

EXAMINATION REPORT
of
LEGAL RESOURCES OF VIRGINIA, INC.
Virginia Beach, Virginia
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 Resources 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 18th day of August 2020

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

Scott A. White
Commissioner of Insurance



TABLE OF CONTENTS

	<u>Page</u>
Scope of the Examination	1
Description	1
History	2
Management and Control.....	2
Territory and Plan of Operation.....	3
Related Parties	3
Transactions with Affiliates.....	5
Employment Agreement.....	5
Growth of the Corporation.....	6
Capital and Surplus.....	7
Financial Statements	8
Recommendation for Corrective Action	15
Acknowledgement	16

Richmond, Virginia
May 8, 2020

Honorable Scott A. White
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

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 is a legal services plan operating pursuant to Chapter 44 of Title 38.2 of the Code of Virginia.

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, 2019, the Board of Directors and officers were as follows:

Directors

V. James Garofalo

David A. Schlaifer

William H. Thumel, Jr.

Business Affiliations

President/Secretary
Legal Resources of Virginia, Inc
Virginia Beach, Virginia

Chief Executive Officer
DAS Health
Tampa, Florida

President and Chief Executive Officer
Abacus Services, Inc.
Virginia Beach, Virginia

Officers

V. James Garofalo
Patricia A. Miltz

President/Secretary
Assistant Secretary

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.

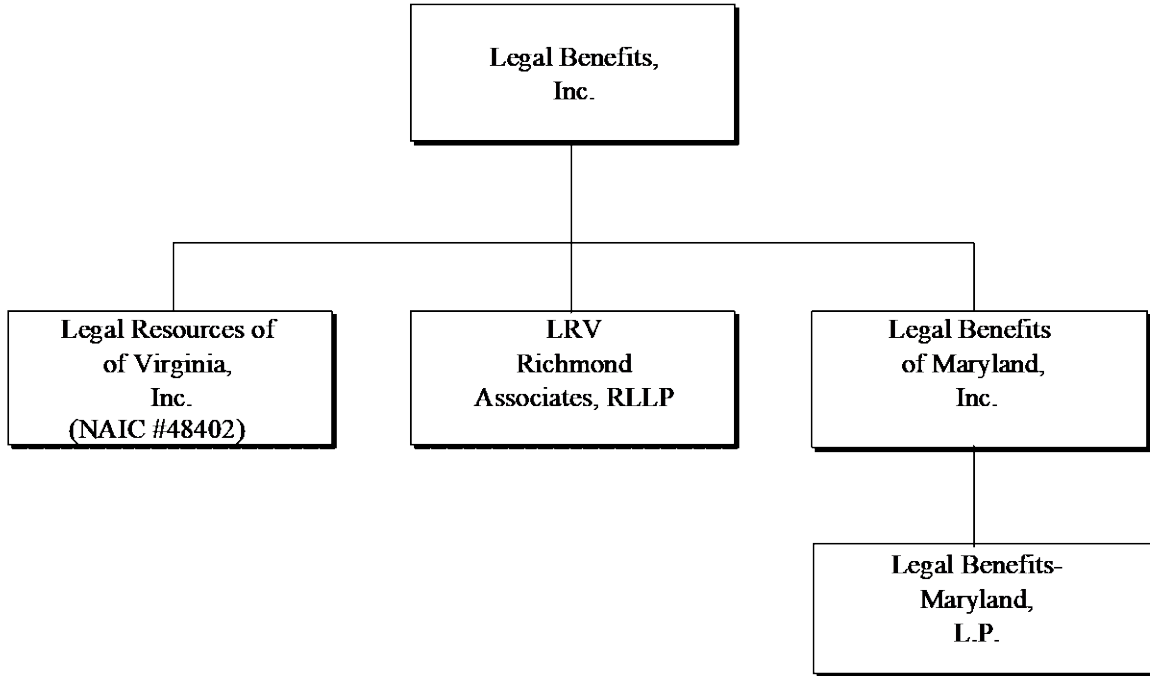
Each participating attorney/law firm receives 40% of the monthly premium for each subscriber who has selected that attorney/law firm as their plan legal service provider. As of December 31, 2019, the Corporation had retainer agreements in effect with 58 attorney/law firms and had enrolled 38,467 subscribers. 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.

