

**REPORT ON EXAMINATION**

**OF**

**FLORIDA LAWYERS MUTUAL**

**INSURANCE COMPANY**

**ORLANDO, FLORIDA**

**AS OF**

**DECEMBER 31, 2006**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

February 12, 2008

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 628, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY  
3504 LAKE LYNDA DRIVE, SUITE 325  
ORLANDO, FLORIDA 32817**

Hereafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2004 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on September 4, 2007, to September 7, 2007. The fieldwork commenced on September 10, 2007, and was concluded as of February 12, 2008.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

## **HISTORY**

### **General**

The Company was incorporated in Florida on May 27, 1987 and commenced business on November 25, 1988 as Florida Lawyers Mutual Insurance Company.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact Other liability insurance coverage in Florida.

The articles of incorporation were not amended during the period covered by this examination. The bylaws were amended June, 2005 to reflect a change in the number of directors from 15 to 17, and to correct the method by which the bylaws may be amended.

### **Capital Stock**

The Company is a mutual insurance company; therefore, has no outstanding capital stock.

## Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Premiums Earned	10,399,869	8,615,964	8,855,4310
Net Underwriting Gain/(Loss)	3,045,750	3,051,141	2,981,058
Net Income	3,778,868	3,440,468	2,949,994
Total Assets	48,392,394	45,778,773	43,474,596
Total Liabilities	27,279,997	25,964,953	26,271,672
Surplus As Regards Policyholders	21,112,397	19,813,819	17,202,924

## Dividends to Policyholders

In accordance with Section 628.381, Florida Statutes, the Company paid no dividends to its policyholders in 2006, 2005 or 2004.

## Management

The annual shareholders meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2006, were:

### Directors

#### Name and Location

Donald Layton Braddock  
Jacksonville, Florida

#### Principal Occupation

Attorney

Philip Allan Disque  
Fort Lauderdale, Florida

CPA

Ava Kirshenbaum Doppelt Orlando, Florida	Attorney
Raymond Frank Ferrero, Jr. Fort Lauderdale, Florida	Attorney, Chairman of the Board
John Dudley Goodlette Naples, Florida	Attorney
John Franklin Harkness, Jr. Tallahassee, Florida	Director; Executive Director of the Florida Bar
William Earl Loucks Daytona Beach, Florida	Attorney
Lake Henry Lytal, Jr. West Palm Beach, Florida	Attorney
Stephen Andrew Rappenecker Gainesville, Florida	Attorney
Robert Max Sondak Miami, Florida	Attorney
Clyde Lawrence Stagg Tampa, Florida	Attorney
Clyde Gary Williams Tallahassee, Florida	Attorney
Craig Anthony Gibbs Jacksonville, Florida	Attorney
Ramon Alberto Abadin Miami, Florida	Attorney
Juliet Murphy Roulhac Plantation, Florida	Attorney

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

### Senior Officers

Name	Title
William Earl Loucks	President
Philip Allan Disque	Treasurer
Ava Kirshenbaum Doppelt	Secretary

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

<u>Audit Committee</u> Donald Braddock <sup>1</sup> Phillip Disque John Harkness Juliet M. Roulhac Robert Sondak C. Gary Williams Craig Gibbs	<u>Investment Committee</u> Ramon Abadin Donald Braddock <sup>2</sup> Phillip Disque <sup>1</sup> Raymond Ferrero, Jr. Lake Lytal, Jr.	<u>Executive Committee</u> Donald Braddock Phillip Disque Raymond Ferrero, Jr. <sup>1</sup> Robert Sondak C. Lawrence Stagg C. Gary Williams
<u>Business Development</u> Ava K. Doppelt Dudley Goodlette John Harkness Stephen Rappenecker Juliet M. Roulhac Robert Sondak <sup>1</sup>	<u>Claims Committee</u> Ramon Abadin Donald Braddock Phillip Disque Ava K. Doppelt Craig Gibbs Lake Lytal, Jr. <sup>2</sup> C. Lawrence Stagg <sup>1</sup>	<u>Special Redemption</u> Phillip Disque Stephen Rappenecker
<u>Underwriting Committee</u> Dudley Goodlette John Harkness Stephen Rappenecker Robert Sondak C. Gary Williams <sup>1</sup> Juliet M. Roulhac	<u>Nominating Committee</u> Ava K. Doppelt Craig Gibbs Lake Lytal, Jr. Robert Sondak John Harkness <sup>1</sup> C. Gary Williams	<u>Personnel Committee</u> Stephen Rappenecker <sup>1</sup> Phillip Disque Donald Braddock

Raymond Ferrero, Jr.

