



Meet Your Lawyers

LAWYERS MUTUAL 2009 ANNUAL REPORT



LAWYERS MUTUAL at a **GLANCE**



- Established in 1977
- 8,101 insured North Carolina attorneys
- \$39 million surplus
- \$17 million annual premium
- 410 new claims reported in 2009
- 1,957 lawyers and staff attending Risk Management programs

32 years of
service to NC
Lawyers

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LEGAL TRENDS

From 2001 to 2007, law firms grew at a double digit clip – both revenues and firm size. The recession created serious challenges for firms. Legal industry reports predict 2010 will see gradual recovery; however, there is evidence that the profession is entering an era in which the fundamental economics of law firm practice will change significantly.

The recession will be the tipping point for moving law firms in a new direction. Businesses that emerge from the crisis successfully should be stronger and better positioned going forward.

Lawyers Mutual is not immune to these market challenges. Malpractice claims have outpaced premiums, causing the Company to experience several years of underwriting losses.

As a result, Lawyers Mutual must implement some changes to preserve the Company's financial strength. As a mutual company, we have a responsibility to our policyholders to be here for the long term. Our capital base remains strong, but our operating results must improve.

■ **RETHINKING THE MODEL OF DELIVERY OF LEGAL SERVICES.**

This includes the unbundling of legal services, not only in litigation, but also in transactional matters.

■ **RETHINKING THE BILLABLE HOUR.**

Attorneys have been talking about this for 20 years. Will clients finally make new demands?

■ **RETHINKING ASSOCIATE COMPENSATION.**

Firms need more flexibility in staffing and salary patterns.

■ **EXAMINE STAFFING MODELS.**

Firms are experiencing growth in contract lawyers, staff attorneys, specialists, and counsel positions. The new model resembles accounting and consulting firm models.



PRESIDENT'S MESSAGE

I am excited to be part of a company with such great people and history of serving North Carolina attorneys.

DAN ZUREICH, J.D., PRESIDENT & CEO LAWYERS MUTUAL

I am very excited to be part of a great company with such a long history of providing outstanding service to North Carolina attorneys. I am not aware of any other company that can claim that they have been serving North Carolina attorneys continuously for 32 years. While I may be a new face to Lawyers Mutual, our senior management team is well tenured at Lawyers Mutual, and we want to assure you that we remain committed to North Carolina attorneys.

While we have been a stable force over this period of time, much around us has changed. Perhaps the most significant change that our company has faced is the economic collapse of 2008, which has had a profound effect on claim activity, specifically real estate claim activity. Claim count in this area of practice is up more than 50% from historic norms, as is the cost associated with defending and resolving these claims. As a company, we consciously avoided changing our approach as long as possible, ever optimistic that claim activity would return to more typical historic levels. Unfortunately, signs point to a continuing level of claim activity that is well above our historic norms.

We remain a very strongly capitalized company, but in order to protect our capital for the benefit of all of our policyholders, we must now acknowledge that our world has changed. This requires that we recognize that there is a significantly greater likelihood that attorneys who previously practiced or currently practice in real estate will experience claims.

We recognize the importance that real estate has played to the practices of most North Carolina attorneys, and assure you that we remain committed to the real estate bar. In this vein, it is our goal to work with the real estate bar to both improve the quality of practice and to reduce claim activity. Further, since we are a mutual company, once we return to profitability, any dividends that we distribute will be paid to our policyholders. Unlike commercial carriers who cater to Wall Street and shareholders, our obligation runs to you – our policyholders.

FINANCIALS

Statutory Statements of Admitted Assets, Liabilities and Policyholders' Surplus

As of December 31st

ADMITTED ASSETS	2009	2008
Cash and investments:		
Bonds, at amortized cost (market 2009: \$40,309,698; 2008: \$39,643,303)	\$39,467,997	\$40,750,385
Common stocks, at market (cost 2009: \$14,819,147; 2008: \$23,488,147)	17,975,702	22,809,585
Cash and short-term investments	7,484,822	3,429,262
Other invested assets	3,922,989	206,842
Receivable for securities	349,367	201,140
Cash and investments	69,200,877	67,397,214
Interest and dividend income due and accrued	573,429	612,032
Premiums in course of collection	2,240,768	1,734,276
Reinsurance recoverables on claim payments	18,709	11,239
Other amounts receivable under reinsurance contracts	-	656,000
Current Net Federal income tax recoverable	3,129,231	636,823
Deferred Net Federal income tax asset	621,000	1,520,000
Electronic data processing equipment and software, net of accumulated depreciation (2009: \$261,932; 2008: \$234,013)	35,676	18,831
Receivable from subsidiary	237,861	50,899
TOTAL ASSETS	\$76,057,551	\$72,637,314

