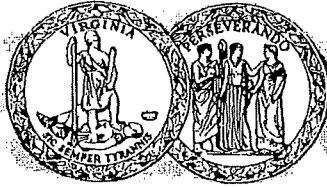


**EXAMINATION REPORT**  
**of**  
**U.S. LAW SHIELD OF VIRGINIA, INC.**  
**Houston, Texas**  
**as of**  
**December 31, 2017**

# COMMONWEALTH OF VIRGINIA



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

P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
1300 E. MAIN STREET  
RICHMOND, VIRGINIA 23219  
TELEPHONE: (804) 371-9741  
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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 U.S. Law Shield of Virginia, Inc. as of December 31, 2017, 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 13<sup>th</sup> day of December 2018

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

Scott A. White  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
September 28, 2018

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

**U.S. LAW SHIELD OF VIRGINIA, INC.**

Houston, Texas

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

**SCOPE OF THE EXAMINATION**

This is the first full scope financial condition examination of the Corporation by representatives of the State Corporation Commission's Bureau of Insurance ("Bureau"). This examination covers the period from initial licensure on September 16, 2014 through December 31, 2017.

This examination was conducted in accordance with the NAIC Financial Condition Examiners' Handbook ("Handbook"). The Handbook requires that the Bureau plan and perform the examination to evaluate the Corporation's financial condition, assess corporate governance, identify current and prospective risks of the Corporation and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during

the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Corporation.

### HISTORY

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 September 16, 2014. On October 8, 2015, the Corporation began business as a legal services plan.

### MANAGEMENT AND CONTROL

The Corporation's bylaws provide that the powers of the Corporation shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, the board of directors. The number of directors shall be two provided that the number may be increased or decreased from time to time by an amendment to the bylaws. At the first annual meeting of shareholders and at each annual meeting thereafter, the holders of shares entitled to vote in the election of directors shall elect directors to hold office until the next succeeding annual meeting. The officers of the Corporation shall be a President and a Secretary. The President shall be the chief executive officer of the Corporation and shall preside at all meetings of all directors and shareholders. The officers shall be elected at the annual meeting of the board of directors. If any office is not filled at such annual meeting, it may be filled at any subsequent regular or special meeting of the board.

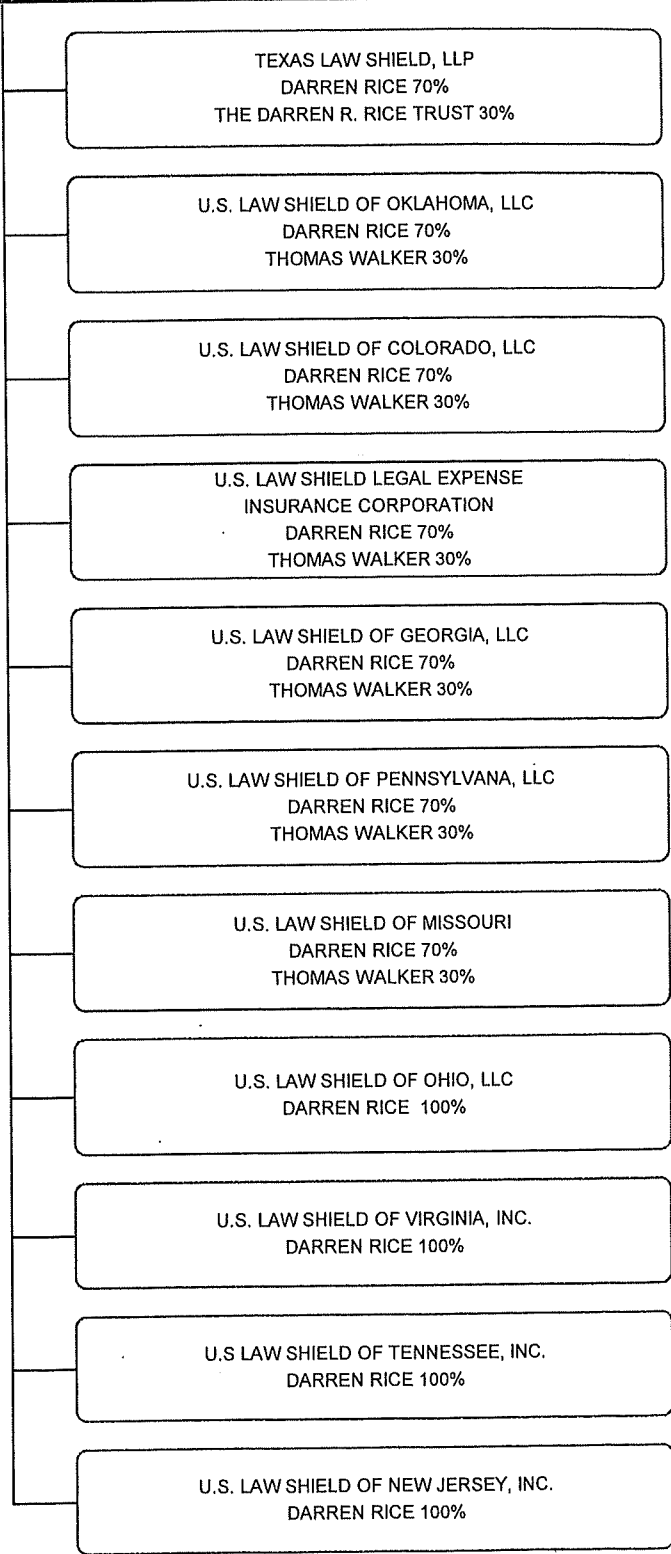
At December 31, 2017, the Board and Officers were as follows:

