EXHIBIT
A

Report on Examination

of the

U.S. Legal Services of Tennessee, Inc

Jacksonville, Florida

as of

September 30, 2008

"CONFIDENTIAL AND PRIVILEGED PURSUANT TO TENN CODE ANN. §56-1-411(f)"

Department of Commerce and Insurance

State of Tennessee

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Dept. of Commerce & Insurance
Company Examinations

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Nashville, Tennessee

February 23, 2009

Honorable Leslie A. Newman
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Commissioner:

Under authority delegated by you and in compliance with your instructions, a financial examination and market conduct review has been made of the condition and affairs of the

U.S. Legal Services of Tennessee Inc.

8133 Baymeadows Way, Suite 102

Jacksonville, Florida 32256

(Hereinafter referred to as the "Company") as of September 30, 2008, and a report thereon is respectfully submitted as follows:

Introduction

This examination was arranged by the Commissioner of the Tennessee Department of Commerce and Insurance, in accordance with Tenn. Code Ann. § 56-43-113 and Tenn. Code Ann. § 56-1-401, *et seq*. It was commenced on August 17, 2008, by an examiner employed with the Tennessee Department of Commerce and Insurance. The Company was previously examined by the Tennessee Department of Commerce and Insurance as of September 30, 2003, with a final examination report dated January 16, 2004. Tenn. Code Ann. § 56-2-104(5), which requires insurers' books and records to be maintained in the State of Tennessee, is not applicable to the Company pursuant to Tenn. Code Ann. § 56-43-111(e)(2) which states that "the provisions of the general insurance law do not apply" to legal insurers except as otherwise provided by that chapter.

Scope of Examination

The Company was last examined as of September 30, 2003 by the Tennessee Department of Commerce and Insurance. Recommendations and comments included in the previous report on examination along with corrective actions taken by the Company are as follows:

- It was recommended that the Company formalize its arrangement with U.S. Legal Services, Inc. with an administrative or management services agreement to define the duties and protect the interests of itself and U.S. Legal, and that this agreement be filed with the Department for prior approval in accordance with Tenn. Code Ann. § 56-43-107.

- Corrective Action: The Company executed a management service agreement with U.S. Legal Services, Inc. a Florida Company that was approved by the Department on April16,2004

- It was recommended that the Company maintain proper reserves for unpaid attorneys' fees in accordance with Tenn. Comp. R. and Regs., 0780-1-60-.05(1)(e).

  Corrective Action: The Company. set up an accrual account to track the unpaid attorney fees and now reports amount on each financial statement.

- The Company did not disclose an outstanding loan with the Jacksonville Bank at June 30 or at September 30, 2003. It was recommended that the Company establish and fully disclose all liabilities on financial statements submitted to the Department in accordance with Tenn. Code Ann. § 56-43-108.

Corrective Action: The Company repaid the loan in full on November 5, 2003 and has not received any additional loans.

- The Company did not have at all time at least three directors on the Board of Directors (BOD) as required by the Company Bylaws.

  Corrective Action: Company held a BOD meeting on February 6, 2004 where Gary B. Tullis was elected to the BOD increasing board membership to three directors.

- It was recommended that the Company BOD duly declare distributions to the Company's sole shareholder and record said declarations in the corporate meeting minutes.

  Corrective Action: On November 30, 2003 the Company conducted a BOD meeting where a motion was made and approved by the BOD for Marie M. Forbes to receive a monthly distribution from the Company not to exceed $5,000.00 per month.

- It was recommended that the Company obtain a fidelity bond for an amount that is at least the minimum of the range ($15,000 - $25,000) recommended by the National Association of Insurance Commissioners (NAIC).

  Corrective Action: The Company does not have a fidelity bond and to the Company's knowledge there is no statutory requirement that they obtain a fidelity bond. *(This issue is further addressed in the Fidelity Bond and Comments Section of this report.)*

- It was recommended that the Company file enrollment forms with the Department that include the Company's correct and proper name.

  Corrective Action: The Company has filed and received approval on all corrected enrollment forms from the Department.

- It was recommended that the Company maintain a separate file of its completed complaint forms so that it can track trends in complaints received and Department examiners have convenient access to review complaints and the associated documentation.

  Corrective Action: The Company now maintains a computerized data file on each complaint or request for assistance received; and tracks each complaint until resolved. The Company conducts following-up on each complaint by way of customer service surveys. This data is available for examiner review.

The period covered hereunder in this examination is from September 30, 2003, to the close of business on September 30, 2008, the date of this examination. The examination was conducted at the office of U.S. Legal Services, Inc. located at 8133 Baymeadows Way, Suite 102, Jacksonville, Florida. The Company maintains all records at this address.

This examination, which began August 17, 2009, covers the intervening period from September 30, 2003 through and including September 30, 2008, and was conducted by representatives of the Tennessee Department of Commerce and Insurance. The examination consisted of a review of corporate minutes and records, verification and valuation of assets and a determination of liabilities, reserves and the resulting unassigned (surplus) funds of the Company. The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the

NAIC Financial Condition Examiners Handbook and Accounting Practices and Procedures Manual.

An examination was also made into the following matters:

History and Organization
Management and Control
Pecuniary Interest and Commission Equity
Corporate Records
Statutory Deposits
Fidelity Bond and Other Insurance
Territory and Plan of Operation
Legal Services Agreements
Growth of the Company
Loss Experience
Reinsurance
Market Conduct Activities
Employee Welfare
Litigation and Contingent Liabilities
Accounts and Records
Subsequent Events
Financial Statement

Such tests and review were conducted as deemed necessary or appropriate for the purposes of this examination. This report is written by exception, except for certain items of regulatory significance, and those matters examined and found to be substantially in compliance with statutes will not be commented on further. Events subsequent to the September 30, 2003, examination date are included where relevant and appropriate.

