

EXAMINATION REPORT
of
LEGAL SERVICE PLANS OF VIRGINIA, INC.
Ada, Oklahoma
as of
December 31, 2019

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Legal Service Plans of Virginia, Inc. as of December 31, 2019, 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 17th day of December 2020

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
October 26, 2020

Honorable Scott A. White
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

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

LEGAL SERVICE PLANS OF VIRGINIA, INC.

Ada, Oklahoma

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

SCOPE OF THE EXAMINATION

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 last examination of the Corporation was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2014. This examination covers the period from January 1, 2015 through December 31, 2019.

The Bureau planned and performed the examination to evaluate the Corporation's financial condition and operational activities. All accounts and activities of the Corporation were considered generally in accordance with the risk-focused examination process contained in the NAIC Financial Condition Examiners Handbook.

The examination report includes findings of fact and general information about the Corporation and its financial condition.

DESCRIPTION

The Corporation became licensed in Virginia as a legal services plan pursuant to Chapter 44 of Title 38.2 of the Code of Virginia on December 13, 1996.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia effective October 2, 1995. According to its Articles of Incorporation, the purpose of the Corporation is as follows:

To establish and market legal service plans in the Commonwealth of Virginia and to engage in those activities set forth in Section 13.1-627 of the Code of Virginia, as amended; and to transact any and all lawful business for which corporations may be incorporated under Section 13.1-601 et. seq. of the Code of Virginia, as amended.

On June 30, 2011, Pre-Paid Legal Services, Inc. ("PPLSI"), the Corporation's direct parent, was acquired by MidOcean PPL Holdings Corp (now PPL Holdings Corp.). In September 2011, PPLSI began doing business as LegalShield.

On February 23, 2018, PPLSI entered into an agreement and plan of merger in which Stone Point Capital (a private equity fund managed by Trident LS Parent Corporation) would acquire the majority interest in PPLSI. The merger consummated on May 1, 2018. As of that date, Trident LS Parent Corporation became the new parent of PPL Holdings Corp., which is the immediate parent of PPLSI. PPLSI remains the immediate parent of the Corporation. Trident LS Parent Corporation changed its name to LS Parent Corporation on October 9, 2019.

MANAGEMENT AND CONTROL

The Corporation's bylaws provide that the business and affairs of the Corporation shall be managed by a Board of Directors (the "Board"). The Board shall consist of three directors elected annually by stockholders who shall serve until the election and acceptance of a duly qualified successor. The Board shall annually choose a president, vice president, treasurer and secretary to serve as officers of the Corporation.

At December 31, 2019, the Board and Officers were as follows:

