

EXAMINATION REPORT
of
UNITED LEGAL BENEFITS OF VIRGINIA, INC.
Timonium, Maryland
as of
December 31, 2010

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 United Legal Benefits of Virginia, Inc. as of December 31, 2010, 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 22nd day of July, 2011

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
May 5, 2011

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

UNITED LEGAL BENEFITS OF VIRGINIA, INC.

Timonium, Maryland

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

DESCRIPTION

The Corporation was licensed in Virginia as a legal services plan pursuant to Chapter 44 of Title 38.2 of the Code of Virginia on June 1, 2001. The Corporation was last examined by representatives from the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2010.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia on September 28, 1999. According to its Articles of Incorporation, the purpose for which the Corporation is organized is to perform all acts necessary in connection with the operation of a prepaid legal services business and transact any or all lawful business.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the management of the Corporation shall be vested in a Board of Directors ("Board") of at least three, but no more than eleven directors elected annually by the stockholders for a one-year term, or until a successor is elected and qualified. The Board shall choose a President, a Secretary and a Treasurer who shall serve as the executive officers of the Corporation. Additionally, the Board may elect a Chairman of the Board, one or more Vice Presidents, assistant officers and subordinate officers as it deems necessary. A person may hold more than one office, except for the offices of the President and the Vice President of the Corporation.

At December 31, 2010, the Board and officers were as follows:

Directors

William E. Bridgforth

B. Douglas Goodell

John A. Karanik

Russell A. May

Officers

B. Douglas Goodell

Peggy W. Allio

Business Affiliations

President
Royal Crown Cola Bottling Company
Winchester, Virginia

President/Treasurer
United Legal Benefits of Virginia, Inc.
Timonium, Maryland

Retired
Glen Falls, Virginia

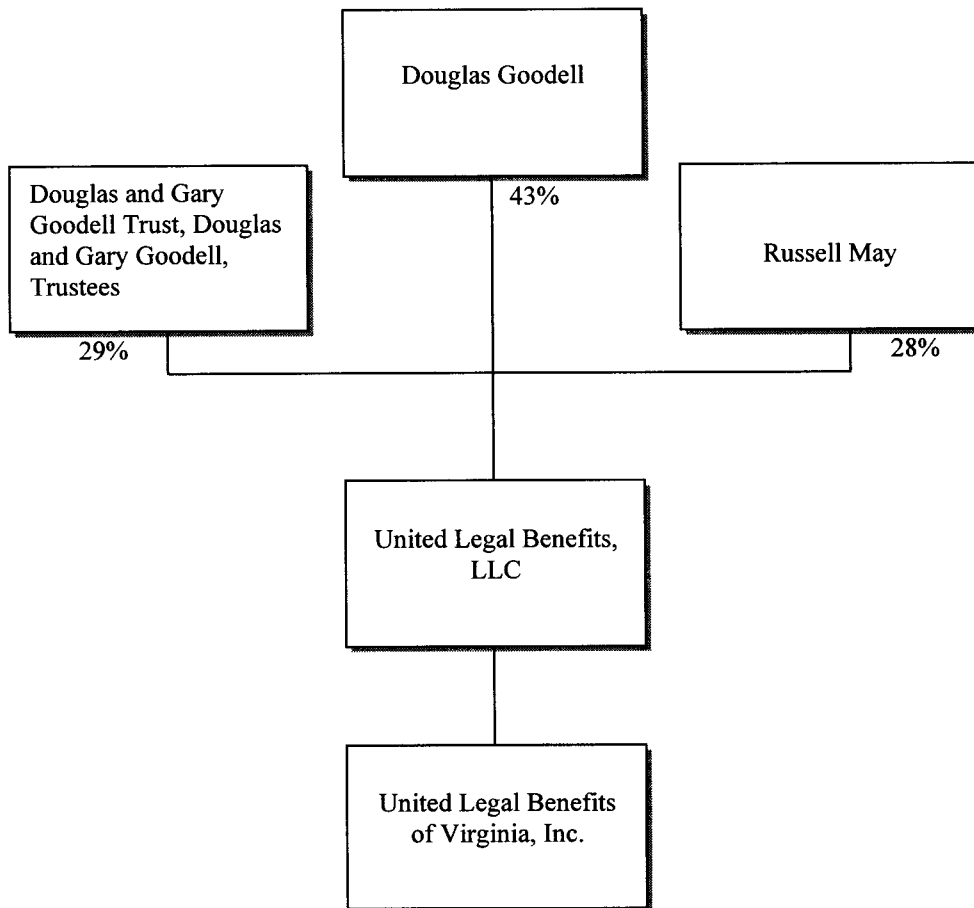
Director
United Legal Benefits, LLC
Timonium, Maryland