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, 2019, 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 2019 were \$44,000.

Dividends to Stockholders

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

<u>For the Calendar Ended</u>	<u>Total Dividend Paid</u>
December 31, 2015	\$980,000
December 31, 2016	165,500
December 31, 2017	360,000
December 31, 2018	1,490,000

EMPLOYMENT AGREEMENT

The Corporation had an employment agreement in effect at December 31, 2019, with its President, V. James Garofalo, providing for annual compensation of \$100,000. The President's annual salary during the term of the agreement may be adjusted by the affirmative vote of the Board of Directors. 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

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>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2010	\$895,400	\$637,264	\$258,136
2011	811,761	591,487	220,274
2012	925,491	527,904	397,587
2013	855,877	525,354	330,523
2014	748,502	612,437	136,065
2015	869,129	813,431	55,698
2016	1,825,805	899,354	926,451
2017	2,136,243	761,859	1,374,384
2018	2,181,982	1,130,108	1,051,874
2019	3,182,707	1,223,238	1,959,469

<u>Year</u>	<u>Total Revenue</u>	Net			<u>Net Income</u>
		<u>Investment Gains</u>	<u>Legal Expenses</u>	<u>Administrative Expenses</u>	
2010	\$7,792,389	\$2,509	\$2,911,744	\$4,038,609	\$844,545
2011	7,718,939	126	2,846,839	4,168,088	704,138
2012	7,946,940	220	2,971,536	4,233,311	742,313
2013	8,620,298	165	3,216,221	4,634,470	769,772
2014	9,145,780	116	3,389,575	4,957,809	798,512
2015	10,099,331	116	3,733,560	5,466,105	899,782
2016	10,661,404	116	3,934,561	5,690,707	1,036,252
2017	11,078,858	174	4,133,822	6,137,277	807,933
2018	11,684,184	216	4,404,154	6,112,756	1,167,490
2019	12,289,142	200	4,675,947	6,705,800	907,595

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

<u>Year</u>	<u>Number of Subscribers</u>
2010	21,654
2011	22,551
2012	24,440
2013	25,656
2014	27,600
2015	29,144
2016	30,591
2017	33,506
2018	35,336
2019	38,467

CAPITAL AND SURPLUS

At December 31, 2019, the Corporation's capital and surplus was \$1,959,469. 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 \$1,924,469. The Bureau requires the Corporation to maintain total capital and surplus of at least \$35,000.

FINANCIAL STATEMENTS

There follows a statement of financial condition of the Corporation as of December 31, 2019, a statement of income for the year ending December 31, 2019, a reconciliation of capital and surplus for the period under review, a statement of cash flow for the year ending December 31, 2019, and a statement of Examiners' changes in capital and surplus.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Cash and short-term investments	\$1,065,199		\$1,065,199
Uncollected premiums and agents' balances in the course of collection	696,228		696,228
Receivables from parent, subsidiaries, and affiliates	<u>1,421,280</u>		<u>1,421,280</u>
Total assets	<u><u>\$3,182,707</u></u>	<u><u>\$0</u></u>	<u><u>\$3,182,707</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Unpaid claims adjustment expenses	\$19,504
Premiums received in advance	198,678
General expenses due or accrued	115,047
Amounts due to parent, subsidiaries and affiliates	<u>890,009</u>
 Total liabilities	 <u>\$1,223,238</u>
 Common capital stock	 \$1,000
Gross paid in and contributed surplus	34,000
Unassigned funds (surplus)	<u>1,924,469</u>
 Total capital and surplus	 <u>\$1,959,469</u>
 Total liabilities, capital and surplus	 <u><u>\$3,182,707</u></u>