LIABILITIES AND POLICYHOLDERS' SURPLUS	2009	2008
Liabilities:		
Unpaid losses	\$15,763,756	\$13,829,205
Unpaid loss adjustment expenses	10,610,553	8,372,524
Commissions, contingent commissions payable	28,785	-
Taxes, licenses, fees and other expenses payable	553,092	636,222
Unearned premiums	8,042,986	7,464,520
Advance premiums	732,820	660,875
Ceded reinsurance premiums payable, net of ceding commissions	572,121	521,346
Funds held by company under reinsurance treaties	3,072	1,732
Provision for reinsurance	29,209	207,316
Payable for securities	269,180	1,450,303
Unearned installment charges	51,830	54,861
Total liabilities	36,657,404	33,198,904
Policyholders' surplus:		
Total policyholders' surplus	39,400,147	39,438,410
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	\$76,057,551	\$72,637,314

FINANCIALS | Statutory Statements of Income

YEARS ENDED DECEMBER 31ST	2009	2008
UNDERWRITING INCOME:		
Premiums earned	\$14,118,715	\$13,516,282
DEDUCTIONS:		
Losses incurred	10,355,472	7,913,045
Loss adjustment expenses incurred	9,336,232	6,981,094
Other underwriting expenses incurred	3,689,211	3,016,566
	23,380,915	17,910,705
Net underwriting loss	(9,262,200)	(4,394,423)
INVESTMENT INCOME:		
Net investment income earned	2,425,607	2,685,411
Realized capital gains/(losses) - net of tax (2009 (\$45,000); 2008 (\$132,000))	(87,274)	(1,015,674)
Net investment gain	2,338,333	1,669,737
OTHER INCOME / (EXPENSE):		
Loss from balances charged off	(71,371)	(35,192)
Finance and service charges not included in premiums	240,060	253,572
Other income	2,191	442
Net other income	170,880	218,822
Income before dividends to policyholders and federal income taxes	(6,752,987)	(2,505,864)
Federal income taxes incurred	(3,043,000)	(593,000)
Net income	\$(3,709,987)	\$(1,912,864)

A copy of the company's annual financial statement is available upon written request.

CLAIMS | Year End Review

Real estate claims normally account for one-third of new claims reported in a given year, but from 2007 to 2009, they increased to one-half of new claims. During the same time, the number of new claims has increased.

The increase in real estate claims appears to be directly related to the battered real estate market and resulting foreclosure crisis. The recent drop in the number of residential real estate claims will likely be short-lived. Realty Trac's 2009 end-of-year report showed a 16.07% drop in North Carolina's foreclosure rate from 2008; however, experts forecast a new wave of foreclosures in 2010.

Outside of real estate, the most common errors we see are missing statutes of limitations and other deadlines and waiting until the last minute to file a complaint.

Lawyers buy malpractice coverage because they want expert assistance when they have a claim. The ABA reports the average lawyer will experience at least two malpractice claims in their career, and there is a 1 in 6 chance of having a claim in any given year. Our expertise at protecting lawyers is our real service.

When a claim is reported to Lawyers Mutual, our top priority is to determine if the error can be corrected or the damage mitigated. We call this our Claims Repair program.

Our Claims Repair program is led by an experienced team of in-house claims attorneys and outside counsel. Each day, our claims attorneys are involved in claims repair efforts large and small. Sometimes, claims can be fully repaired. Other times, the dollar amount of the loss can be greatly reduced. A key to successful claims repair is timely reporting. The sooner we know about a problem, the sooner we can go to work trying to fix it.



I like resolving an issue before it becomes a problem.
We have been repairing claims for 32 years.
We are **Here today, Here tomorrow.**