President/Treasurer

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, 2010, there were 100 issued and outstanding shares, which were owned by United Legal Benefits, LLC ("United"). The following chart illustrates the relationship between the Corporation and its parent and affiliates:



TRANSACTIONS WITH AFFILIATES

Administrative Services Agreement

Effective January 14, 2004, the Corporation entered into an administrative services agreement with United to provide various services including, but not limited to, management, administration, claims, operations, accounting and personnel. The term of the agreement shall be continuous, and shall remain in force 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 providing the services, the Corporation shall pay United no more than 40% of monthly revenues. Total administrative service fees paid to United for calendar year 2010 were \$12,200.

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to transact business in the entire 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 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, 2010, the Corporation had retainer agreements in effect with 4 attorney/law firms and had enrolled 156 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.

CONFLICT OF INTEREST

The Corporation has adopted a conflict of interest policy. The objective of this policy is to ensure that each director, officer, and employee faithfully serves the Corporation and refrains from doing anything which is adverse or prejudicial to the Corporation's interest. To ensure compliance with the policy, the Corporation has established procedures which require directors, officers and members of a committee with Board delegated powers to sign a conflict of interest disclosure form annually.

FIDELITY BOND AND OTHER INSURANCE

The Corporation had fidelity bond coverage in effect at December 31, 2010, with a \$15,000 limit of liability subject to a \$0 deductible. Additionally, the Corporation had comprehensive business liability, workers' compensation and property coverage in force at December 31, 2010.

GROWTH OF THE CORPORATION

The following data represents the growth of the Corporation, at year-end, from its inception in 2001 to December 31, 2010. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

<u>Year</u>	<u>Total Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>
2001	\$34,175	\$932	\$33,243
2002	35,416	0	35,416
2003	36,439	0	36,439
2004	36,365	1,601	34,764
2005	38,106	1,555	36,551
2006	38,721	954	37,767
2007	38,942	1,849	37,093
2008	39,569	1,744	37,825
2009	39,260	1,421	37,839
2010	41,117	1,781	39,336

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gain</u>	<u>Legal Expenses</u>	<u>Administrative Expenses</u>	<u>Pre-Tax Income (Loss)</u>
2001	\$10,590	\$230	\$3,449	\$6,499	\$872
2002	23,817	239	9,861	15,825	(1,630)
2003	29,015	120	11,588	16,524	1,023
2004	30,233	179	11,956	20,001	(1,545)
2005	26,361	159	10,090	15,698	732
2006	31,890	180	11,245	19,609	1,216
2007	33,343	106	13,790	20,333	(674)
2008	39,094	68	13,797	21,756	(1,391)
2009	28,853	61	11,180	21,450	(3,716)
2010	30,594	38	10,439	18,696	1,497

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

<u>Year</u>	<u>Number of Members</u>
2001	106
2002	137
2003	167
2004	170
2005	142
2006	175
2007	185
2008	175
2009	172
2010	156