STATEMENT OF REVENUES AND EXPENSES

Net premium income	\$8,571,781
Aggregate write-ins for other non-health revenues:	
Administrative fee	567,355
Legal Benefits of Maryland, Inc. revenue	3,141,666
Enrollment fees	<u>8,340</u>
Total revenues	<u>\$12,289,142</u>
Legal benefits	\$4,675,947
General administrative expenses	<u>3,021,878</u>
Total underwriting deductions	<u>\$7,697,825</u>
Net underwriting gain	<u>\$4,591,317</u>
Net investment income earned	<u>\$200</u>
Net investment gains	<u>\$200</u>
Broker fees related to Legal Benefits of Maryland, Inc.	<u>(\$3,683,922)</u>
Net income	<u><u>\$907,595</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>\$136,065</u>	<u>\$55,698</u>	<u>\$926,451</u>	<u>\$1,374,384</u>	<u>\$1,051,874</u>
Net income	\$899,633	\$1,036,253	\$807,933	\$1,167,490	\$907,595
Dividends to stockholders	<u>(980,000)</u>	<u>(165,500)</u>	<u>(360,000)</u>	<u>(1,490,000)</u>	<u>0</u>
Net change in capital and surplus	<u>(\$80,367)</u>	<u>\$870,753</u>	<u>\$447,933</u>	<u>(\$322,510)</u>	<u>\$907,595</u>
Capital and surplus end of reporting year	<u><u>\$55,698</u></u>	<u><u>\$926,451</u></u>	<u><u>\$1,374,384</u></u>	<u><u>\$1,051,874</u></u>	<u><u>\$1,959,469</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$8,633,943
Net investment income	201
Miscellaneous income	<u>3,717,360</u>
Total	<u>\$12,351,504</u>
Benefit and loss related payments	\$4,675,947
Commissions, expenses paid and aggregate write-ins for deductions	<u>6,705,800</u>
Total	<u>\$11,381,747</u>
Net cash from operations	<u>\$969,757</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>(\$547,030)</u>
Net cash from financing and miscellaneous sources	<u>(\$547,030)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$422,727
Cash and short-term investments:	
Beginning of year	<u>642,472</u>
End of year	<u><u>\$1,065,199</u></u>

EXAMINERS' CHANGES IN CAPITAL AND SURPLUS

	<u>Amount per Corporation</u>	<u>Amount per Examiners</u>	<u>Increase (Decrease)</u>
<u>Assets</u>			
Uncollected premiums and agents' balances in the course of collection	\$758,390	\$696,228	<u>(\$62,162)</u>
Examiners' Change in Capital and Surplus			<u>(\$62,162)</u>
Total Capital and Surplus per Corporation			\$2,021,631
Total Capital and Surplus per Examiners			<u>1,959,469</u>
Net change in Capital and Surplus			<u><u>(\$62,162)</u></u>

RECOMMENDATION FOR CORRECTIVE ACTIONAccounts and Records

1. Uncollected premiums \$696,228

The above asset is \$62,162 less than the amount reported by the Corporation in its 2019 Annual Statement. The decrease is due to the Examiners' non-admitting uncollected premium balances greater than 90 days in accordance with SSAP No. 6 paragraph 9.a.

ACKNOWLEDGMENT

Acknowledgement is hereby made of the courteous cooperation extended by the Corporation's officers and employees during the course of the examination. In addition to the undersigned, Benjamin MacKercher, AFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gerald Tyrone Hicks II". The signature is fluid and cursive, with a long horizontal stroke at the end.

Gerald Tyrone Hicks II
Insurance Examiner



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CORPORATE OFFICE
2877 Guardian Lane, Ste. 101
Virginia Beach, VA 23452

August 14, 2020

David H. Smith
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Re: Legal Resources of Virginia, Inc.
Examination Report as of December 31, 2019

Dear Mr. Smith:

This letter is our acknowledgement of receipt of the above report from the Bureau of Insurance. Please provide five (5) copies of the written report to Legal Resources.

Yours truly,

A handwritten signature in black ink, appearing to read 'James J. Garofalo', is written over a horizontal line.

James J. Garofalo
Executive Vice-President