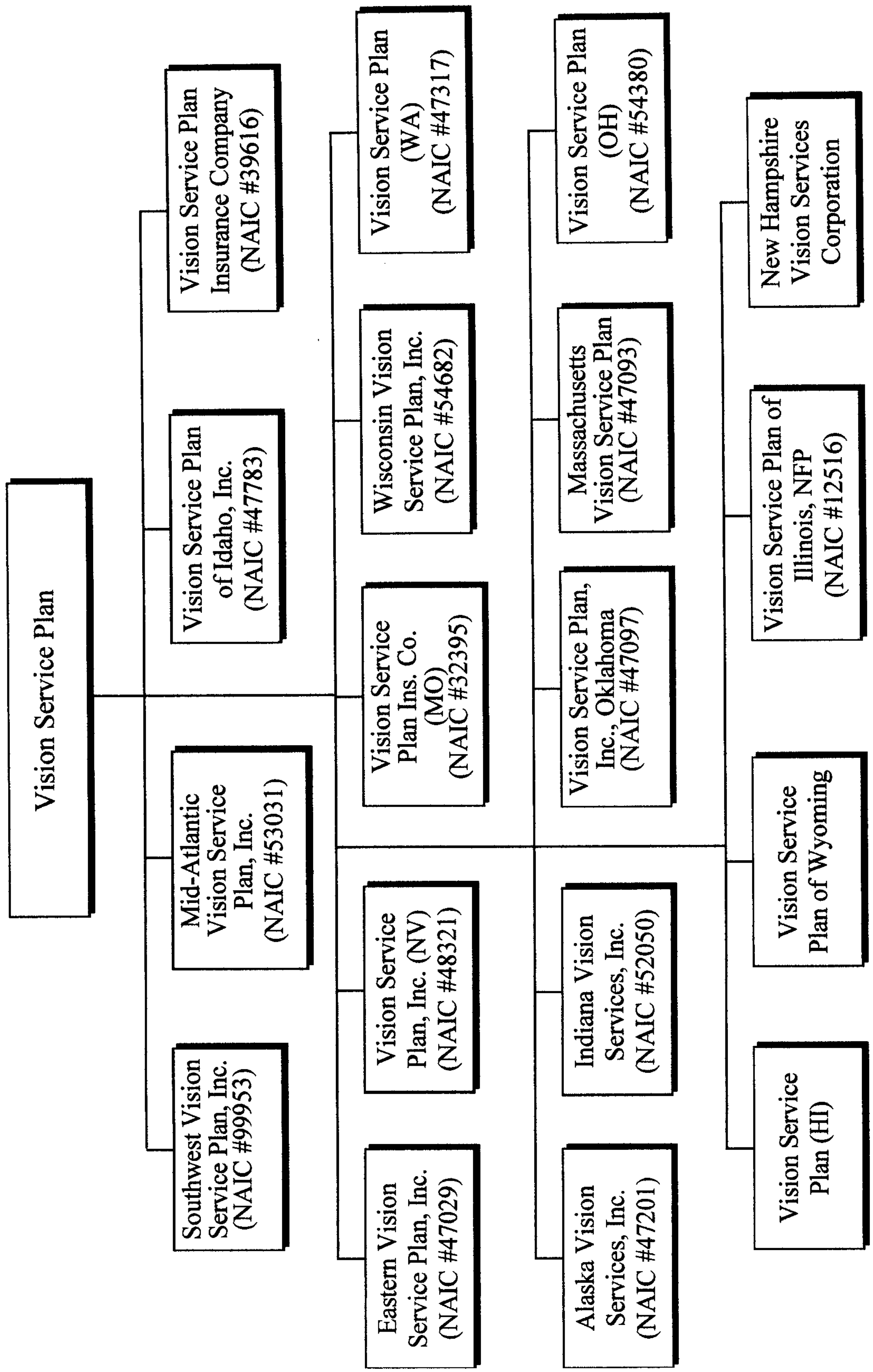
Directors	Principal Occupation
Donald J. Ball, Jr.	Global Chief Financial Officer Vision Service Plan Rancho Cordova, California
James R. Lynch	President and Chief Executive Officer Vision Service Plan Rancho Cordova, California
James M. McGrann	President-VSP Vision Care Vision Service Plan Rancho Cordova, California