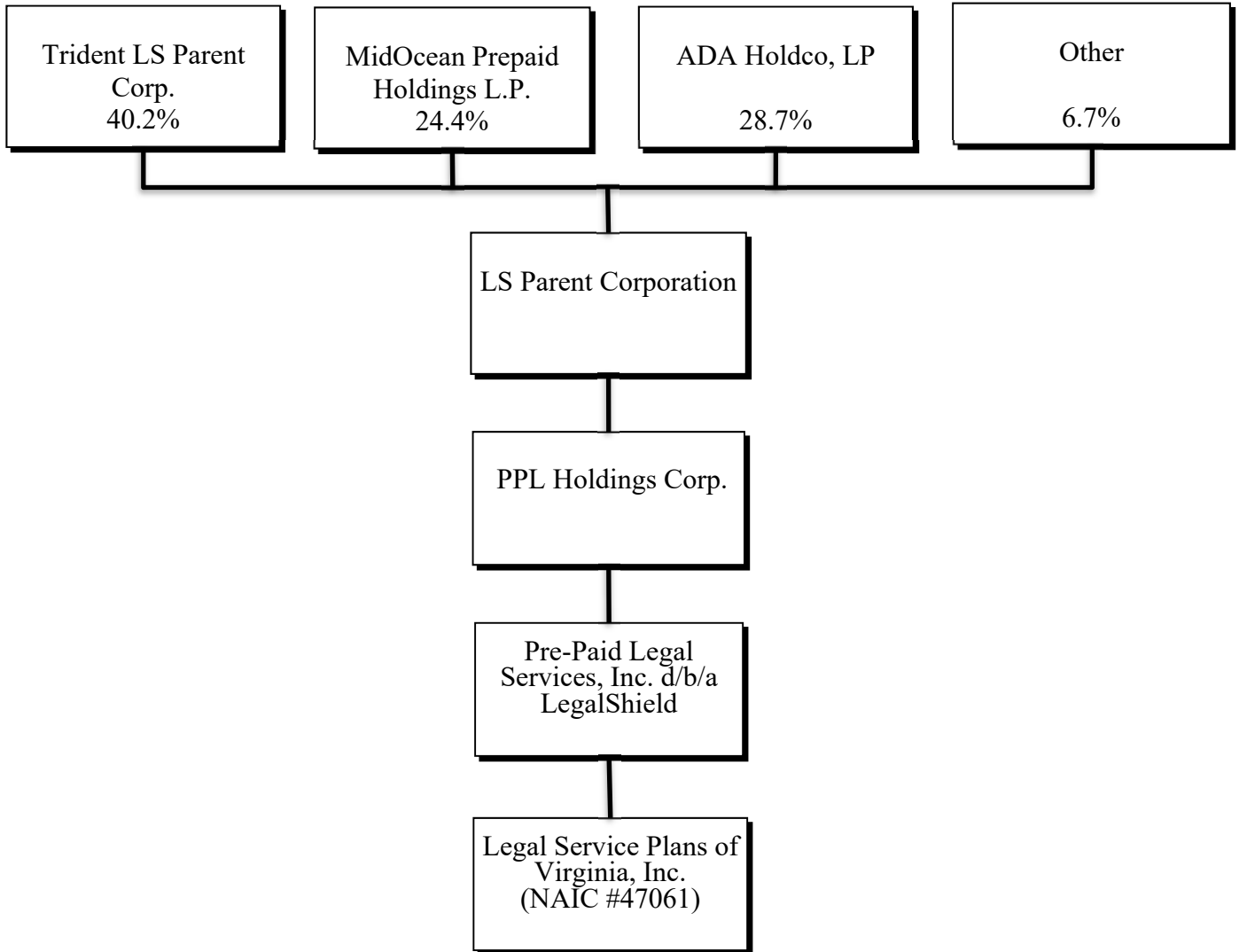
<u>Directors</u>	<u>Principal Occupation</u>
John A. Addison	Chief Executive Officer Addison Leadership Group Clermont, GA
Jeffrey A. Bell	Chief Executive Officer LegalShield Kirkland, Washington
Peter K. Jarvis	Vice President TidalScale Seattle, Washington

Officers

Jeffrey A. Bell	President
Keri C. Norris	Vice President
Kathleen S. Pinson	Secretary
Charlie S. Williamson	Treasurer

AFFILIATED COMPANIES

According to its Articles of Incorporation, the Corporation has the authority to issue 5,000 shares of common stock with a par value of \$.01 per share. At December 31, 2019, there were 100 issued and outstanding shares which were owned by PPLSI. The chart on the following page illustrates the organizational structure of the Corporation and selected affiliated entities at December 31, 2019:



TRANSACTIONS WITH AFFILIATES

Management Agreement

Effective October 1, 2017, the Corporation entered into a management agreement with PPLSI. Under the terms of the agreement, PPLSI shall provide the Corporation certain record keeping, accounting services and administrative assistance, including, but not limited to the following:

- a. The preparation, processing and issuance of contracts to qualified applicants and the maintenance of adequate records concerning such contracts.
- b. The disbursement of commissions to sales agents in accordance with approved commission schedules.
- c. The processing of payment of benefits in accordance with the terms of issued contracts and attorney provider agreements.
- d. The provision of certain customer services including responding to member inquiries regarding contracts and recording payment and address changes of members.
- e. The preparation of financial data to assist management or as required by regulatory authorities.
- f. The preparation and mailing of periodic statements of account to contract holders.
- g. The preparation of deposits, handling of funds and issuance of drafts.
- h. Coordination with attorneys to provide benefits under the attorney provider agreement and the resolution of member complaints regarding services provided by attorneys.

As monthly compensation for these services, PPLSI will bill the Corporation a monthly fee. The monthly fee shall be calculated as follows. All costs incurred by PPLSI for the administrative services provided to the Corporation and all subsidiaries of PPLSI shall be shared by all entities receiving such services. These costs will be allocated to the Corporation and each of the subsidiaries of PPLSI based upon each entity's pro rata share of revenues as a percent of the total revenue of the consolidated companies as reported on the consolidated GAAP financial statement. Each monthly fee shall be payable by the Corporation monthly throughout the term of this Agreement. The monthly fee charged to the Corporation shall include fees for any subsidiary of the Corporation and shall be

calculated in the manner described above for any subsidiary. During 2019, the Corporation incurred \$1,791,875 in fees related to this agreement.

