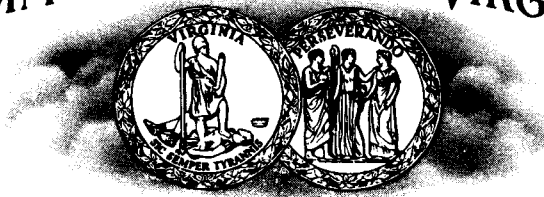


EXAMINATION REPORT
of
LEGAL RESOURCES OF VIRGINIA, INC.
Virginia Beach, Virginia
as of
December 31, 2009

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Alfred W. Gross, 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, 2009, 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, 2010

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
March 26, 2010

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

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, 2006. This examination covers the period from January 1, 2007 through December 31, 2009.

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

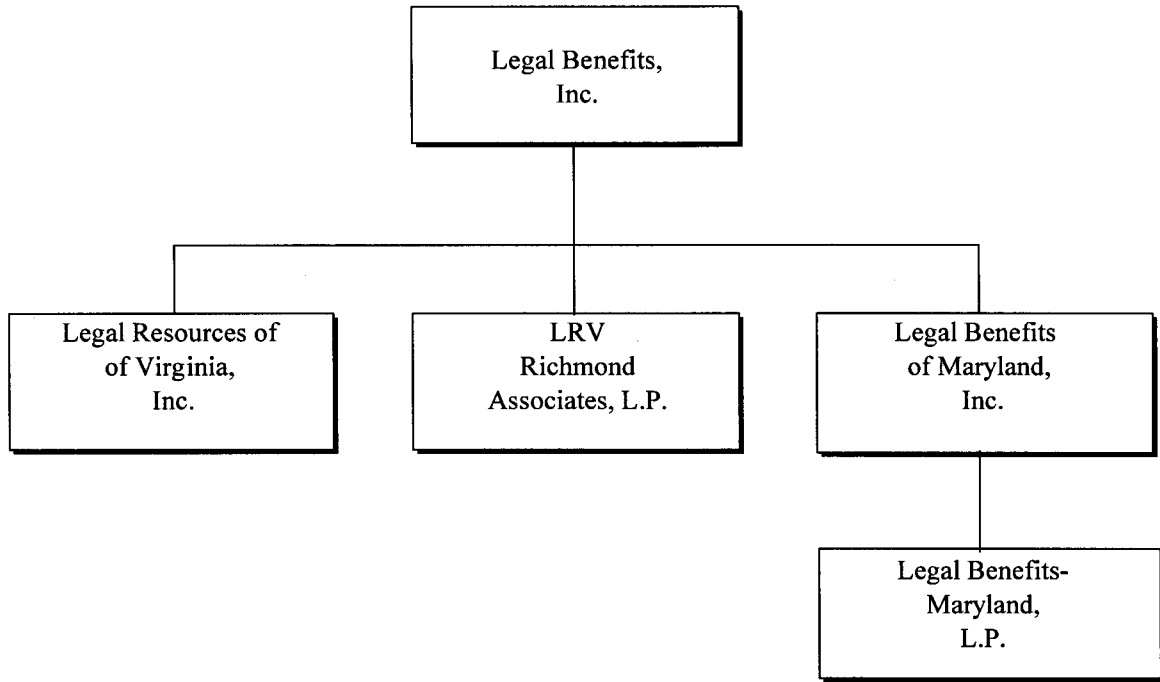
Management of the Corporation is vested in a board of up to five directors elected annually by the stockholders for a one year term, or until a successor is elected and qualified. The Board of Directors shall annually choose a President, a Secretary and any other officers deemed necessary, none of whom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

At December 31, 2009, 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
Cynthia H. Martin	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, 2009, 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 2009 were \$256,337.