Ramon Abadin

<sup>1</sup> Chairman

<sup>2</sup> Vice-Chairman

### **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

### **Corporate Records**

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Surplus Debentures**

When incorporated in 1987, the Company offered \$15,000,000 in Series A surplus certificates at \$500 per certificate. This offering was terminated on June 5, 1989 after the issuance of \$3,335,000 of certificates. On June 6, 1989, the Company offered an additional \$5,000,000 of Series C surplus certificates in denominations of \$500 per certificate. This offering was terminated in June 1997 after the issuance of \$3,406,000 of certificates. The certificates were interest bearing, however no interest was paid on the certificates at the discretion of the board of directors. In 1999, the Company revised its certificate redemption policy and developed a plan to redeem all outstanding certificates. The redemption process began in 2002.

At the end of 2006 the Company had redeemed all but \$63,000 of the Series A and \$263,500 of the Series C certificates.

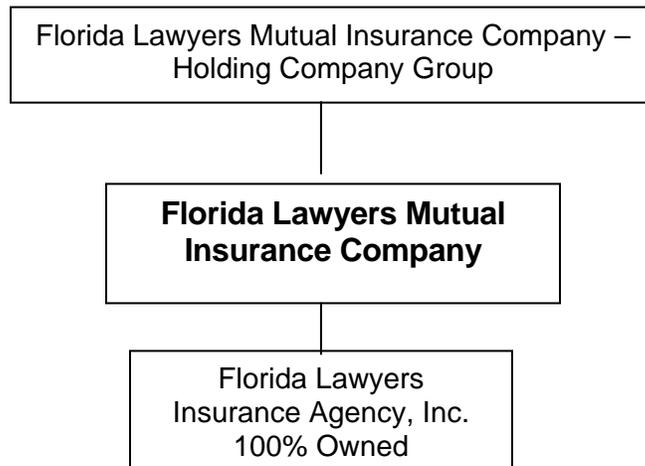
### **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 30, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

### **FLORIDA LAWYERS MUTUAL INSURANCE COMPANY ORGANIZATIONAL CHART**

**DECEMBER 31, 2006**



There were no agreements in effect between the Company and its affiliates at December 31, 2006.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company did not maintain fidelity bond coverage in the minimum amount suggested by the NAIC Financial Condition Examiners Handbook and Rule 69O-142.011 (11) (b) (16), Florida Administrative Code.

Subsequent Event: On September 7, 2007, Fidelity bond coverage was increased to \$300,000 which met the suggested minimum amount of coverage by the NAIC Financial Condition Examiners Handbook.

The Company also maintained Business personal property, Professional liability and Directors and Officers (D&O) liability insurance coverage.

### **PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

The Company's employees were transferred to an employee leasing corporation in 2003. Under that agreement the Company paid a 50% match on employee funds contributed to the defined contribution savings plan.

### **STATUTORY DEPOSITS**

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	SunTrust Bank CD	\$ 75,000	\$ 75,000
FL	SunTrust Bank CD	<u>175,000</u>	<u>175,000</u>
Total Florida Special Deposits		<u>\$ 250,000</u>	<u>\$ 250,000</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company was authorized to transact insurance in the state of Florida, in accordance with Section 624.401(2), Florida Statutes.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1)(i) 3a, Florida Statutes.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

## **Ceded**

The Company ceded risk on an excess of loss basis through four reinsurance treaties: A casualty excess of loss treaty (\$750,000 excess of \$250,000), a casualty first excess session (\$1,000,000 excess of \$1,000,000), a casualty second excess session (\$3,000,000 excess of \$2,000,000), and a casualty excess facility (\$5,000,000 excess of \$5,000,000). The Company also had two facultative treaties in place at year-end for \$10,000,000 excess of \$10,000,000. The Company had the option to seek facultative coverage through their intermediary, Willis Re, Inc. on any risk.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005 and 2006, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational offices in Orlando, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with Mellon Private Trust Company. The custodial agreement was in compliance with Rule 69O-143.042, Florida Administrative Code. The custodian managed, invested, and reinvested all assets under their supervision.