Tax Allocation Agreement

On February 8, 2013, the Corporation entered into a Tax Allocation Agreement with and among MidOcean PPL Holdings Corp. and its subsidiaries. The agreement establishes methods for allocating consolidated federal and state income tax liabilities among the affiliates, for payment of such liabilities, and for sharing the benefits that may be derived from filing a consolidated federal and state income tax return.

Dividends to Stockholders

The Corporation paid the following cash dividends to PPLSI during the five-year period under review:

<u>For the Calendar Year Ended</u>	<u>Total Dividends Paid</u>
December 31, 2015	\$ 610,000
December 31, 2016	1,000,000
December 31, 2017	1,500,000
December 31, 2018	2,580,000
December 31, 2019	3,100,000

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to transact business in the entire Commonwealth of Virginia. Participation is offered to individuals and to for-profit business entities with 99 or fewer employees. Covered business entities do not include companies whose stock is publicly traded. Premiums are collected monthly, quarterly, semi-annually or annually through bank draft, payroll deduction, and credit card payment.

The Corporation has contracted with a participating law firm to provide covered services to members. The law firm is paid a per member per month fee on the enrollee's status as an individual or a business entity.

Covered services provided under contracts with individuals include, within limits specified in the contract, the following:

1. Legal Consultation and Assistance Services. Includes telephone consultations, drafting of letters, review of legal documents, preparation of Last Will and Testament and review of and changes to existing Last Will and Testament.

2. Motor Vehicle Related Services. Includes defense of moving traffic violations, legal assistance in maintaining or retaining a driver's license and the filing of lawsuits to collect personal injury or property damage claims.
3. Trial Defense Services. Includes pre-trial and trial services for members named as defendants in covered civil or criminal actions.
4. IRS Audit Protection Services. Includes services for tax return audits or appearances before the IRS concerning tax issues.
5. Other Legal Services. All other legal services may be obtained for a 25% discount from the participating law firm's standard hourly rate.

Covered services provided to business entities also include basic contract review, executed contract review, document review and debt collection letters. Exclusions include costs such as fines, court costs, expert witness fees, bonds, bail bonds, out-of-pocket expenses and any matter that the participating law firm determines has been raised an inordinate number of times without substantial change of circumstances.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2019. The data is compiled from the Corporation's filed Annual Statements, the previous examination report, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
2010	\$4,319,635	\$1,685,734	\$2,633,901
2011	2,088,985	799,058	1,289,927
2012	2,180,493	1,164,565	1,015,928
2013	2,253,938	1,077,882	1,176,056
2014	2,404,637	1,420,844	983,793
2015	2,396,906	1,293,319	1,103,587
2016	2,411,787	1,115,400	1,296,387
2017	2,017,784	884,702	1,133,082
2018	1,703,047	470,814	1,232,233
2019	1,559,631	931,418	628,213

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Legal Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2010	\$9,302,875	\$167,858	\$3,003,472	\$4,142,962	\$2,324,299
2011	9,062,673	162,293	2,855,614	4,031,065	2,338,287
2012	8,398,027	59,304	2,812,040	4,145,153	1,500,138
2013	8,561,208	55,457	2,777,171	4,155,847	1,683,647
2014	8,435,674	54,213	2,733,441	4,285,417	1,471,029
2015	8,690,187	52,541	2,805,739	4,757,621	1,179,368
2016	9,099,943	36,935	2,932,509	4,690,165	1,514,204
2017	9,314,246	33,741	2,992,843	4,465,868	1,889,276
2018	9,504,609	17,063	3,034,028	3,940,599	2,547,045
2019	9,796,798	12,088	3,074,080	4,253,944	2,480,862

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

<u>Year</u>	<u>Number of Members</u>
2010	37,142
2011	35,065
2012	35,239
2013	34,949
2014	34,509
2015	36,259
2016	37,292
2017	38,138
2018	37,786
2019	38,469

