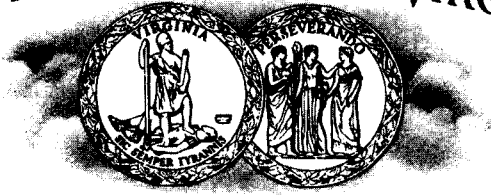


**EXAMINATION REPORT**  
**of**  
**MID-ATLANTIC VISION SERVICE PLAN, INC.**  
**Rancho Cordova, California**  
**as of**  
**December 31, 2009**

# COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
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I, Alfred W. Gross, 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, 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 19<sup>th</sup> day of November, 2010

A handwritten signature in cursive script that reads "Alfred W. Gross".

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Alfred W. Gross  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
August 26, 2010

Honorable Alfred W. Gross  
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

**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 from the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009.

**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, 2009, the Board of Directors and Officers were as follows:

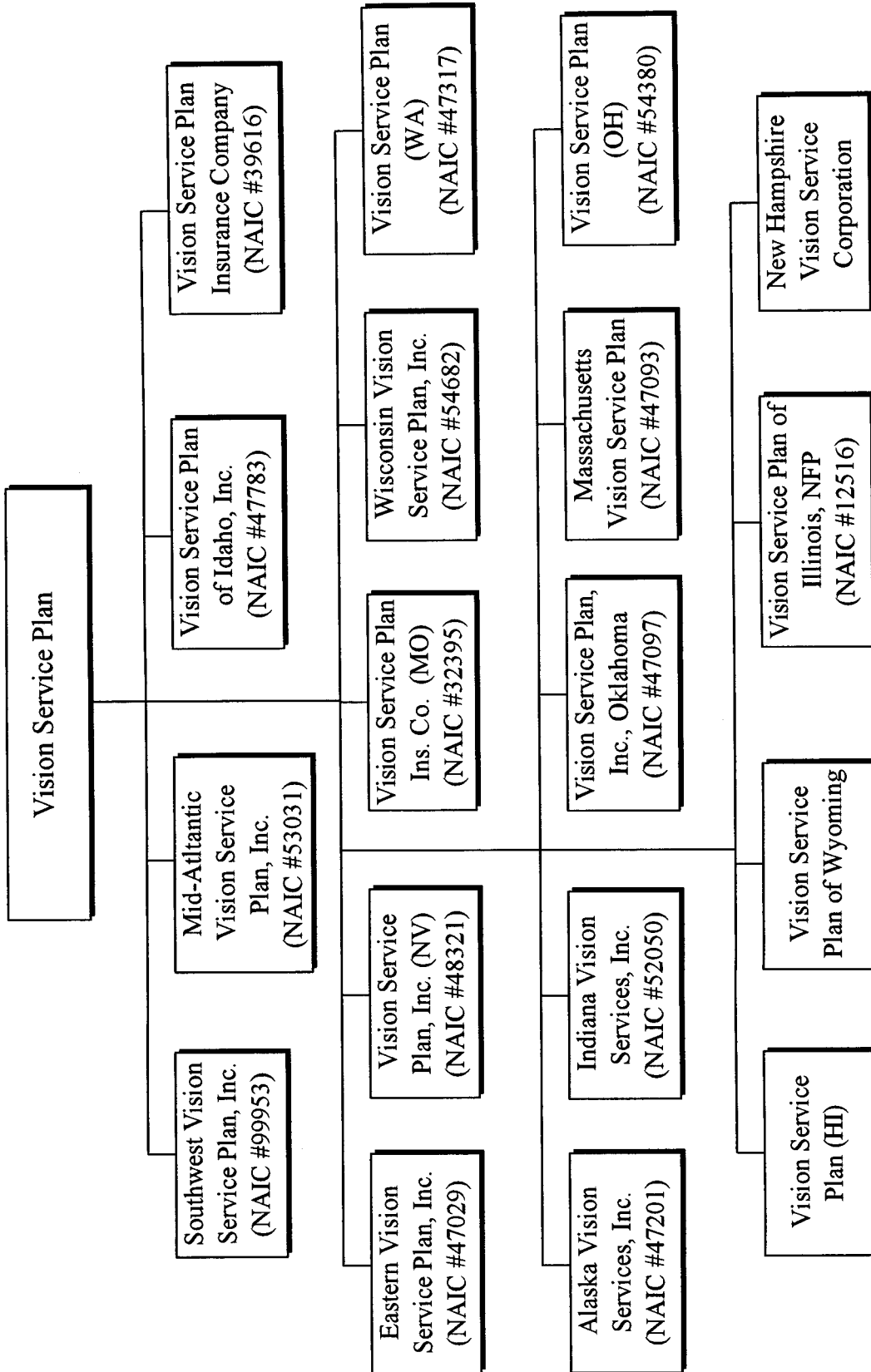
<u>Directors</u>	<u>Principal Occupation</u>
Gary N. Brooks	Senior Vice President – Operations Vision Service Plan Rancho Cordova, California
Patricia Cochran	Vice President – Finance Vision Service Plan Rancho Cordova, California
James R. Lynch	President Vision Service Plan Rancho Cordova, California