The Company retains the services of an independent accounting firm to prepare statutory financial statements. The accountants provided the examiners with their working papers for all annual and quarterly statements filed with the Department from 2003 through the 1st Quarter of 2009 . These statements were reconciled to the Company's books of account at their respective dates.

The Company is not required to file with the NAIC pursuant to the Tenn. Code Ann. § 56-43-111(e)(2) which states that "the provisions of the general insurance law do not apply" to the Company except as otherwise provided by that chapter.

History and Organization

The Company was incorporated on November 5, 2002 under the Tennessee Business Corporation Act as a for-profit legal insurance company. On March 12, 2003 the Company was issued a Certificate of Authority to transact the business of legal insurance pursuant to Tenn. Code Ann. § 56-43-101, *et seq.* with a statutory address of 220 West Wind Drive Newbern, Tennessee 38059. The Company commenced business on April 1, 2003, and issued its first policy in May of 2003. On May 8, 2006 the Company's statutory address was changed to 8825 Perimeter Park Boulevard, Suite 102, Jacksonville, Florida 32216 and a new Certificate of Authority was issued by the State of Tennessee. From the date of incorporation through the date of this report the Company conducted continuous legal insurance operations in the State of Tennessee while experiencing significant growth. The Company, as of the date of this report, provides two types of legal services, the CDL (Commercial Driver License) Protector and the Family Protector policies. Both policies are addressed in detail in the Territory and Plan of Operations Section of the report.

Capital Stock

In accordance with the Company's charter as amended December 3, 2002, the Company is authorized to issue 1,000 shares of common stock at a par value of $100.00 per share. On November 5, 2002 the Board of Directors of the Company approved the issuance of all 1,000 shares of its common stock to Marie M. Forbes, an individual, for a total price of $205,000 in accordance with a Stock Subscription Agreement. At September 30, 2008, as reflects examination changes, the Company had surplus funds as follows:

Common capital stock	$100,000
Gross paid in and contributed surplus	127,886
Unassigned funds (surplus)	138,493
Total	$366,379

Tenn. Comp. R. and Regs., 0780-1-60-.05(1) requires the Company to "maintain capital of at least $100,000" and "surplus of at least one-third (1/3) of gross premium." As the Company's gross premium at September 30, 2008 is $567,249; one-third (1/3)of which is $189,064; and the Company's surplus funds total $266,379, it appears that the Company is in compliance with the Tennessee rule.

Management and Control

Holding Company System

The Company is exempted from the definitions and provisions of Tenn. Code Ann. § 56-11-101, *et seq.*, the "insurance holding company system act", by Tenn. Code Ann. § 56-43-111(e)(2) which states that "Except as otherwise provided in this chapter, the provisions of the general insurance law do not apply to insurers authorized under this chapter." However, in accordance with NAIC definitions, the Company is deemed to be an affiliate of U.S. Legal Services, Inc. Company (Hereinafter referred to as the "Parent") a Florida legal insurance company, which is also wholly owned by Marie M. Forbes.

Shareholders

The Company is wholly owned by Marie M. Forbes, an individual, who is the sole shareholder of all 1,000 outstanding shares of the Company's common stock.

The Bylaws of the Company provide that the "annual meeting of the shareholders . . . for the election of officers and for such other business as may properly come before the meeting shall be held at such time and place as designated by the Board of Directors." Action may be taken by written consent if "signed by at least a majority of shares entitled to vote".

During the period covered by this examination, the Company conducted annual meetings of the Board of Directors (BOD). The minutes from the Company's Shareholders and Board of Directors meetings and all BOD actions by written consent were reviewed for the period under examination. All minutes accurately reflect the results of Shareholders election of BOD members; but do not appear to reflect major business decisions undertaken during the period under examination that may best have been brought before the BOD in accordance with the Company's Bylaws. This issue is further discussed in the Comments Section of this report.

Board of Directors

The Company's Bylaws state that "The business and affairs of the Corporation shall be managed under the direction of the BOD." The number of directors shall be at "least three" and "not more than seven." They "shall be elected by a plurality of the votes cast by the shares entitled to vote in the election", and each director shall "hold office until the next annual meeting or until their earlier resignation, removal from office or death." Vacancies on the board "may be filled by the shareholders or by the affirmative vote of a majority of the remaining directors though less than a quorum." A quorum is defined by the Bylaws as "a majority of the number of directors."

The following persons had been duly elected by the shareholders and were serving as members of the board at September 30, 2008:

Name	Business Address	Principal Occupation/Affiliation
Marie M. Forbes	8825 Perimeter Park Blvd., Suite 102 Jacksonville, Florida 32216	Sole shareholder, Chairman of the Board and President of both the Company and U.S. Legal Services, Inc., a Florida insurer. Serves as Company Director and Treasurer.
Julia Anne-Marie Hulsey	8825 Perimeter Park Blvd., Suite 102 Jacksonville, Florida 32216	Serves as Director and Secretary of both the Company and U.S. Legal Services, Inc., a Florida insurer.
Jack Theis	8825 Perimeter Park Blvd., Suite 102 Jacksonville, Florida 32216	Serves as a Director of both the Company and U.S. Legal Services, Inc., a Florida insurer.

The Bylaws provide for annual, regular and special meetings of the BOD and for action by written consent.

Officers

The Bylaws provide that the Company "shall have the officers and assistant officers that the BOD appoint from time to time" though an "officer may resign at any time upon written notice" to the Company. Any person may hold two or more offices, and vacancies "may be filled for the unexpired portion of the term by the BOD at any regular or special meeting."

At September 30, 2008, the following persons had been duly elected by the BOD at its January 1, 2008 meeting and were serving in the positions indicated:

President, Treasurer Director:	Marie M. Forbes
Secretary, Director:	Julia Anne-Marie Hulsey
Director:	Jack Theis

Committees

The Company's Bylaws state that the BOD "may designate from among its members one or more committees – each of which must have at least two members." The minutes of the board do not reflect the existence of any committees during the period under examination.