Officers

James R. Lynch	President
James M. McGrann	Secretary
Lester E. Passuello	Treasurer

AFFILIATED COMPANIES

At December 31, 2012, the Corporation was wholly controlled by VSP. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2012:


Vision Service Plan
Vision Service Plan Insurance Company (NAIC #39616)
Vision Service Plan of Idaho, Inc. (NAIC #47783)
Mid-Atlantic Vision Service Plan, Inc. (NAIC #53031)
Southwest Vision Service Plan, Inc. (NAIC #99953)
Vision Service Plan (WA) (NAIC #47317)
Wisconsin Vision Service Plan, Inc. (NAIC #54682)
Vision Service Plan Ins. Co. (MO) (NAIC #32395)
Vision Service Plan, Inc. (NV) (NAIC #48321)
Eastern Vision Service Plan, Inc. (NAIC #47029)
Vision Service Plan (OH) (NAIC #54380)
Massachusetts Vision Service Plan (NAIC #47093)
Vision Service Plan, Inc., Oklahoma (NAIC #47097)
Indiana Vision Services, Inc. (NAIC #52050)
Alaska Vision Services, Inc. (NAIC #47201)
New Hampshire Vision Services Corporation
Vision Service Plan of Illinois, NFP (NAIC #12516)
Vision Service Plan of Wyoming
Vision Service Plan (HI)

TRANSACTIONS WITH AFFILIATES

Administration and Marketing Agreement

Effective December 31, 2007, the Corporation entered into an Administration and Marketing Agreement with VSP. Under the terms of the agreement, VSP shall provide personnel for the normal operation of the Corporation, maintain accounts and records, prepare financial statements, pay all accounts payable and collect all accounts receivable. As compensation, the Corporation shall pay VSP a per-claim charge equal to the total general and administrative expenses of VSP divided by the total number of claims paid on behalf of all VSP vision plan subsidiaries. During 2012, the Corporation incurred $8,589,144 in expenses related to this agreement.

Tax Sharing Agreement

Effective for the tax years beginning on and after January 1, 2008, the Corporation became a party to a tax sharing agreement with and among VSP and its affiliates. Pursuant to the agreement, the Corporation is included in the consolidated federal income tax return filed by VSP. The Corporation's federal income tax liability or refund is determined as if it was filing its own separate federal income tax return. If the Corporation's tax benefits (i.e. losses or credits) are used to reduce the consolidated federal tax liability, VSP will pay the Corporation the amount equal to the reduction in the consolidated federal income tax liability. If the Corporation's tax liabilities are used to increase the consolidated federal tax liability, the Corporation will pay VSP the amount equal to the increase in the consolidated federal income tax liability. Consolidated quarterly estimated taxes are paid by VSP and the Corporation's share is reimbursed to VSP within ten days of receiving notice. As soon as the consolidated federal income tax liability for the year is determined the Corporation makes or receives payments to or from VSP less amounts paid for estimated taxes.

Promissory Note

On March 15, 2011, the Corporation entered into a $15,000,000 promissory note with VSP. The issuance of the promissory note was previously approved by the Bureau on February 28, 2011. According to the terms, VSP shall pay the Corporation equal installments of principal and interest over 60 months at an interest rate of 4.5%. Payment of principal and interest began in April 2011 and the promissory note matures in March 2016. At December 31, 2012, the balance of the promissory note was $10,128,526. It was reported as Other invested assets and non-admitted in the 2012 Annual Statement.