### **Independent Auditor Agreement**

The Company had an independent auditor agreement with Strohm Ballweg, LLP.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$32,703,845		\$32,703,845
Stocks:			
Common	7,392,424		7,392,424
Cash:	5,757,155		5,757,155
Investment income due and accrued	342,630		342,630
Agents' Balances:			
Deferred premium	1,526,677		1,526,677
Net deferred tax asset	669,663		669,663
Totals	\$48,392,394	\$0	\$48,392,394

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2006**

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Losses	\$7,533,377		\$7,533,377
Loss adjustment expenses	7,192,270		7,192,270
Other expenses	129,934		129,934
Taxes, licenses and fees	77,738		77,738
Current federal and foreign income taxes	560,839		560,839
Unearned premium	4,097,184		4,097,184
Advance premium	1,356,821		1,356,821
Ceded reinsurance premiums payable	891,600		891,600
Provision for reinsurance	134,507		134,507
Aggregate write-ins for liabilities	5,305,728		5,305,728
<b>Total Liabilities</b>	<b>\$27,279,997</b>		<b>\$27,279,997</b>
Aggregate write-ins for special surplus funds	\$303,221		\$303,221
Gross paid in and contributed surplus	299,235		299,235
Unassigned funds (surplus)	20,509,941		20,509,941
Surplus as regards policyholders	\$21,112,397		\$21,112,397
<b>Total liabilities, surplus and other funds</b>	<b>\$48,392,394</b>		<b>\$48,392,394</b>

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2006**

**Underwriting Income**

Premiums earned		\$10,399,869
	<b>Deductions:</b>	
Losses incurred		1,872,753
Loss expenses incurred		2,664,879
Other underwriting expenses incurred		2,816,487
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$7,354,119
Net underwriting gain or (loss)		\$3,045,750

**Investment Income**

Net investment income earned		\$1,348,161
Net realized capital gains or (losses)		669,439
Net investment gain or (loss)		\$2,017,600

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		180,975
Aggregate write-ins for miscellaneous income		310
Total other income		\$181,285
Net income before dividends to policyholders and before federal & foreign income taxes		\$5,244,635
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$5,244,635
Federal & foreign income taxes		1,465,767
Net Income		\$3,778,868

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$19,813,819
Net Income		\$3,778,868
Change in net unrealized capital gains or losses less capital gains		(115,862)
Change in net deferred income tax		12,011
Change in non-admitted assets		(8,375)
Change in provision for reinsurance		(89,791)
Change in surplus notes		(2,278,272)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$1,298,579
Surplus as regards policyholders, December 31 current year		\$21,112,397

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$14,725,647

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Kay Kufera, FCAS reviewed work papers provided by the Company and was in concurrence with this opinion.

### Capital and Surplus

The amount reported by the Company of \$21,112,397, exceeds the minimum amount of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**FLORIDA LAWYERS MUTUAL INSURANCE COMPANY, INC.  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2006**

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2006, per Annual Statement	\$21,112,397
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			\$0
No adjustment needed.			
LIABILITIES:			\$0
No adjustment needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, per Examination			\$21,112,397

## **SUMMARY OF FINDINGS**

### **Current examination comments and corrective action**

There are no examination directives or corrective actions required by the Company as of December 31, 2006.

## **SUBSEQUENT EVENTS**

There has been one change in the Company's Board members; Alan B. Bookman was approved by the Office and the Board of Directors as a new member to the board of directors.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Lawyers Mutual Insurance Company, Inc.** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$21,112,397, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John C. Berry, Financial Examiner/Analyst Supervisor, and Kay Kufera, FCAS, MAAA, Kufera Consulting, Inc. participated in the examination.

Respectfully submitted,

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Richard A. Shaffer  
Financial Specialist  
Florida Office of Insurance Regulation