### Officers

James R. Lynch	President
Patricia Cochran	Treasurer
Gary N. Brooks	Secretary

## AFFILIATED COMPANIES

At December 31, 2009, 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, 2009:



## 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 2009, the Corporation incurred \$6,580,000 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 July 8, 2009, 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 May 13, 2009. According to the terms, VSP shall pay the Corporation equal installments of principal and interest over 36 months at an interest rate of 3.5%. Payment of principal and interest began in August 2009 and the promissory note matures in July 2012. At December 31, 2009, the balance of the promissory note was \$13,009,517.

### **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, 2009, the Corporation was listed as a named insured on a fidelity bond with a \$2,000,000 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, 2009. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

<u>Year</u>	Total Admitted <u>Assets</u>	Total <u>Liabilities</u>	Capital And <u>Surplus</u>
2000	\$15,776,043	\$2,989,663	\$12,786,380
2001	20,254,432	4,290,777	15,963,655
2002	21,198,457	2,775,213	18,423,244
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

<u>Year</u>	Total <u>Revenue</u>	Net Investment <u>Gains</u>	Vision <u>Expenses</u>	Administrative <u>Expenses</u>	Pre-Tax Income <u>(Loss)</u>
2000	\$31,525,222	\$689,130	\$28,277,393	(\$457,894)	\$4,394,853
2001	27,812,971	833,194	24,377,989	(649,964)	4,918,140
2002	19,876,067	482,684	18,657,515	1,245,244	455,992
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

<u>Year</u>	<u>Number of Members</u>
2000	1,371,619
2001	588,608
2002	607,949
2003	670,612
2004	424,574
2005	478,716
2006	531,095
2007	592,776
2008	718,556
2009	857,041

### **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>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$36,546,372		\$36,546,372
Common stocks	5,899,144		5,899,144
Cash and short-term investments	12,807,344		12,807,344
Other invested assets	13,009,517		13,009,517
Receivables for securities	3,052		3,052
	<hr/>		<hr/>
Subtotals, cash and invested assets	\$68,265,429	\$0	\$68,265,429
Investment income due and accrued	217,905		217,905
Uncollected premiums	1,692,066	1,573	1,690,493
Amounts receivable relating to uninsured plans	1,945,989	4,439	1,941,550
Net deferred tax asset	1,026,557		1,026,557
	<hr/>		<hr/>
Total assets	<u>\$73,147,946</u>	<u>\$6,012</u>	<u>\$73,141,934</u>

**LIABILITIES, CAPITAL AND SURPLUS**

Claims unpaid	\$2,498,030
Unpaid claims adjustment expense	29,664
Aggregate health policy reserves	1,183,919
Premiums received in advance	88,501
General expenses due or accrued	999,807
Current federal income tax payable	8,619,432
Amounts due to parent, subsidiaries and affiliates	2,803,350
Payable for securities	25,431
Liability for amounts held under uninsured health plans	471,303
Aggregate write-ins for other liabilities	<u>41,591</u>
 Total liabilities	 <u>\$16,761,028</u>
 Aggregate write-ins for other than surplus funds	 \$5,567,526
Unassigned funds (surplus)	<u>50,813,380</u>
 Total capital and surplus	 <u>\$56,380,906</u>
 Total liabilities, capital and surplus	 <u><u>\$73,141,934</u></u>