Investments and Custodial Agreement

The Company's held one investment security during the period under examination. The security, a U.S. Treasury Note, was held in safekeeping for the Tennessee Commissioner of Commerce and Insurance, in trust for the protection of all policyholders and creditors of the Company. This security was held pursuant to a Depository Agreement executed between the Company, the Commissioner and The Jacksonville Bank, Jacksonville, Florida, although, as a result of this examination, it was later determined that the security was not in the possession of a bank as required by Tenn. Comp. R. and Regs., 0780-1-46-.03(1), but instead the possession of a securities broker. This issue is further addressed in the Statutory Deposit and Subsequent Events Sections of this report.

Management and Service Agreements

The Company is a party to service agreement with the Parent. The agreement is dated October 1, 2003 and was approved by the Department on April 16, 2004. In the agreement, the Parent agreed to provide administrative services to the Company in consideration for the Company providing compensation in the amount of one dollar ($1.00) per month for each active policy underwritten in the State of Tennessee. Although the one dollar ($1.00) per policy per month is the agreed method of compensation, examination of Company financial records shows that the method and formula used in determining compensation have gone through several revisions during the period under examination, with compensation no longer occurring as stated above. This issue is further addressed in the Recommendations Section of this report.

Consultants

The Company has retained Farmand, Farmand & Farmand, P.A., Certified Public Accountants with offices in Jacksonville and Fernandina Beach, Florida, as their independent accountants. The CPA firm prepares all Company's statutory financial statements and regulatory filings. The CPA firm also prepares and files all Company Federal Income Tax Statements. The company is not required by Statute or Regulation to provide a CPA audit of the Annual Statement.

Michael W. Whatley, ACAS, MAAA, Jacksonville, Florida, has been retained as the Company's consulting actuary. Mr. Whatley's primary function is been to assist the Company with its rate and policy form filings with the Department. The company is not required by Statute or Regulation to provide an actuarial review of the Annual Statement.

George A. Bajalia of the Landmark Financial Corp., Jacksonville, Florida, has been retained by the Company to provide business advisory services in the daily operations of the Company .

Dan H. Elrod, Esquire, Miller & Martin LLP, Nashville, Tennessee is the Company's attorney-at-law and in fact.

Conflict of Interests

As noted above, the Company's officers and directors are also officers and employees of the Parent Company. The Company requires each officer complete a biographical affidavits which is reviewed by the Company for possible conflicts of interest. With very few officers, the company is continuously alert to potential conflicts of interests should they occur.

Shareholder Distributions

The Company Bylaws provide that the "Board of Directors may, from time to time, declare distributions to its shareholders in cash, property, or its own shares" providing certain financial criteria are met. In the minutes of a special meeting of the Company's BOD held on November 30, 2003 it was approved by the BOD for the Company's President Marie M. Forbes to receive monthly distributions from the company in amounts not to exceed $5,000.00 per month. In the examination of Company financial records, it was found that this monthly amount was exceeded on several occasions with no additional increase declared by the BOD. This issue is further addressed in the Recommendation Section of this report.

Pecuniary Interest and Commission Equity

The Company is exempted from the provisions of Tenn. Code Ann. § 56-3-103, which govern pecuniary interests, by Tenn. Code Ann. § 56-43-111(e)(2) which states that "Except as otherwise provided in this chapter, the provisions of the general insurance law do not apply to insurers authorized under this chapter."

The Company has no reinsurance and therefore no commission equity for which to account.

Corporate Records

The Company's corporate records are maintained at its principal offices in Jacksonville, Florida. The Company's original charter was filed with the Tennessee Secretary of State on November 5, 2002. The original charter listed the Company's initial registered Tennessee agent and office as Corporate Creations Network, 205 Powell Place, Brentwood, Tennessee, and the Company's principal office as 8825 Perimeter Park

Boulevard, Suite 102, Jacksonville, Florida. The charter authorized the Company to issue up to 1,000 shares of stock. On December 3, 2002 the Company filed an amendment to the charter to specify the par value of its stock as $100 per share.

The Company's original Certificate of Authority was issued on March 12, 2003. On November 5, 2005 the Company filed an amendment to the charter changing the Company's principal/statutory address to 8825 Perimeter Park Blvd., Ste. 102, Jacksonville, Florida, County of Duval, 32216. With the Company's change in principal/statutory address to Jacksonville, Florida, a new Certificate of Authority was issued on May 8, 2006 and is effective until suspended or revoked. The Company's current location is 8133 Baymeadows Way, Suite 102 Jacksonville, Florida 32256.

The Bylaws of the Company were adopted by the BOD on February 6, 2003. The Bylaws are as originally approved with no amendments having been made as of the examination date. These Company Bylaws were relied upon for this examination..

During the period under examination the Company conducted one (1) special and seven (7) regular BOD meetings. Minutes from all BOD meetings to include written consents were provided by the Company for examiner review. In the review of meeting minutes, it was found that the minutes provided basic information as to the meeting date, meeting attendance, and BOD election results; however, the minutes did not show record of several major management actions that were found to have occurred during the period under examination. These management actions that should have been addressed and recorded in the BOD minutes are further covered in the Comments Section of this report.

Statutory Deposit

Pursuant to Tenn. Comp. R. and Regs., 0780-1-60-.05(1)(d), the Company maintained the following security on deposit for the benefit of Tennessee policyholders at September 30, 2008:

Description of Security	Par Value	Book Value	Market Value
U.S. Treasury Note, purchased 1/30/03, CUSIP #912828DR8,	$106,000	$105,154	$109,491

The above deposit was verified with the Department's securities custodian and the Company's custodian; however, in the examination of the Company's custodian it was determined that the custodian was a securities broker and not a bank as required by Tenn. Comp. R. and Regs., 0780-1-46-.03(1). In order to be in compliance with the above rule, the Company subsequent to the examination date sold the above U.S. Treasury Note and purchased a $100,000 Certificate of Deposit (CD) which is now held by the Jacksonville Bank. The Jacksonville Bank executed a state depository agreement and provided a safekeeping agreement which were verified with the Department's securities custodian.