CONFLICT OF INTEREST

The Corporation has adopted VSP's conflict of interest policy for identifying and dealing with conflicts and potential conflicts of interest. No person should occupy a position or maintain a material financial interest in any other business enterprise that presents a conflict of interest between his or her duties to the Corporation and his or her duties to the other enterprise. To ensure compliance with the Corporation's policy, directors, officers, and responsible employees must complete a conflict of interest questionnaire annually.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Corporation was listed as a named insured on a fidelity bond with a $9,000,000 limit of liability, subject to a $75,000 deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Corporation was listed as a named insured on a commercial general liability policy, an employment practices liability policy, a fiduciary liability policy, an umbrella liability policy, and a managed care errors and omissions policy.

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to issue contracts for future optometric services. Services are provided by optometric providers within the Corporation's service area which encompasses the entire states of Virginia and Maryland. Contracts offered by the Corporation for vision services can be categorized into two general classes:

1. Prepaid Group Contracts. Group prepaid optometric contracts are written for a member fee usually fixed for a one-year period. These contracts require monthly payment of member fees based on the number of employees comprising the group. Underwriting risk to the Plan is involved under these contracts.

2. Administrative Services Contracts (ASC). Contracts provide for the processing and payment of optometric claims incurred by an ASC group. The Corporation is reimbursed for the claim payments as well as an administrative fee. There is no underwriting risk to the Corporation under these contracts.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2012. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

Year	Total Admitted Assets	Total Liabilities	Capital And Surplus
2003	$25,795,863	$2,713,933	$23,081,930
2004	30,778,318	3,201,041	27,577,277
2005	38,900,471	3,096,322	35,804,149
2006	47,669,436	2,895,645	44,773,791
2007	56,927,351	3,534,173	53,393,178
2008	64,379,284	13,908,168	50,471,116
2009	73,141,934	16,761,028	56,380,906
2010	67,235,912	13,037,059	54,198,853
2011	66,083,331	14,782,006	51,301,325
2012	80,566,377	11,245,916	69,320,461

Year	Total Revenue	Net Investment Gains	Vision Expenses	Administrative Expenses	Pre-Tax Income (Loss)
2003	$20,202,947	$312,893	$16,114,819	($224,209)	$4,625,230
2004	22,144,695	621,886	18,409,301	(97,509)	4,454,789
2005	25,534,990	1,447,383	22,345,316	(1,883,947)	6,521,004
2006	31,452,752	1,890,123	23,047,229	1,347,325	8,948,321
2007	34,942,906	2,843,709	25,510,790	3,403,340	8,872,485
2008	44,817,180	150,721	34,244,082	4,740,962	5,982,857
2009	52,748,601	26,347	41,162,048	4,824,001	6,788,899
2010	56,105,713	1,255,042	43,550,604	4,652,699	9,157,452
2011	58,122,676	1,863,732	45,804,194	5,746,941	8,435,273
2012	68,116,423	1,388,317	54,292,245	9,330,437	5,882,058

Year	Number of Members
2003	670,612
2004	424,574
2005	478,716
2006	531,095
2007	592,776
2008	718,556
2009	857,041
2010	875,927
2011	870,308
2012	1,078,317

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, 2012. Assets were verified and liabilities established at December 31, 2012.

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, 2012; a statement of revenue and expenses for the year ending December 31, 2012; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$28,123,469		$28,123,469
Preferred stocks	21,659		21,659
Common stocks	10,329,297		10,329,297
Cash and short-term investments	36,130,400		36,130,400
Other invested assets	10,128,526	10,128,526	0
Receivables for securities	11,545		11,545
Subtotals, cash and invested assets	$84,744,896	$10,128,526	$74,616,370
Investment income due and accrued	313,536		313,536
Uncollected premiums and agents' balances in the course of collection	2,252,338	1,917	2,250,421
Amounts receivable relating to uninsured plans	2,128,533	525	2,128,008
Net deferred tax asset	1,258,042		1,258,042
Total assets	$90,697,345	$10,130,968	$80,566,377