**STATEMENT OF REVENUE AND EXPENSES**

Net premium income	\$51,019,234
Fee-for-service	1,782,191
Risk revenue	<u>(50,688)</u>
Total revenues	<u>\$52,750,737</u>
<b>Vision:</b>	
Vision benefits	<u>\$41,162,048</u>
Total vision benefits	\$41,162,048
Claims adjustment expenses	328,884
General administrative expenses	3,524,462
Increase in reserves for life and accident health contracts	<u>970,655</u>
Total underwriting deductions	<u>\$45,986,049</u>
Net underwriting gain	<u>\$6,764,688</u>
Net investment income earned	\$1,417,179
Net realized capital losses	<u>(1,390,832)</u>
Net investment gains	<u>\$26,347</u>
Net loss from agents' or premium balances charged off	<u>(\$2,136)</u>
Net income before federal income taxes	\$6,788,899
Federal income taxes incurred	<u>2,616,612</u>
Net income	<u><u>\$4,172,287</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Capital and surplus prior reporting year	<u>\$44,773,791</u>	<u>\$53,393,178</u>	<u>\$50,471,116</u>
Net income (loss)	\$8,872,485	(\$3,182,254)	\$4,172,287
Change in net unrealized capital gains and (losses)	(226,728)	(1,254,135)	1,365,390
Change in net deferred tax income		1,539,527	323,881
Change in nonadmitted assets	<u>(26,370)</u>	<u>(25,200)</u>	<u>48,232</u>
Net change in capital and surplus	<u>\$8,619,387</u>	<u>(\$2,922,062)</u>	<u>\$5,909,790</u>
Capital and surplus end of reporting year	<u><u>\$53,393,178</u></u>	<u><u>\$50,471,116</u></u>	<u><u>\$56,380,906</u></u>

**CASH FLOW****Cash from Operations**

Premiums collected net of reinsurance	\$51,079,110
Net investment income	2,097,739
Miscellaneous income	1,731,503
Total	<u>\$54,908,352</u>
Benefit and loss related payments	\$40,699,692
Commissions, expenses paid and aggregate write-ins for deductions	4,371,017
Federal income taxes paid	2,635,670
Total	<u>\$47,706,379</u>
Net cash from operations	<u>\$7,201,973</u>

**Cash from Investments**

Proceeds from investments sold, matured or repaid:	
Bonds	\$26,655,532
Stocks	5,645,697
Other invested assets	1,990,483
Miscellaneous proceeds	21,081
Total investment proceeds	<u>\$34,312,793</u>
Cost of investments acquired (long-term only):	
Bonds	\$19,544,275
Stocks	6,026,326
Other invested assets	15,000,000
Total investment acquired	<u>\$40,570,601</u>
Net cash from investments	<u>(\$6,257,808)</u>

**Cash from Financing and Miscellaneous Sources**

Cash provided (applied):	
Other cash provided	<u>\$2,137,551</u>
Net cash from financing and miscellaneous sources	<u>\$2,137,551</u>

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

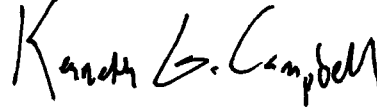
Net change in cash cash equivalents and short-term investments	\$3,081,716
Cash and short-term investments:	
Beginning of the year	<u>9,725,628</u>
End of the year	<u><u>\$12,807,344</u></u>



**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, Darrin Bailey, CFE, participated in the work of the examination.

Respectfully submitted,

Handwritten signature of Kenneth G. Campbell in black ink.

Kenneth G. Campbell, CFE  
Assistant Chief Examiner



STATE CORP COMMISSION  
BUREAU OF INSURANCE  
10 NOV -9 AM 9:53

November 4, 2010

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, 2009**

Dear Mr. Smith:

On behalf of Mid-Atlantic Vision Service Plan, Inc., I hereby respectfully acknowledge receipt of the examination report and your October 26, 2010 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  
Controller  
(916) 858-7440