Fidelity Bond and Other Insurance

The Company is not afforded coverage by a fidelity bond; however, there appears to be no requirement listed in Tenn. Code Ann. § 56-43-101, *et seq.* "Tennessee Legal Insurance Act" or Tenn. Comp. R and Regs., 0780-01-60 "Legal Insurance" requiring the Company to obtain such coverage. The NAIC 2009 Financial Condition Examiners Handbook recommends that a Company of this size maintain a fidelity bond in the range of $25,000 to $50,000 or as an alternative buy a general fidelity insurance commonly referred to as crime coverage. The Company currently does not have any form of crime coverage. This issue is further addressed in the Comments Section of the report.

As of the examination date it was confirmed that U.S. Legal Services Inc. has the following insurance coverage that lists the Company as the certificate holder.

Insured	Insurer Providing Coverage	Type Coverage	Aggregate Limit
1. U.S. Legal Services, Inc	American Economy Insurance Company	Commercial General Liability	$2,000,000
		Damages to Rented Premises (ea occurrence)	$2,000,000
		Med Exp (any one person)	$10,000
		General Aggregate	$4,000,000
		Products-Com/Op Aggregate	$4,000,000

Territory and Plan of Operations

The Company is only licensed to transact business in the State of Tennessee with its products marketed through three independent resident agents. All agents had current Tennessee limited insurance producer licenses at September 30, 2008 in accordance with Tenn. Comp.R. and Regs., 0780-1-60-.07.

The Company currently markets two products in Tennessee that are billed on a monthly basis – the CDL Protector Plan and the Family Protector Plan which are described below.

The CDL Protector is designed to assist commercial truck drivers in Tennessee maintain their commercial drivers license (CDL). The Plan provides an attorney to represent the insured Member for moving, non-moving and Department of Transportation (DOT) violations which can affect their CDL. The attorney provided is located in the jurisdiction where the Member received the citation and "will represent the insured in court and through trial, if necessary, in municipal and state courts in the continental United States and Canada." The CDL Protector covers:

- Moving violations
- Non-moving and DOT violations
- Representation in case of a major accident
- Personal legal consultation services
- Coverage for pre-existing matters
- License suspension and revocation hearings
- Financial coaching
- Identity theft

In addition to coverage for driving violations, the CDL Protector provides an attorney to represent the Member against charges of manslaughter, involuntary manslaughter, negligent homicide and vehicular homicide. Specifically excluded are violations or citations received by Members prior to the effective date of the policy and federal violations other than bankruptcy. Attorneys can "refuse to provide services . . . in any matter they believe to be clearly frivolous, without merit, or which would violate the Code of Professional Responsibility or when in the sole opinion of the Plan Attorney and Plan Administrator [the Company], there is no meritorious defense."

The <u>Family Protector</u> is designed to provide for a family's personal legal needs. The plan provides a licensed attorney in the jurisdiction where the plan is effective. Coverage provides for advice and other services to include:

- Consultations
- Will and Trusts
- Living Wills
- Estate Planning
- Debt Relief
- Traffic Violations

- Real Estate
- Divorce
- Child Support
- Child Custody
- Bankruptcy
- DUI
- Juvenile Law
- Consumer Law
- Identity Theft

All policies are automatically renewed at the end of each membership year unless the Member cancels prior to the renewal date or fails to make payment on a timely basis.

Legal Services Agreements

The "Participating Attorney Legal Services Agreement with U.S. Legal Services of Tennessee, Incorporated (PA Agreement) " was approved by the Department on March 4, 2003. This agreement, although approved, was designed for the development of a network of "capitated" attorneys which the Company decided to forego in favor of a "retain as needed" system of attorneys . Since the Company provides services of an attorney in whatever part of the United States or Canada where the policyholder's violation occurred or where legal service is requested, the Company's service method is to locate an attorney in the local area and arrange for individual representation and payment. A contact is made with a local attorney where the Company negotiates a price for the services to be provided and makes arrangements for payment once the services are provided. Once the Company has verbal agreement with the attorney a contract listing the terms of agreement are faxed to the attorney for signature. After a signed contract is received, the Company notifies the policyholder of the attorney retained to provide for their legal representation. In large city locations, the Company makes use of a network of attorneys who have previously agreed to Company's items, shortening the overall contracting process. As of the examination date, the Company has no PA Agreements in affect and currently has no plans of entering into any future agreements.

Growth of the Company

The following table reflects the financial history and growth of the Company, since its organization, as shown by its financial statements filed with the Tennessee Department of Commerce and Insurance:

*Year	Premiums Earned	Total Assets	Total Liabilities	Unassigned Funds (Surplus)
September 31, 2003	$ 112,176	$ 262,591	$ 100,856	$ 161,735
December 31, 2003	225,813	286,096	16,598	269,498
December 31, 2004	593,178	454,728	25,236	429,491
December 31, 2005	716,345	504,395	45,393	459,002
December 31, 2006	711,508	483,257	104,612	378,645
December 31, 2007	489,496	439,654	91,258	348,396
September 31, 2008	**587,249**	**486,606**	**99,258**	**387,348**
December 31, 2008	799,861	514,180	116,322	397,858

Loss Experience

The following table depicts the ratio of incurred losses valued as of September 30, 2008, to earned premium revenue for the periods indicated below:

Date	Premiums Earned	Total Losses Incurred	Under-writing Loss Ratio(%)	Sell, Gen. & Admin. Expense	S,G, & A Exp. to Prem Earn(%)	Invest. & Other Income	Combined Loss Ratio(%)
9/30/03	$ 112,176	$ 9,100	8.112	$ 45,284	40.3687	$ 2,670	46.1008
12/31/03	225,813	34,550	15.3003	139,176	61.6333	3,810	75.2463
12/31/04	593,178	112,680	18.9960	346,075	58.3425	5,828	76.3560
12/31/05	716,345	174,425	24.3493	344,226	48.0531	17,315	69.9853
12/31/06	711,508	293,923	41.3099	370,908	52.1298	20,821	90.5134
12/31/07	673,170	219,512	32.6087	453,573	67.3787	22,922	96.5823
09/30/08	**587,249**	**249,159**	**42.4282**	**338,834**	**57.6985**	**11,396**	**98.1861**
12/31/08	799,861	302,322	37.7968	467,453	58.4418	14,761	94.3932

Although profitable, the Company's Combined Loss Ratio has significantly increased during the period under examination. As of the examination date the Company has 98 cent of every premium dollar going toward fees and expenses.

