



By Ira R. Zarov
PLF Chief Executive Officer

The PLF Board of Directors (BOD) and staff are pleased to report that in calendar year 2007 the PLF Primary and Excess Programs ended the year with combined net income of \$5.7 million. This positive outcome follows a net income of \$1.7 million in 2006 and \$2.3 million in 2005. These gains follow a net loss of almost \$7 million for the previous three years.

Although the PLF has had positive results in each of the past three years and has made substantial financial progress, the PLF still needs to set aside reserves. In each of the last five years, the PLF BOD has set a goal of reaching a reserve for the Primary and Excess Programs, as recommended by our outside actuaries. The reserve is designed to give the PLF flexibility when setting the annual assessment and would be available to stabilize the assessment if a claim year produced substantially worse results than expected. By using the reserve in such a case, it is hoped that a precipitous increase in the assessment could be avoided. Despite the PLF's positive results in the past three years, the desired reserve has not yet been reached.

In 2007, the PLF had 778 new claims, a number consistent with the 780 new claims in 2006. This is a significant decrease compared with 843 new claims in 2005 and an even larger decrease compared with 923 claims in 2004 – the highest number recorded for a claim year. The drop in frequency

of new claims is the primary reason for the PLF's good fiscal news. There is no identifiable reason for the decrease in claims over the last two years. Unfortunately, the lower rate of new claims that was experienced in 2006 and 2007 has not continued; current projections extrapolate that there will be 865 claims in 2008, or a 10% increase in frequency over the past two years.

The PLF is happy to report that it has moved into the third floor of the new OSB center. There will be long-term economic benefits from the move in the form of a favorable rental agreement, as well as intangible benefits from being in proximity with the OSB offices.

Continued on page 6

PLF Statistics

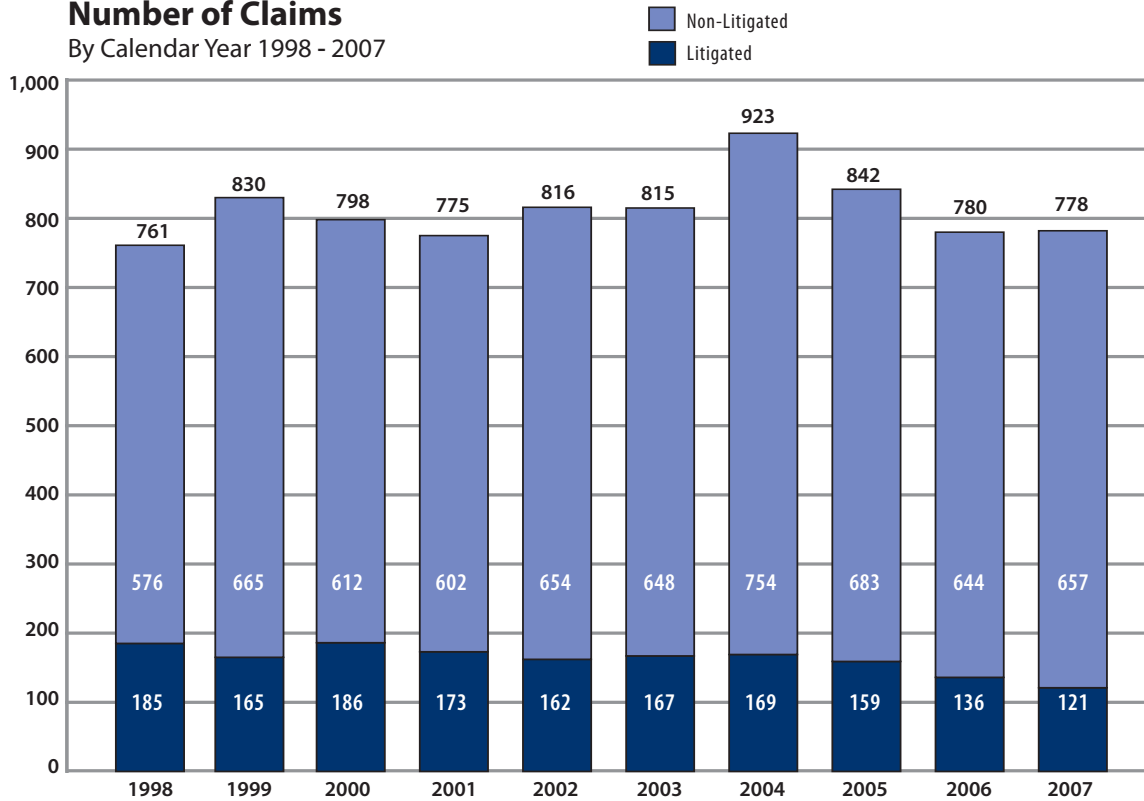
1993 – 2008

	Assessments	Claims
1993	\$1800	700
1994	\$2100	681
1995	\$2100	825
1996	\$2100	721
1997	\$2200	769
1998	\$2100	761
1999	\$1900	830
2000	\$1800	798
2001	\$1800	775
2002	\$2200	816
2003	\$2600	815
2004	\$2600	923
2005	\$3000	842
2006	\$3000	780
2007	\$3200	778
2008	\$3200	865*