Dividends to Stockholders

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

<u>For the Calendar Ended</u>	<u>Total Dividend Paid</u>
December 31, 2007	\$ 665,000
December 31, 2008	385,000
December 31, 2009	1,625,000

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, 2009, the Corporation had retainer agreements in effect with 46 attorney/law firms and had enrolled 24,918 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, 2009, with a \$100,000 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, 2009.

EMPLOYMENT AGREEMENT

The Corporation had an employment agreement in effect at December 31, 2009, with its President 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, 2009, 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, 2009. 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>
2000	\$143,621	\$78,906	\$64,715
2001	217,120	94,562	122,558
2002	249,735	79,746	169,989
2003	293,698	127,729	165,969
2004	261,160	162,318	98,842
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

<u>Year</u>	<u>Total Revenue</u>	<u>Net Investment Gains</u>	<u>Legal Expenses</u>	<u>Administrative Expenses</u>	<u>Net Income (Loss)</u>
2000	\$2,525,654		\$2,493,445		\$32,209
2001*	2,819,649	2,934	997,530	1,693,819	131,234
2002	3,038,902	2,895	1,076,505	1,819,162	146,130
2003	3,203,386	1,846	1,106,826	2,072,426	25,980
2004	3,505,090	1,455	1,218,145	2,255,852	32,548
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

*Prior to 2001, Net Investment Gains were included in Total Revenue and Administrative Expenses were included in Legal Expenses.

** 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>
2000	15,533
2001	16,385
2002	17,653
2003	17,446
2004	18,287
2005	17,638
2006	18,638
2007	22,461
2008	23,591
2009	24,918

CAPITAL AND SURPLUS

At December 31, 2009, the Corporation's capital and surplus was \$168,591. 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 \$133,591. 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, 2007 through December 31, 2009. Assets were verified and liabilities established at December 31, 2009.

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, 2009, a statement of revenue and expenses for the year ending December 31, 2009, a reconciliation of capital and surplus for the period under review and a statement of cash flow for the year ending December 31, 2009. 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	\$500,662		\$500,662
Uncollected premiums and agents' balances in the course of collection	147,479		147,479
Aggregate write-ins for other than invested assets	<u>5,112</u>		<u>5,112</u>
Total assets	<u><u>\$653,253</u></u>	<u><u>\$0</u></u>	<u><u>\$653,253</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Unpaid claims adjustment expenses	\$12,809
Premiums received in advance	166,525
General expenses due or accrued	91,946
Amounts due to parent, subsidiaries and affiliates	<u>213,382</u>
 Total liabilities	 <u>\$484,662</u>
 Common capital stock	 \$1,000
Gross paid in and contributed surplus	34,000
Unassigned funds (surplus)	<u>133,591</u>
 Total capital and surplus	 <u>\$168,591</u>
 Total liabilities, capital and surplus	 <u><u>\$653,253</u></u>

STATEMENT OF REVENUES AND EXPENSES

Net premium income	\$5,302,873
Aggregate write-ins for other non-health revenues:	
Administrative fee	375,193
Legal Benefits of Maryland, Inc. revenue	2,257,004
Enrollment fees	40,549
Other fees	<u>7,709</u>
Total revenues	<u>\$7,983,328</u>
Legal benefits	\$3,012,931
General administrative expenses	<u>1,893,125</u>
Total underwriting deductions	<u>\$4,906,056</u>
Net underwriting gain	<u>\$3,077,272</u>
Net investment income earned	<u>\$2,296</u>
Net investment gains	<u>\$2,296</u>
Broker fees related to Legal Benefits of Maryland, Inc.	<u>(\$2,047,205)</u>
Net income	<u><u>\$1,032,363</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Capital and surplus prior reporting year	<u>\$371,484</u>	<u>\$308,124</u>	<u>\$761,228</u>
Adjustment to restate prior year capital and surplus		(47,441)	
Net income	601,640	885,545	1,032,363
Dividends to stockholders	<u>(665,000)</u>	<u>(385,000)</u>	<u>(1,625,000)</u>
Net change in capital and surplus	<u>(\$63,360)</u>	<u>\$453,104</u>	<u>(\$592,637)</u>
Capital and surplus end of reporting year	<u><u>\$308,124</u></u>	<u><u>\$761,228</u></u>	<u><u>\$168,591</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$5,302,873
Net investment income	\$2,296
Miscellaneous income	<u>2,680,455</u>
Total	<u>\$7,985,624</u>
Benefit and loss related payments	\$3,012,931
Commissions, expenses paid and aggregate write-ins for deductions	<u>3,940,330</u>
Total	<u>\$6,953,261</u>
Net cash from operations	<u>\$1,032,363</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	(\$1,625,000)
Other cash provided	<u>196,571</u>
Net cash from financing and miscellaneous sources	<u>(\$1,428,429)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	(\$396,066)
Cash and short-term investments:	
Beginning of year	<u>896,728</u>
End of year	<u><u>\$500,662</u></u>