Reinsurance

The Company does not cede or assume reinsurance.

Market Conduct Activities

Marketing

The Company primary source of marketing is through the services of three (3) independent insurance agents licensed in the State of Tennessee. The Company provides all approved marketing materials to include full color brochures about the Company and the types of legal coverage provided. During the period under examination, agents marketed the Company's CDL Protector Plan primarily to large trucking companies location within the state. On January 1, 2009 the Company began offering the Family Protector Plan in the state with the target market being large county and city municipal groups.

Also on January 1, 2009, the Company began offering and providing Identity Theft Protection. This coverage is automatically provided at no additional cost in the CDL Protector Plan; however, in the Family Protector Plan this coverage is considered a policy add-on with payment of additional premium required.

The Company's Parent conducts marketing and self promotion through the U.S. Legal Services website: www.uslprotects.com. The website provides general information about the Company, its' business purpose and products, and includes points of contact for obtaining additional information.

Rating and Underwriting

Company Policy rates in use for the CDL Protector and Family Protector were last filed with the Department on November 7, 2007. During the period under examination the premium rate charged by the Company for the CDL Protector agrees with the rates as submitted to the Department. A sample of CDL Protector Plan policies was reviewed to confirm the Company's use of approved contract forms and premium rates. No exceptions were noted and the Company appears to be in compliance with Tenn. Code Ann. § 56-43-106.

With the Company's January 1, 2009 offering of the Family Protector, the basic premium rate charged for this protection is also the same as that submitted to the Department. The policy also offers with the payment of additional premium, Identity Theft Protection . In the examination of Company and Department records there is no proof of the Company filing rates with the Department prior to offering this protection, as required by Tenn. Code Ann. § 56-43-106. This issue is further addressed in the Subsequent Events Section of this report.

Since all applications for coverage are accepted by the Company, there is essentially no underwriting of potential policyholders. Coverage each month is generally provided in arrears and terminated upon non-payment. Although most policyholders members purchase coverage as part of a group plan, the Company sends a welcome letter; a complete copy of the policy; and membership ID cards to each policyholder.

Forms

The examiner reviewed all Company policies and policy forms in use during the period under examination. All reviewed were noted without exception as having been filed with the Department prior to their use. The filings are consistent in form and include appropriate documentation.

Claims

In the providing of legal services, a single claim is generally a request for legal services by the policyholder, and the contract arranged with a local attorney to provide legal services to the policyholder. The Company refers to each claim as a "ticket". In large metropolitan areas, the Company maintains a list of attorneys previously used that have already agreed in principle to the Company's fee schedule, therefore allowing for quick selection and contracting for legal services. In the examination of both open and closed Company tickets it was found that the Company operates an efficient automated data processing system for the tracking and resolution of each ticket. With most legal actions involvement in the U.S. court system, the resolution of some tickets can take up to a year or more. Review of Company tickets show evidence of routine follow-up and record updating occurring up until final disposition is received from the assigned attorney and the ticket is closed.

Policyholder Complaints

The nature of complaints received by the Company are not the same as a typical Property & Casualty Insurance Company. Because of the nature of the U.S. court system and the backlog of cases that routinely exist there, most policyholder enquiries are concerning the status of pending court actions or legal actions being accomplished by assigned attorneys. The Company refers to each complaint as an issue. The Company maintains automated software that is set up to receive and track issues based on a system of pre-established time limits. Issue intake occurs when a toll-free call is made by a policyholder to the Company and a Company associate takes the call. The issue is then entered in the Company's system and assigned for action to the same associate who received the call. Each issue is monitored by a supervisor who has access to a computer program screen that highlights delinquent issues. Delinquent issues are actively managed by the supervisor who questions assigned associates on pending action and monitors all issues until successfully resolved. In examination of a sample of Company issues, it was found that all files appear to capture the necessary information regarding the issue; provide sufficient details as to how the issue was resolved; and list the final disposition date .

Employee Welfare

Although the Company had no employees during the period under examination, the total expense of several employees were included in the Company's portion of the consolidated cost allocation used to determine the monthly charge for reimbursable services. The number of employees assigned to each Company by the Parent is based on a percent of total CDL premiums collected by the Combined U.S. Legal Service Companies. From records examined it appears that this has been the method of payment since at least September of 2007. This is in contrast to the Company's Service Agreement with the Parent where it is stated that "In consideration for the services rendered the Company agreed to provide compensation to the USLS (the Parent) in the amount of one dollar ($1.00) per month for each active policy underwritten in the State of Tennessee." There appear to have been no amendments to this agreement, and the agreement has not been terminated by either party. In examination of Company BOD meeting minutes, the examiner found no discussion or motions submitted to the BOD members requesting a change in how employee services are to be provided. This issue is further addressed in the Comments Section of the this report.

Litigation and Contingent Liabilities

As of September 30, 2008, the Company indicated it had no pending litigation, other than that arising out of the normal course of business, which would adversely affect the financial condition of the Company.

Accounts and Records

Financial records and reports are produced and maintained by the Company. The Company's principal accounting records are produced by the Peachtree computerized accounting program. Accounting records are produced from various source documents including cash receipts, cash disbursements, journal entries and other specific entry documents. The Company retains an independent certified public accounting firm to compile the financial statements and to prepare the Company's federal income tax return.