JOHN HESTER, SENIOR CLAIMS COUNSEL, NC CENTRAL UNIVERSITY SCHOOL OF LAW 1975

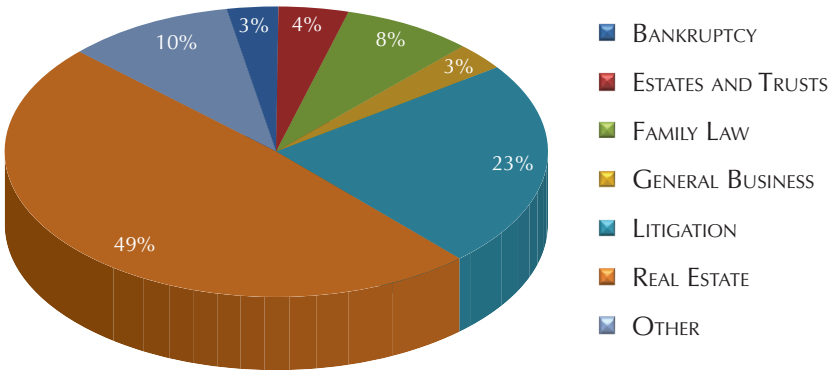
CLAIMS Case Study

Among the most difficult calls lawyers have to make is to Lawyers Mutual to report a potential claim. Recently, a lawyer reported to our claims attorney that a long-time business clients was threatening to sue her. She was representing the client in a business transaction. Unbeknown to the attorney, her client sent a nasty letter to a business competitor involved in the transaction. The client maligned the competitor's business and made personal attacks against the business owner. While he copied his attorney on the letter, he did not seek her advice prior to sending the letter. Who would have guessed this letter would be the beginning of a slander claim against the client, then a malpractice claim that would make its way to the Court of Appeals?

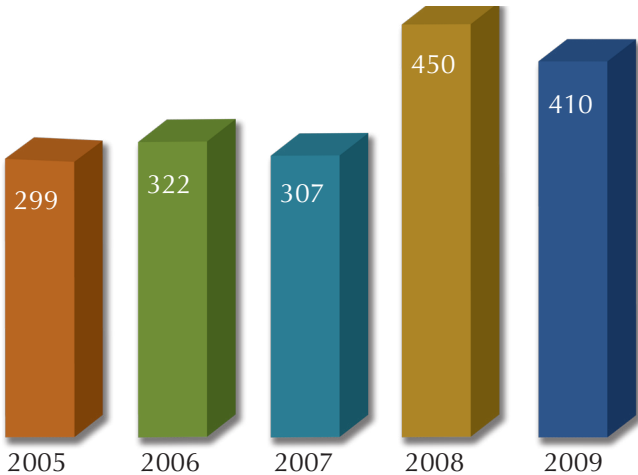
The underlying case involved more than a nasty letter. There was a business transaction that went south, unpleasant negotiations and a client who acted without the advice of his attorney. In this case, because the attorney and client had a long standing relationship, there was no engagement letter that outlined the scope of responsibilities or when the representation began and ended. The client failed to seek his attorney's advice before sending out correspondence that impacted his business dealings and the attorney tended to view the correspondence she received after the fact as "for your information".

Lessons learned? Confirm the scope and nature of your representation, use caution in handling unbundled legal services, and beware of "red-flag" clients as they often end up venting their frustrations against their lawyers.

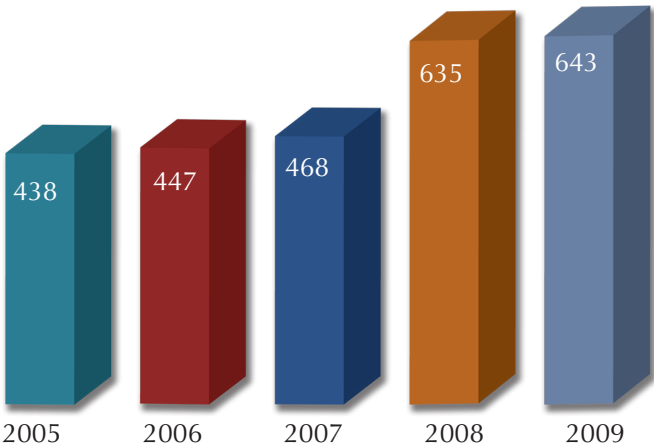
Lawyers Mutual Claims 2009 by Area of Practice



Reported Claims



Pending Claims at Year End





My favorite part of the job is helping a fellow attorney solve a potential claim. Here, at Lawyers Mutual, we are what we say: **Lawyers Helping Lawyers.**

MARK SCRUGGS, CLAIMS COUNSEL, CAMPBELL UNIVERSITY SCHOOL OF LAW 1986

CLAIMS Case Study

The letter to claims counsel began, “On behalf of myself, and our firm I want to thank you for your excellent work in resolving our potential claim. Your professionalism and kindness in listening to my stressed concerns will always be appreciated.”

This is one of many testimonials we receive from Lawyers Mutual insureds who we have helped through our claims repair efforts. In a recent case, a lawyer called to say that because of a missed deadline, his client’s case had been “administratively dismissed” for failure to prosecute. There was no information in the court file indicating service had been made on the defendant. Upon further investigation, it was determined that service had been made, and that the case had not really been dismissed by the court, but had simply been made inactive. The UIM carrier still brought forward a motion to dismiss based on failure to provide discovery. We hired defense counsel to defend and the court denied the UIM carrier’s motion to dismiss. Our claims attorneys achieve a high rate of success in our claims repair efforts, so rather than spend sleepless nights worrying, call us. We are lawyers helping lawyers.