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	$3,670,333
Unpaid claims adjustment expense	46,725
Aggregate health policy reserves	2,862,660
Premiums received in advance	164,720
General expenses due or accrued	133,624
Current federal income tax payable	2,313,863
Remittances and items not allocated	489,372
Amounts due to parent, subsidiaries and affiliates	1,099,884
Liability for amounts held under uninsured plans	333,913
Aggregate write-ins for other liabilities	130,822
Total liabilities	$11,245,916
Aggregate write-ins for other than surplus funds	$7,572,348
Unassigned funds (surplus)	61,748,113
Total capital and surplus	$69,320,461
Total liabilities, capital and surplus	$80,566,377

STATEMENT OF REVENUE AND EXPENSES

Net premium income	$65,840,939
Fee-for-service	2,320,787
Risk revenue	(44,128)
Total revenues	$68,117,598
Vision:	
Vision benefits	$54,292,245
Total vision benefits	$54,292,245
Claims adjustment expenses	643,181
General administrative expenses	6,484,727
Increase in reserves for life and accident health contracts	2,202,529
Total underwriting deductions	$63,622,682
Net underwriting gain	$4,494,916
Net investment income earned	$1,282,297
Net realized capital gains	106,020
Net investment gains	$1,388,317
Net loss from agents' or premium balances charged off	($1,175)
Net income before federal income taxes	$5,882,058
Federal income taxes incurred	(4,580,258)
Net income	$10,462,316

RECONCILIATION OF CAPITAL AND SURPLUS

	2010	2011	2012
Capital and surplus prior reporting year	$56,380,906	$54,198,853	$51,301,325
Net income	5,916,250	5,647,038	10,462,316
Change in net unrealized capital gains and (losses)	598,942	(759,163)	702,129
Change in net deferred tax income	(7,217)	(286,037)	790,253
Change in nonadmitted assets	(8,690,028)	(7,499,366)	6,064,438
Net change in capital and surplus	($2,182,053)	($2,897,528)	$18,019,136
Capital and surplus end of reporting year	$54,198,853	$51,301,325	$69,320,461

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	$65,325,716
Net investment income	1,928,176
Miscellaneous income	2,276,659
Total	$69,530,551
Benefit and loss related payments	$53,687,230
Commissions, expenses paid and aggregate write-ins for deductions	6,934,358
Federal income taxes paid	2,507,713
Total	$63,129,301
Net cash from operations	$6,401,250

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$7,569,965
Stocks	7,857,155
Other invested assets	5,871,628
Total investment proceeds	$21,298,748
Cost of investments acquired (long-term only):	
Bonds	$958,124
Stocks	7,997,267
Miscellaneous applications	10,443
Total investment acquired	$8,965,834
Net cash from investments	$12,332,914

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	$524,404
Net cash from financing and miscellaneous sources	$524,404

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	$19,258,568
Cash and short-term investments:	
Beginning of the year	16,871,832
End of the year	$36,130,400

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 Campbell, CFE, and Milton Parker, Jr. participated in the work of the examination.

Respectfully submitted,

Darrin P. Bailey Sr.

Darrin P. Bailey, Sr., CFE
Senior Insurance Examiner

vsp
Vision care for life

STATE CORP. COMMISSION
2013 DEC 16 AM 9: 10
BUREAU OF INSURANCE

December 9, 2013

David H. Smith, CFE, CPA, CPCU
Bureau of Insurance
PO Box 1157
Richmond, VA 23218

RE: Mid-Atlantic Vision Service Plan, Inc.
Examination Report as of December 31, 2012

Dear Mr. Smith:

On behalf of Mid-Atlantic Vision Service Plan, Inc., I hereby respectfully acknowledge receipt of the examination report and your November 18 cover letter. We request two (2) copies of the final report.

We would like to thank the Bureau for the professionalism and courtesy with which the examination was conducted.

Sincerely,

Laura L. Olson

LAURA L. OLSON
Controller
(916) 858-7440