CAPITAL AND SURPLUS

At December 31, 2010, the Corporation's capital and surplus, as restated by the Examiners subsequent to the examination was \$39,336. Capital and surplus is comprised of common capital stock; gross paid in and contributed surplus and unassigned funds. The Corporation had 100 shares of \$1 par value common stock issued and outstanding, with gross paid in and contributed surplus of \$50,400 and unassigned funds of (\$11,164). The Bureau requires the Corporation to maintain 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, 2008 through December 31, 2010. Assets were verified and liabilities were established at December 31, 2010. A review of income and disbursements for the period was made to the extent deemed necessary.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination and 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 at December 31, 2010, a statement of revenue and expenses for the year ended December 31, 2010, a reconciliation of capital and surplus for the period under review and a statement of cash flow for the year ending December 31, 2010. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Cash and short-term investments	<u>\$40,353</u>	<u> </u>	<u>\$40,353</u>
Subtotals, cash and invested assets	\$40,353	\$0	\$40,353
Uncollected premiums and agents' balances in the course of collection	<u>764</u>	<u>0</u>	<u>764</u>
Total assets	<u><u>\$41,117</u></u>	<u><u>\$0</u></u>	<u><u>\$41,117</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Premiums received in advance	<u>\$1,781</u>
Total liabilities	<u>\$1,781</u>
Common capital stock	\$100
Gross paid in and contributed surplus	50,400
Unassigned funds (surplus)	<u>(11,164)</u>
Total capital and surplus	<u>\$39,336</u>
Total liabilities, capital and surplus	<u><u>\$41,117</u></u>

STATEMENT OF REVENUE AND EXPENSES

Net premium income	<u>\$30,594</u>
Total revenues	<u>\$30,594</u>
Legal benefits	\$10,439
General administrative expenses	<u>18,696</u>
Total underwriting deductions	<u>\$29,135</u>
Net underwriting gain	<u>\$1,459</u>
Net investment income earned	<u>\$38</u>
Net investment gains	<u>\$38</u>
Net income before federal income taxes	\$1,497
Federal income taxes incurred	<u>0</u>
Net Income	<u><u>\$1,497</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Capital and surplus prior reporting year	* <u>\$37,093</u>	<u>\$37,825</u>	<u>\$37,839</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Adjustments from previous examination changes	2,123		
Net income or (loss)	(1,391)	(3,716)	1,497
Aggregate write-ins for gains (losses) in surplus	<u> </u>	<u>3,730</u>	<u> </u>
Net change in capital and surplus	<u>\$732</u>	<u>\$14</u>	<u>\$1,497</u>
Capital and surplus end of reporting year	<u><u>\$37,825</u></u>	<u><u>\$37,839</u></u>	<u><u>\$39,336</u></u>

* Adjusted Capital and Surplus from previous examination

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$30,381
Net investment income	<u>38</u>
Total	<u>\$30,419</u>
Benefit and loss related payments	\$10,439
Commissions, expenses paid and aggregate write-ins for deductions	<u>18,696</u>
Total	<u>\$29,135</u>
Net cash from operations	<u>\$1,284</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$1,284
Cash and short-term investments:	
Beginning of the year	<u>39,069</u>
End of the year	<u><u>\$40,353</u></u>

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, George E. Morgan, CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Milton Parker, Jr.", written in a cursive style.

Milton Parker, Jr.
Insurance Examiner



July 11, 2011

DEPARTMENT OF TAXATION
BUREAU OF INSURANCE
11 JUL 14 AM 9:29

Mr. David H. Smith
Chief Examiner
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

**RE: United Legal Benefits of Virginia, Inc.
Examination Report as of December 31, 2010**

Dear Mr. Smith

In accordance with your request, we acknowledge receipt of this report and we are requesting six (6) copies of the report to be sent to the company for present and future needs.

Thank you.

Very truly yours,

A handwritten signature in black ink that reads "B. Douglas Goodell".

B. Douglas Goodell
President/Treasurer

BDG/pa

United Legal Benefits

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