CAPITAL AND SURPLUS

At December 31, 2019, the Corporation's capital and surplus was \$628,213. Capital and surplus is comprised of 100 shares of \$.01 par value common stock issued and outstanding, with gross paid in and contributed surplus of \$5,203,117 and unassigned funds of (\$4,574,905). The Bureau requires the Corporation to maintain total reserves and unassigned funds of at least \$35,000.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Corporation for the period ending December 31, 2019. No examination adjustments were made to the statutory financial statements filed by the Corporation with the Bureau for the period ending December 31, 2019.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$268,700		\$268,700
Cash	<u>52,282</u>		<u>52,282</u>
Subtotals, cash and invested assets	\$320,982	\$0	\$320,982
Investment income due and accrued	3,081		3,081
Uncollected premiums and agents' balances in course of collection	122,716		122,716
Net deferred tax asset	96,836	71,139	25,697
Receivables from parent, subsidiaries, and affiliates	1,083,585		1,083,585
Aggregate write-ins for other than invested assets	<u>387,704</u>	<u>384,134</u>	<u>3,570</u>
Total assets	<u><u>\$2,014,904</u></u>	<u><u>\$455,273</u></u>	<u><u>\$1,559,631</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Premiums received in advance	\$461,122
General expenses due or accrued	5,176
Current federal income tax payable	<u>465,120</u>
Total liabilities	<u>\$931,418</u>
Common capital stock	\$1
Gross paid in and contributed surplus	5,203,117
Unassigned funds (surplus)	<u>(4,574,905)</u>
Total capital and surplus	<u>\$628,213</u>
Total liabilities, capital and surplus	<u><u>\$1,559,631</u></u>

STATEMENT OF REVENUE AND EXPENSES

Net premium income	<u>\$9,796,798</u>
Total revenues	<u>\$9,796,798</u>
Legal benefits	\$3,074,080
General administrative expenses	<u>4,253,944</u>
Total underwriting deductions	<u>\$7,328,024</u>
Net underwriting gain	<u>\$2,468,774</u>
Net investment income earned	\$9,916
Net realized capital gains	<u>2,172</u>
Net investment gains	<u>\$12,088</u>
Net income before federal income taxes	\$2,480,862
Federal income taxes incurred	<u>465,120</u>
Net income	<u><u>\$2,015,742</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus prior reporting year	<u>\$983,793</u>	<u>\$1,103,587</u>	<u>\$1,296,387</u>	<u>\$1,133,082</u>	<u>\$1,232,233</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS					
Net income	\$842,950	\$1,051,180	\$1,298,994	\$2,547,045	\$2,015,742
Change in net deferred income taxes	10,540	3,146	(51,716)	1,378	4,339
Change in nonadmitted assets	(123,696)	138,474	89,417	130,728	(67,219)
Surplus adjustments paid in					543,118
Dividends to stockholders	<u>(610,000)</u>	<u>(1,000,000)</u>	<u>(1,500,000)</u>	<u>(2,580,000)</u>	<u>(3,100,000)</u>
Net change in capital and surplus	<u>\$119,794</u>	<u>\$192,800</u>	<u>(\$163,305)</u>	<u>\$99,151</u>	<u>(\$604,020)</u>
Capital and surplus end of reporting year	<u><u>\$1,103,587</u></u>	<u><u>\$1,296,387</u></u>	<u><u>\$1,133,082</u></u>	<u><u>\$1,232,233</u></u>	<u><u>\$628,213</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$9,836,440
Net investment income	22,228
Total	<u>\$9,858,668</u>
Benefit and loss related payments	\$3,074,080
Commissions, expenses paid and aggregate write-ins for deductions	4,281,363
Total	<u>\$7,355,443</u>
Net cash from operations	<u>\$2,503,225</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$426,194
Total investment proceeds	<u>\$426,194</u>
Net cash from investments	<u>\$426,194</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus, less treasury stock	\$543,118
Dividends to stockholders	(3,100,000)
Other cash provided	<u>(401,495)</u>
Net cash from financing and miscellaneous sources	<u>(\$2,958,377)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	(\$28,958)
Cash and short-term investments:	
Beginning of the year	81,240
End of the year	<u>\$52,282</u>

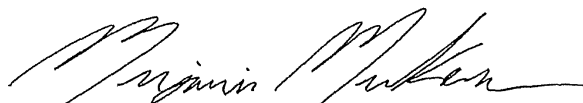
SUBSEQUENT EVENT

The Corporation paid cash dividends to PPLSI of \$900,000 in 2020.

ACKNOWLEDGMENT

Acknowledgement is hereby made of the courteous cooperation extended by the Corporation's officers and employees during the course of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Benjamin B. MacKercher". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Benjamin B. MacKercher, AFE
Insurance Examiner



December 2, 2020

Commonwealth of Virginia
David H. Smith, CFE, CPA, CPCU
Chief Examiner
P.O. Box 1157
Richmond, Virginia 23219

RE: Legal Service Plans of Virginia, Inc.
Examination Report as of December 31, 2019

Dear Mr. Smith:

Per your letter dated December 1, 2020, this correspondence is to acknowledge receipt and acceptance of the examination report of Legal Service Plans of Virginia, Inc. for the period ending December 31, 2019.

Two copies of the report will be sufficient, and we will make any additional copies needed.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Bell", is written over the typed name.

Jeffrey A. Bell
President
Legal Service Plans of Virginia, Inc.