| <u>Directors</u>    | <u>Principal Occupation</u>                          |
|---------------------|--|
| Kirk W. Evans       | President<br>Texas Law Shield, LLC<br>Houston, Texas |
| Darren R. Rice      | President<br>Texas Law Shield, LLC<br>Houston, Texas |
| <br><u>Officers</u> |  |
| Kirk K. Evans       | President  |
| Darren R. Rice      | Secretary  |

**RELATED PARTIES**

According to its Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common stock. At December 31, 2017, there were 1,000 issued and outstanding shares, and all were owned by Darren R. Rice. In addition, Mr. Rice owns 100% or a majority stake in nine other legal plans. The following chart illustrates the relationship between the Corporation and its affiliates:

# U.S. LAW SHIELD GROUP



## TRANSACTIONS WITH AFFILIATES

### Service Agreement

Effective September 30, 2015, the Corporation entered into a service agreement with Texas Law Shield, LLP ("Texas Law Shield"). After the initial three year term, this agreement shall renew automatically in one year increments, unless either party gives the other at least thirty days prior notice of termination or non-renewal prior to the end of the existing term. Texas Law Shield shall provide certain services to the Corporation, including, but not limited to:

- a. Premium collection.
- b. Claims administration including intake of client phone calls and assigning of provider attorneys to insureds.
- c. Quality control including receipt and resolution of insured inquiries and issues.
- d. Accounting including general ledger maintenance and financial statement preparation.
- e. Regulatory including monitoring and preparing required filings for State Insurance Departments.
- f. Cash and investment management, including maintaining and monitoring all cash and investment accounts to ensure maximum return on all investments.

Texas Law Shield shall be paid a monthly fee based on actual cost of services provided, including direct costs and overhead, plus ten percent. During 2017, the Corporation incurred \$136,049 in fees related to this agreement.

## TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to transact business in the entire Commonwealth of Virginia. As consideration, the Corporation pays the program attorney \$2 per month for each member in good standing. Members are provided legal services by the program attorney, including legal representation in any criminal or civil procedure arising from an incident involving the member and the use of a firearm if the member is in a place within the Commonwealth of Virginia where the member is legally permitted to possess the firearm. Legal representation includes a trial and any potential retrials. In addition, the member will receive periodic updates on topics affecting gun owners and educational material concerning gun ownership, gun rights and the law.

There are two basic plans, one for individuals and one for couples. There are two optional coverage plans, one for minor children and a multi-state plan. The contract holders may pay either monthly or annually.



### GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the three-year period ending December 31, 2017. The data is compiled from the Corporation's filed Annual Statements and the current examination report.

| <u>Year</u> | <u>Total<br/>Admitted<br/>Assets</u> | <u>Total<br/>Liabilities</u> | <u>Capital<br/>and<br/>Surplus</u> |
|-------------|--------------------------------------|------------------------------|------------------------------------|
| 2014        | \$304                                | \$7,537                      | (\$7,233)                          |
| 2015        | 68,487                               | 17,206                       | 51,281                             |
| 2016        | 37,177                               | 94,580                       | (57,403)                           |
| 2017        | 211,643                              | 178,550                      | 33,093                             |

| <u>Year</u> | <u>Total<br/>Revenue</u> | <u>Legal<br/>Expenses</u> | <u>Administrative<br/>Expenses</u> | <u>Net<br/>Income<br/>(Loss)</u> |
|-------------|--------------------------|---------------------------|------------------------------------|----------------------------------|
| 2014        | \$0                      | \$0                       | \$7,233                            | (\$7,233)                        |
| 2015        | 2,753                    | 0                         | 19,239                             | (16,486)                         |
| 2016        | 106,203                  | 0                         | 354,885                            | (248,682)                        |
| 2017        | 334,827                  | 48,548                    | 515,360                            | (229,081)                        |

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

| <u>Year</u> | <u>Number of<br/>Members</u> |
|-------------|------------------------------|
| 2014        | 0                            |
| 2015        | 57                           |
| 2016        | 1,394                        |
| 2017        | 2,974                        |

**CAPITAL AND SURPLUS**

At December 31, 2017, the Corporation's capital and surplus was \$33,093. Capital and surplus is comprised of common capital stock, gross paid in and contributed surplus and unassigned funds. The Corporation had gross paid in and contributed surplus of \$546,691 and unassigned funds of (\$513,598). The Bureau requires the Corporation to maintain total reserves and unassigned funds of at least \$35,000.