During the course of this examination, such tests and audit procedures were performed as were deemed necessary to verify the accuracy of the Company's accounts and records for the period under examination. General ledger trial balances were reconciled with the financial statements over a five (5) year period and all were reviewed for completeness of disclosure and conformity to Statutory requirements as currently permitted by the Department.

The accounts and records examined conform to the above requirements and in general appear to reflect properly Company operations during the period under examination and status of the Company as of the date of this report.

Subsequent Events

State Security Deposit

Tenn. Comp. R. and Regs., 0780-1-46-.04 (Securities Held on Deposit with the Commissioner) requires that securities placed on deposit with the Commissioner be maintained under a separate depository agreement between the depository institution (commercial bank or clearing corporation), the insurance company and the Commissioner. In examination of the Company's required $100,000 security deposit it was determined that the $106,000 U.S. Treasury Bond the Company maintained to satisfy this requirement was not being maintained by a commercial bank or a clearing corporation but instead by an investment brokerage firm. Subsequent to the period under examination the Company sold the U.S. Treasury Bond and purchased a $100,000 Certificate of Deposit (CD) which is now held by the Jacksonville Bank. As of the date of this report, execution of a new depository agreement between the bank, the insurance company, and the Commissioner is pending.

Company Providing of Identity Theft Protection

Examiner review of Department and Company records show that in January of 2009 the Company questioned the Department as to whether or not Identity Theft Protection is a regulated line of business. The Department's response to the Company was that "in accordance with Tenn. Code Ann. § 56-2-201(2) (M) if there is a risk born by the Company in the providing of identity theft protection, this coverage is a regulated line of business requiring approval from the Commissioner." Subsequently, the Company did not submit a request for Department approval and began in January of 2009 providing Identity Theft Protection coverage in Tennessee. When questioned on this issue during the examination, the Company's response was that this coverage is provided by another carrier, the American International Group (AIG), who already has approval to provide Identity Theft Protection coverage in Tennessee, and the Company bears no risk, therefore approval is not required. On October 14, 2009 the Company submitted a letter to the Department expressing the above opinion. As of the date of this report, Department action is still pending.

Financial Statement

There follows a balance sheet, statement of income and capitulation capital and surplus as of September 30, 2008 as established by this examination.

Balance Sheet

	Admitted Amount Per Company	Examination Changes	Notes	Admitted Amount Per Examination
Assets:				
Bonds	$ 105,154	$ 0		$ 105,154
Cash and Short-Term Investment	313,186	0		313,186
Subtotal, Cash and Invested Assets	418,340	0		418,340
Investment Income Due and Accrued	1,940	0		1,940
Receivable from Parent, Subsidiaries and Affiliates	57,204	(18,000)	a	39,204
Aggregate write-ins for other than invested assets	9,122	0		9,122
Subtotal	68,266	(18,000)		50,266
Total assets	$ 486,606			$ 468,606
Liabilities:				
Losses	$ 90,997	$ 0		$ 90,997
Commissions Payable	0	3,043	b	3,043
Other Expenses	3,043	(3,043)	b	0
Taxes, Licenses and Fees	5,218	0		5,218
Advance Premiums	0	2,969	c	2,969
Total Liabilities	99,258	2,969		102,227
Surplus and Other Funds:				
Common Capital Stock	100,000	0		100,000
Gross Paid In and Contributed Surplus	127,886	0		127,886
Unassigned Funds (Surplus)	159,462	(20,969)	d	138,493
Surplus as Regards Policyholders	387,348	(20,969)		366,379
Total Liabilities and Surplus Funds	$ 486,606	$		$ 468,606

Statements of Income

Premiums earned	$	587,249
Losses incurred		158,162
Other underwriting expenses incurred		338,834
Total underwriting deductions		496,996
Net Underwriting Gain or (Loss)		90,253
Net investment income earned		11,396
Net Investment Gain		11,396
Net Income Before Federal and Foreign Income Taxes		101,649
Federal and foreign income taxes incurred		0
Net Income	$	101,649

Capital and Surplus Account

	2003	2004	2005	2006	2007	Sept 2008
Total capital and surplus, December 31, previous year	0	269,497	429,492	459,001	378,645	348,396
Net income	64,084	158,001	254,480	166,629	102,055	101,649
Capital Changes – Paid in	205,000					
Surplus adjustment – Paid in		22,886				
Dividends to stockholders	0	(20,892)	(224,971)	(246,985)	(132,304)	(62,697)
Changes Per Examination						**(20,969)**
Change in surplus as regards policyholders	269,497	159,995	29,509	(80,356)	(30,249)	17,983
Surplus as regards policyholders	269,497	429,492	459,001	378,645	348,396	366,379

Analysis of Changes in Financial Statement

Notes from Balance Sheet

a. Receivable from parent **$39,204**

The above amount is $18,000 less than the amount reported by the Company. Upon review of Company transactions related to payment for services provided by the Parent, the Company recorded a receivable due from the Parent of $18,000 in March of 2008. The amount was explained by the Company as being due from the parent based on an overpayment for services previously provided. This receivable was reported on the 2008 second and third quarter financial statements as being an unsettled receivable from parent. In December of 2008 the $18,000 amount was written off by the Company as having never been a valid receivable. Tenn. Code Ann. § 56-1-405 states "The commissioner shall allow to the credit of an insurance company in the account of its financial condition only the assets that are or can be made available for the payment of losses in the state..." On September 30, 2008 the $18,000 receivable from parent had aged over 180 days and could not be considered available for payment of losses in the state.

b. Commissions Payable **$3,043**

Other Expenses **$0**

The above amounts represent a movement of the amount reported by the Company on the 3rd Quarter Statement as other expenses (Page 3, Line 5) to the commission payable line (Page 3, Line 4) as required by NAIC Property and Casualty (P&C) Insurance Company reporting instructions. This change had no affect on the Company surplus and is addressed further in the Comments Section of this report.