LAWYERS MUTUAL | A Year of Change

2009 was a year of change for the legal industry. Law firms looked at new business models, discussions about the death of the billable hour were renewed, associate salary discussions were on every message board and clients continued to use fewer legal services.

2009 was also a year of change for Lawyers Mutual. January began with promotions for three employees and later in the year, a former employee returned. Judge Gerald Arnold became President, Will Graebe became Vice-President of Claims and Renee Riggsbee became Vice-President of Underwriting. Camille Stell, who had worked with the Company from 1994 – 2000 returned in a newly created role, Director of Client Services.

We also made other internal changes. The risk management department became Client Services. The idea behind the change was to provide our customers with more than risk management resources. As part of this process, we developed a new look for Lawyers Mutual with a new logo, website and ad campaign. We began experimenting with social media as a way to connect with our customers through our Facebook and LinkedIn profiles, as well as a Twitter account. We updated the look of our newsletter and turned it into a monthly e-newsletter. The response has been positive and we have enjoyed hearing from our insureds as they communicate with us in new and different ways.

We, like you, are looking forward to better days ahead. Claims continued to increase in 2009 and we experienced another year of underwriting loss. However, there are several positive signs for 2010. We are pleased that Dan Zureich has joined Lawyers Mutual as our President. Dan's industry experience is ideally suited to guide us through the unstable market in which we find ourselves. Our insureds have been supportive of the Company and the changes required during difficult times.

Lawyers Mutual, formed by North Carolina lawyers in response to a malpractice crisis, was the first mutual professional liability company for lawyers in the country. We were a leader then, and we continue to be a leader now.



RENÉE RIGGSBEE, VP OF UNDERWRITING, UNC SCHOOL OF LAW 1986

We are seeing positive signs of industry change. Nationally, demand for legal services picked up in the 4th quarter, notably in hard hit areas like Capital Markets, Real Estate, and Corporate Law and insureds tell us they have seen increases in these areas as well. We think the firms who continue to think strategically and be attentive to client needs will be successful in 2010. We plan to be with them celebrating a year of success for our Company as well.

- Founded in 1977 by the NC Bar Association with over \$1 million in contributions from North Carolina lawyers.
- First lawyer-owned and operated insurance company in the country.
- Lawyers Mutual has served as a model for more than 20 companies across the US and Canada.
- Visit our website **www.lawyersmutualinc.com** for risk management resources and to follow our blog.
- Follow us on Twitter at LawyersMutualNC, CamilleStell and MarkScruggsEsq.



LAWYERS INSURANCE

Lawyers Insurance makes Lawyers Mutual a full-service insurance provider for North Carolina lawyers.

WILLIAM R. STROUD, JR., PRESIDENT LAWYERS INSURANCE AGENCY, UNC SCHOOL OF LAW 1987

LAWYERS INSURANCE was established to serve many needs. We provide insurance programs that are exclusively offered to members of the North Carolina Bar Association. Through the Bar Association's sponsorship, we have established a self-funded health plan with competitive rates, and our staff provides excellent service. Our disability and long term care programs offer substantial discounts, and our court bond program is run by lawyers for lawyers. We can assist law firms with their office coverage, lawyers with coverage for their home and auto, and retirees with medicare supplement coverage. All of these programs supplement the professional liability coverage Lawyers Mutual was formed to provide.

The North Carolina Bar Association endorses our agency and we're an important part of the valuable services offered to its members. We are proud to support many of the NC Bar Association's programs, including BarCARES, Casemaker and the Bar's Law Practice Management program.

It is Lawyers Insurance that makes Lawyers Mutual a full-service insurance provider for North Carolina lawyers. We are also a complementary profit center to its primary mission of underwriting professional liability coverage. By creating revenue through representing other insurance companies, we do not put Lawyers Mutual's surplus at risk, and we make a significant contribution to its bottom line. 2009 was another good year, though we face many challenges in a difficult economy and seek to assist our customers as they face the same.

FINANCIAL HIGHLIGHTS

Revenue	\$2,689,382
Expenses	\$1,631,730
State & Federal Taxes	\$418,335
Net Income	\$639,317



L-R: Kenneth W. McAllister, John E. Raper, Jr., Eric C. Michaux, Henry A. Mitchell, Jr., Chairman Emeritus, Doris R. Bray, James B. Maxwell, Glen B. Hardymon, Chairman, L.P. Hornthal, Jr., O. Richard Wright, Jr., G. Gray Wilson, Sharon L. Parker, June L. Basden.

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