**FINANCIAL STATEMENTS**

The following financial statements present the financial condition of the Corporation for the period ending December 31, 2017. Examination adjustments made to the statutory financial statements filed by the Corporation with the Bureau for the period ending December 31, 2017 have been incorporated into these financial statements and are noted in the Examiners' Changes in Surplus statement. Descriptions of the examination adjustments are included in the Recommendation for Corrective Actions section of the report.

ASSETS

|                                     | <u>Assets</u>           | Nonadmitted<br><u>Assets</u> | Net Admitted<br><u>Assets</u> |
|-------------------------------------|-------------------------|------------------------------|-------------------------------|
| Cash                                | <u>\$211,643</u>        | <u>\$0</u>                   | <u>\$211,643</u>              |
| Subtotals, cash and invested assets | <u>\$211,643</u>        | <u>\$0</u>                   | <u>\$211,643</u>              |
| Total assets                        | <u><u>\$211,643</u></u> | <u><u>\$0</u></u>            | <u><u>\$211,643</u></u>       |

**LIABILITIES, CAPITAL AND SURPLUS**

|  |                         |
|--|-------------------------|
| Premiums received in advance           | \$169,476               |
| General expenses due or accrued        | <u>9,074</u>            |
| Total liabilities                      | <u>\$178,550</u>        |
| Gross paid in and contributed surplus  | \$546,691               |
| Unassigned funds (surplus)             | <u>(513,598)</u>        |
| Total capital and surplus              | <u>\$33,093</u>         |
| Total liabilities, capital and surplus | <u><u>\$211,643</u></u> |

**STATEMENT OF REVENUE AND EXPENSES**

|   |                           |
|---|---------------------------|
| Net premium income                                | \$403,269                 |
| Change in unearned premium reserves               | (74,896)                  |
| Aggregate write-ins for other non-health revenues | <u>6,454</u>              |
| Total revenues                                    | <u>\$334,827</u>          |
| Legal benefits                                    | \$48,548                  |
| General administrative expenses                   | <u>515,360</u>            |
| Total underwriting deductions                     | <u>\$563,908</u>          |
| Net underwriting (loss)                           | <u>(\$229,081)</u>        |
| Net (loss)  | <u><u>(\$229,081)</u></u> |

**RECONCILIATION OF CAPITAL AND SURPLUS**

|   | <u>2014</u>      | <u>2015</u>      | <u>2016</u>        | <u>2017</u>       |
|---|------------------|------------------|--------------------|-------------------|
| Capital and surplus<br>prior reporting year                           | <u>\$0</u>       | <u>(\$7,233)</u> | <u>\$51,281</u>    | <u>(\$57,403)</u> |
| Net income or (loss)  | (\$7,233)        | (\$16,486)       | (\$248,684)        | (\$229,081)       |
| Capital changes:  |                  |                  |                    |                   |
| Paid in   | 0                | 75,000           | 140,000            | 331,691           |
| Aggregate write-ins for losses in<br>surplus (correction of an error) | <u>0</u>         | <u>0</u>         | <u>0</u>           | <u>(12,114)</u>   |
| Net change in<br>capital and surplus                                  | <u>(\$7,233)</u> | <u>\$58,514</u>  | <u>(\$108,684)</u> | <u>\$90,496</u>   |
| Capital and surplus<br>end of reporting year                          | <u>(\$7,233)</u> | <u>\$51,281</u>  | <u>(\$57,403)</u>  | <u>\$33,093</u>   |

**CASH FLOW****CASH FROM OPERATIONS**

|  |                    |
|--|--------------------|
| Premiums collected net of reinsurance                                | \$403,269          |
| Miscellaneous income   | 6,454              |
| Total  | <u>\$409,723</u>   |
| Commissions, expenses paid and aggregate<br>write-ins for deductions | \$563,908          |
| Total  | <u>\$563,908</u>   |
| Net cash from operations   | <u>(\$154,185)</u> |

**CASH FROM FINANCING AND MISCELLANEOUS SOURCES**

|   |                  |
|---|------------------|
| Cash provided:                                    |                  |
| Capital and paid in surplus                       | \$328,651        |
| Other cash provided                               | 649              |
| Net cash from financing and miscellaneous sources | <u>\$329,300</u> |