c. Advance Premium **$2,969**

The above amount is $2,969 more than reported by the Company. The Company reported on September 30, 2008 that it had collected no advance premiums. The Company has previously stated that all premiums collected by the Company are collected one month in arrears; however, upon examination of company premium collections it appears that a small amount of monthly premiums that are charged to policyholder credit cards are collected in advance of the policy period and should be classified as advance premiums. This issue is further addressed in the Comments Section of this report.

d. Unassigned Funds (Surplus):

The Company's unassigned funds (surplus) at September 30, 2008, resulting from this examination are as follows:

Unassigned Funds (Surplus) reported by Company at September 30, 2008:		$387,348
Examination Changes:		
Receivable from Parent (see Note a, above)	(18,000)	
Advance Premium (see note c above)	(2,969)	
Total		(20,969)
Unassigned Funds (Surplus) resulting from Examination at September 30, 2008 :		$366,379

Summary Schedule for "Analysis Of Changes In Financial Statement"

The following depicts the change in surplus as outlined in the previous section of this report:

Item	Surplus	
	Increase	Decrease
Receivable from parent	$ 0	$ 18,000
Advance Premium	0	2,969
Totals	0	20,969
Net change in surplus	$ 0	$ 20,969

Comments

Shareholder Distributions

On November 30, 2003 the BOD of the Company conducted a special meeting where approval was given for the sole shareholder to receive monthly distributions from the company in amounts not to exceed $5,000.00 per month. In examination of Company shareholder distributions distributed during the period under examination, the examiner found one monthly shareholder distribution that exceed the $5,000 per month limit. In the scanning of shareholder distributions subsequent to the period under examination, the examiner found several monthly shareholder distributions exceeding the $5,000 monthly limit. It is recommended that the Company comply with shareholder distribution limits as established by the Company's BOD.

BOD Meetings

In examination of Company BOD meeting minutes, it appears that actions bought to the Board's attention are fairly limited in comparison to major operational and administrative changes that occurred in the Company during the period under examination. One example is the several changes in cost allocation occurring during the period that are not reflected in the Company's service agreement. Another example is shareholder distributions discussed above. It is recommended that the Company consider bring major operational and administrative actions to the attention of BOD.

Crime Insurance Coverage

Although Tennessee statutes and rules applicable to the Company do not provide an explicit requirement for the Company maintaining a fidelity bond, a fidelity bond provides coverage to the Company for money or other properly lost because of dishonest acts of its bonded employees. The NAIC recommends that a Company of this size maintain a fidelity bond in the range of $25,000 to $50,000 or as an alternative buy a general fidelity insurance commonly referred to as crime coverage. The Company's current insurance policy does not provide employee crime coverage. During the examination the Company provided proof of crime coverage on the Parent Company's policy, but it was determined that this coverage does not apply to occurrences specific to the Company. It is recommended the Company obtain employee crime coverage or a fidelity bond in an amount equal to or above $25,000.

Reporting of Unearned and Advance Premiums

In the examination of Company premium collection it was determined that although the Company continuously reported on its financial statements that it has no unearned or advance premiums, Company premium collection included a small but growing amount of unearned and advance premiums. Tenn. Comp. R. and Regs., 0780-01-60-.05 requires an insurer maintain at all times proper reserves for unearned premiums. Although the rule does not mention advance premiums, advance premiums are subject to return to the policyholder if the policy is cancelled prior to the policy's effective date and are therefore a Company liability. Advance premiums are in the same liability category as unearned premiums and are subject to the rule. The 2008 NAIC Property and Casualty Quarterly and Annual Statement Instructions both require the Company report unearned and advance premiums on separate lines of the financial statement. The Company's initial plan of operation was to collect all premiums one month in arrears by payroll deduction; however, the Company's addition of collection of premiums by automatic bank account deduction and payment by credit cards resulted in some premiums being classified as unearned and advance premiums. An examination adjustment was made in the amount of $2,969 for advance premiums on September 30, 2008. Examination of Company records subsequent to the examination date show at December 31, 2008 the Company had advance premiums of $3,060.45 and unearned premium of $98.85; and on September 30, 2009 advance premium of $2,273.55 and unearned premium of $173.85. It is recommended the

Company establish procedures for the recording and reporting of reserves for unearned and advance premiums collected.

Reporting of Commissions Payable

The Company recorded on its 3rd Quarter 2008 Financial Statement - Page 3 Line 5 other expenses in the amount $3,043. Examination of the Company's general ledger indicates that these other expenses are attributed to one account – commissions payable to agents. The 2008 NAIC Property and Casualty Quarterly Statement Instructions require this liability be recorded on Page 3 Line 4, commissions payable. Although this item did not result in a change in the Company's reported surplus, it is recommended the Company report all commissions payable in accordance with the NAIC Property and Casualty Quarterly Statement Instructions.

Recommendations

Company Services Agreement with Parent

The Company is party to a service agreement with the Parent Company executed on October 1, 2003, where the Company agrees to pay the parent in consideration for services rendered a service fee of $1.00 per month for each active policy underwritten in the State of Tennessee. Review of Company records show that this agreement in its original form is still in affect; however, examination of Company payments to the parent show that the Company's service fees were not calculated as stated above. At some point during the period under examination the Parent Company decided to modify the cost allocation methodology and began assessing the Company differently from the approved service agreement. As of the examination date, the Company is charged indirect cost based on a cost allocation factor that is determined by the combined company total CDL premiums collected; and <u>direct labor cost</u> of several employees identified as having directly served the Company. In addition, subsequent to the examination, on November 26, 2008, the Parent Company and another outside agency, entered into an employment services contract where the Company is billed directly for labor cost for employees that have been assigned to the Company. Tenn. Code Ann. § 56-43-107 requires all management contracts be first filed with the Department. Since the Company is no longer conducting business as stated in the currently approved service agreement it is recommended that a new service agreement be filed with the Department for prior approval in accordance with Tenn. Code Ann. § 56-43-107.