RECOMMENDATION FOR CORRECTIVE ACTION**Management and Control**

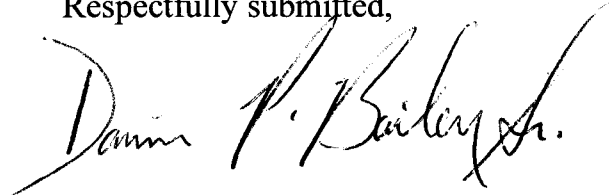
1. The NAIC Examiners' Handbook specifies standards for controls in information systems. One of the standards is that the Corporation should establish a written disaster recovery plan that is rehearsed periodically. The Corporation does not have a comprehensive written disaster recovery plan at this time, but does perform data backups of its computer server. An additional standard specified in the NAIC Examiners' Handbook is the development of a full business contingency plan which has been tested and addresses all significant business activities. The business contingency plan should include financial functions, telecommunication services and data processing services and should assign restoration priorities for all significant business activities. Copies of the business contingency plan should be kept in relevant off-site locations. The Corporation does not have a written business contingency plan at this time.

The Examiners recommend that the Corporation develop a comprehensive disaster recovery plan and that such a plan be rehearsed periodically. In addition, the Corporation should implement a business contingency plan that prioritizes all significant business activities and copies of such a plan should be kept at an off-site location.

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 cursive script that reads "Darrin P. Bailey, Sr." The signature is written in black ink and is positioned above the printed name.

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

June 21, 2010

David H. Smith, CFE, CPA
Chief Examiner
State Corporation Commission
Bureau of Insurance
1300 E. Main Street
Richmond, VA 23219

Re: Recommendation for Corrective Action
– Examination Report as of December 31, 2009

Dear Mr. Smith:

Legal Resources of Virginia, Inc. management team has reviewed the Examination Report as of December 31, 2009 presented consistent with Statutory Accounting Principles.

The recommendation for corrective action involved two actions: 1) establishing a written disaster recovery plan and 2) development of a full business contingency plan addressing all significant business activities. Currently the corporation does perform daily data backups of its server.

Management of the corporation supports establishing a written disaster recovery plan. A team of individuals consisting of the President, the General Manager, the Director of Attorney/Subscriber Relations, the Director of Finance and the Network Manager have met already to begin discussing this recovery plan. The timeframe to complete this plan is by the end of this calendar year.

The business contingency plan is more comprehensive since it will focus on the different business functions in the company. The same team members of the disaster recovery plan will develop the contingency plan. In order to put forth the proper attention and effort for this plan to be developed the timetable for completion is by June 2011.

We wish to thank Darrin Bailey, Senior Insurance Examiner, and his team for their professionalism and conduct during the examination. If you should have any further questions, please contact me.

Sincerely,



Pat Miltz
Director of Finance

Cc: Mr. V. James Garofalo, President, LROV, Inc.
Mr. Darrin Bailey, Sr., CFE, Senior Insurance Examiner
Ms. Cynthia Martin, General Manager, LROV, Inc.