**RECONCILIATION OF CASH**

|                       |                  |
|-----------------------|------------------|
| Net change in cash    | \$175,115        |
| Cash:                 |                  |
| Beginning of the year | 36,528           |
| End of the year       | <u>\$211,643</u> |



EXAMINERS' CHANGES IN SURPLUS

|   | <u>Amount<br/>per<br/>Corporation</u> | <u>Amount<br/>per<br/>Examiner</u> | <u>Increase<br/>(Decrease)<br/>to Capital<br/>and Surplus</u> |
|---|---------------------------------------|------------------------------------|---|
| <u>Liabilities:</u>                       |                                       |                                    |   |
| General expenses due or accrued           | \$0                                   | \$9,074                            | <u>(\$9,074)</u>  |
| Examiners' change in capital and surplus  |                                       |                                    | <u>(\$9,074)</u>  |
| Total capital and surplus per Corporation |                                       |                                    | \$42,167  |
| Total capital and surplus per Examiner    |                                       |                                    | <u>33,093</u>   |
| Net change in capital and surplus         |                                       |                                    | <u>(\$9,074)</u>  |

## RECOMMENDATIONS FOR CORRECTIVE ACTION

### Changes in Financial Statements

1. General expenses due or accrued \$9,074

The above liability is \$9,074 more than the amount reported by the Corporation in its 2017 Annual Statement. The increase is based on a review of invoices paid in 2018 for expenses incurred in 2017. The Corporation should perform a review at year-end to ensure that all unpaid expenses are accrued and reported as liabilities in future filings with the Bureau.

2. Gross paid in and contributed surplus \$546,691

The above capital account is \$504,524 more than the amount reported by the Corporation in its 2017 Annual Statement. The increase is a result of the Corporation erroneously reporting (\$501,484) in negative Unassigned funds (surplus) as an offset to the amount of the Gross paid in and contributed surplus. The Corporation also did not report an additional \$3,040 that should have been reported as Gross paid in and contributed surplus at year-end.

3. Unassigned funds (surplus) (\$513,598)

The above negative Unassigned funds (surplus) account has been established by the Examiners. The change is a result of the Corporation erroneously reporting (\$501,484) in negative Unassigned funds (surplus) as an offset to the amount of the Gross paid in and contributed surplus. The (\$501,484) represents the Corporation's cumulative losses from operations since inception. An additional decrease of Unassigned funds (surplus) of \$12,114 represents a correction of an error in reporting from a previous filing.

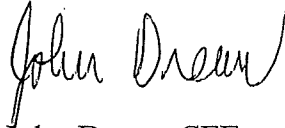
### SUBSEQUENT EVENT

The Corporation has agreed to maintain a capital and surplus of at least \$35,000. As the result of this financial examination, the Corporation's capital and surplus as of December 31, 2017 was \$33,093. On May 22, 2018, the Corporation received a capital contribution of \$35,000 from Texas Law Shield, LLP, which cured the deficiency.

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

Respectfully submitted,

A handwritten signature in black ink that reads "John Dreon". The signature is written in a cursive style with a large initial "J".

John Dreon, CFE  
Principal Insurance Financial Analyst



**LEGAL DEFENSE  
FOR  
SELF DEFENSE**

## **U.S. LawShield®**

1020 Bay Area Blvd., Suite 220  
Houston, Texas 77058

877-448-6839 USLawShield.com

**December 5, 2018**

Attn: David H. Smith, Chief Examiner  
Commissioner of Insurance  
P.O. Box 1157  
Richmond, VA 23218

**Re: U.S. Law Shield of Virginia, Inc.  
Examination Report Response**

To Whom It May Concern:

We do not take issue with any of the matters contained in the examination report. Please find enclosed our written responses to address the recommendations for corrective action in the examination report.

Additionally, two copies of the report should be sufficient for our Company's needs.

Thank you for your attention in this matter. If you have any questions or concerns, please do not hesitate to contact me directly.

Sincerely,

*Kirk Evans*

President

U.S. & Texas LawShield®

877-448-6839

US LAWSHIELD OF VIRGINIA, INC.  
WRITTEN RESPONSES TO CORRECTIVE ACTION 12/05/2018

General Expenses due or accrued

The Corporation will perform a review at year-end to ensure that all unpaid expenses are accrued and reported as liabilities in future filings with the Bureau.

Gross paid in and contributed surplus

The Corporation will perform reviews to verify that Gross paid in and contributed surplus are appropriately reported to ensure that the previous mistakes made do not occur in the future.

Unassigned funds (surplus)

The Corporation will perform reviews to verify that Unassigned funds are appropriately reported to ensure that the previous mistakes made do not occur in the future.