Conclusion

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of U.S. Legal Services of Tennessee, Inc., Jacksonville, Florida.

In such manner, it was determined that, as of September 30, 2008, the Company had admitted assets of $468,606 and liabilities, exclusive of capital, of $102,227. Thus, there existed for the additional protection of the policyholders, the amount of $227,886 in the form of paid-up capital, gross paid-in and contributed surplus, and $138,493 in unassigned funds (surplus).

The timely cooperation of the officers of the Company extended during the course of this examination is hereby gratefully acknowledged.

Respectfully submitted,

Gregory Bronson, CIE, MCM
Examiner-in-Charge
Representing the State of Tennessee
Department of Commerce and Insurance
Southeastern Zone, NAIC

Examination Affidavit

The undersigned deposes and says that he has duly executed the attached examination report of the U.S. Legal Services of Tennessee Inc. dated February 23, 2010, and made as of September 30, 2008, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Gregory Bronson, CIE, MCM
Examiner-in-Charge
Insurance Examiner III
Department of Commerce and Insurance
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me this 23rd day of February, 2010.

Helen W. Dorsey
(Notary)

My Commission Expires:

05/22/2010

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

Organizational Chart

Marie M. Forbes
President

- U.S. Legal Services, Inc (Florida)
  100% Shareholder
- U.S. Legal Services of Tennessee, Inc.
  100% Shareholder
- U.S. Legal Services of Georgia, Inc.
  100% Shareholder
- U.S. Legal Services of Mississippi, Inc.
  100% Shareholder
- U.S. Legal Services of Alabama, Inc.
  100% Shareholder
- U.S.A. Legal Services, Inc.(Texas)
  100% Shareholder
- Combined States L.S., Inc,
  (N.C., S.C., LA, KY)
  100% Shareholder

EXHIBIT

B

U.S. Legal Services

RECEIVED

MAR 08 2010

Dept. of Commerce & Insurance
Company Examinations

March 2, 2010

Mr. Horace E. Gaddis, Jr., CFE
Insurance Examinations Director
Tennessee Department of
Commerce and Insurance
500 James Robertson Pkwy
Nashville, TN 37243

Re: Report on Financial Examination of
U.S. Legal Services of Tennessee, Inc.
Made as of September 30, 2008

Dear Mr. Gaddis:

Pursuant to your letter of February 24, 2010, I am responding with our submissions concerning Comments and Recommendation as revealed by the financial examination made as of September 30, 2008.

Shareholder Distributions: (Pg 35) The Company acknowledges this comment and states that it contemporaneously held a Board Meeting and approved a resolution updating the methods of distribution and this revised Service Agreement has been forwarded to Victoria Stotzer at the Tennessee Department of Commerce and Insurance for her approval.

BOD Meetings: (Pg 35) The Company has held its regular annual meeting and adopted a policy requiring Board approval concerning any matter with material consequence to the Company. A copy of the minutes are attached for your perusal.

Crime Insurance Coverage: (Pg 35) The Company is in the process of retaining crime insurance coverage for U.S. Legal Services of Tennessee, Inc..

Reporting of Unearned and Advanced Premiums: (Pg 36) As discussed with the auditor during his financial examination, U.S. Legal Services of Tennessee is now accounting for unearned and advance premiums. This accounting adjustment will be shown on all future Tennessee reports.

8133 Baymeadows Way • Jacksonville, Florida 32256
904-448-6000 Telephone • 800-356-LAWS Toll-Free • 904-730-0023 Telecopier
www.uslprotects.com

Reporting of Commissions Payable (Pg 37) Acknowledged

Recommendation: (Company Service Agreement with Parent) (Pg 37) The Company acknowledges this comment and states that is contemporaneously held a Board Meeting and approved a resolution updating the methods of distribution and this revised Service Agreement has been forwarded to Victoria Stotzer at the Tennessee Department of Commerce and Insurance for her approval.

If you should have any further questions, please feel free to contact our office.

Sincerely,

Marie M Forbes
President

MMF/ad
Enc.

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If you should have any further questions, please feel free to contact our office.

Sincerely,

Marie M Forbes
President

MMF/ad
Enc.

REGULAR MEETING
OF
BOARD OF DIRECTORS
OF
U.S.LEGAL SERVICES OF TENNESSEE, INC.

December 31 2009 Jacksonville, Fl

A regular meeting of the Board of Director was held at 10:00AM at 8133 Baymeadows Way, Jacksonville, Florida and present was:

Marie M. Forbes, Jack Theis and Julia Anne-Marie Hulsey

Following a brief discussion, a motion was duly made by Marie M. Forbes to approve the annual Service Agreement between USL TN and USL Services (USLS) for a flat monthly administration fee at various levels of Monthly Premium Revenue as follows:

- Compensation to USLS: In consideration for the services rendered by USLS hereunder, USLS shall be paid a service fee on or before the 15th of each month as follows based on Monthly Premium Revenue (MPR):
    1. $7,000 for MPR- $70,000 to $100,000
    2. $10,000 for MPR $100,001 to $120,000
    3. $12,000 for MPR $120,001 to $140,000
    4. $14,000 for MPR $140,001 to $160,000

Following a brief discussion, a motion was duly made by Marie M. Forbes that the following distributions be made by the Company as long at the Capital Surplus is appropriate as follows:

- Due and payable on or before the 15th of each month- $3,000
- Due and payable on or before the 15th day of April, July, October and January of each year- $25,000

Following a brief discussion, a motion was duly made to re-elect Marie M. Forbes as President/Treasurer/Director, Jack Theis as Director and Julia Anne-Marie Hulsey as Secretary/Director.

The motion duly made, seconded and carried, the following officers were elected to service at the pleasure of the Board of Directors and until their successors are elected and qualified.

Marie M. Forbes	President/Treasurer/Director
Julia Anne-Marie Hulsey	Secretary/Director
Jack Theis	Director

No further business appearing, the meeting then adjourned.

Julia Anne-Marie Hulsey
Secretary