* Projected

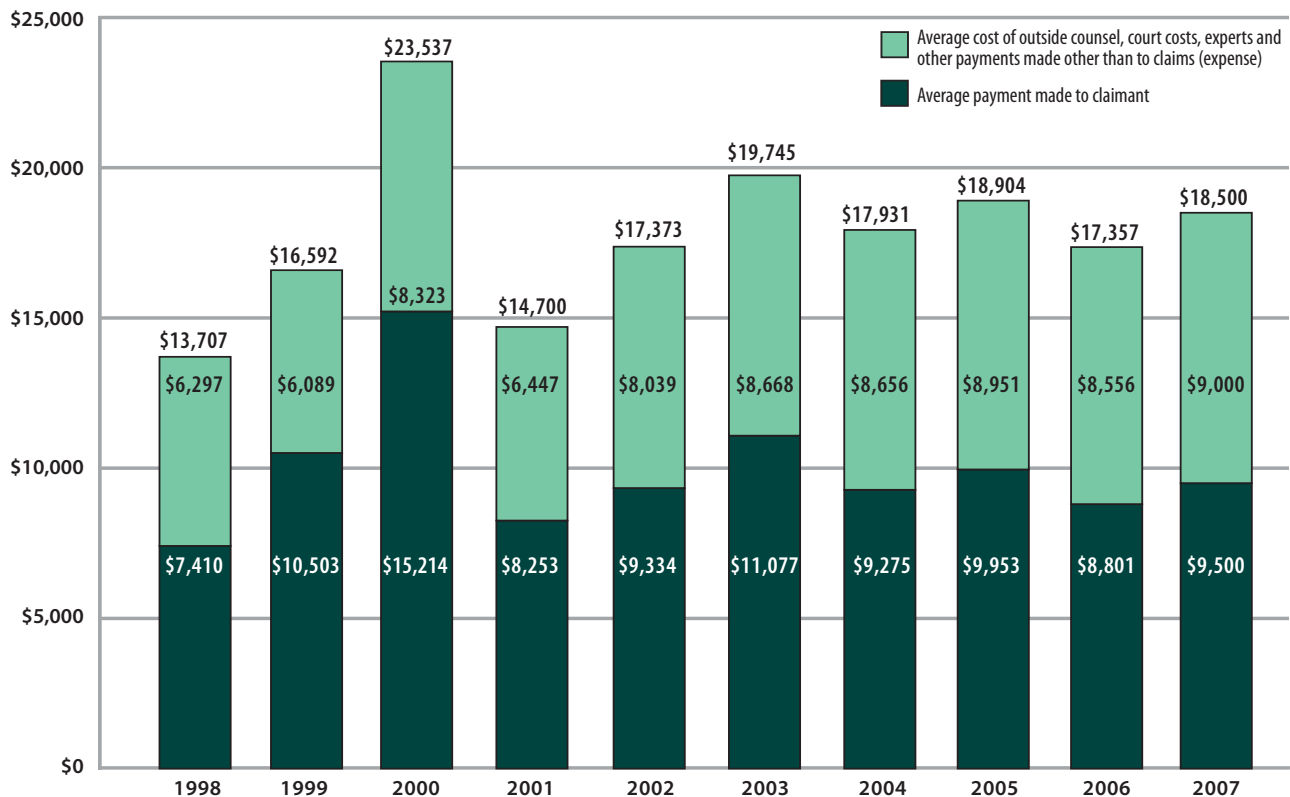
Number of Claims

By Calendar Year 1998 - 2007



Average Cost per Claim

By Year of Reporting



Summary Financial Statements (Unaudited)

(Primary and Excess Programs Combined)

	<u>12/31/2007</u>	<u>12/31/2006</u>
ASSETS		
Cash and Investments at Market	\$34,685,412	\$27,436,527
Other Assets	678,294	836,350
TOTAL ASSETS	<u>\$35,363,706</u>	<u>\$28,272,877</u>

LIABILITIES AND FUND EQUITY

Estimated Liabilities for Claim		
Settlements and Defense Costs	\$28,500,000	\$27,000,000
Other Liabilities	710,518	724,507
Fund Equity	6,153,188	548,370
TOTAL LIABILITIES AND FUND EQUITY	<u>\$35,363,706</u>	<u>\$28,272,877</u>

For the Year Ending December 31

2007 **2006**

REVENUE

Assessments	\$21,224,537	\$19,784,930
Investment and Other Income	5,331,567	4,485,001
TOTAL REVENUE	<u>\$26,556,104</u>	<u>\$24,269,931</u>

EXPENSE

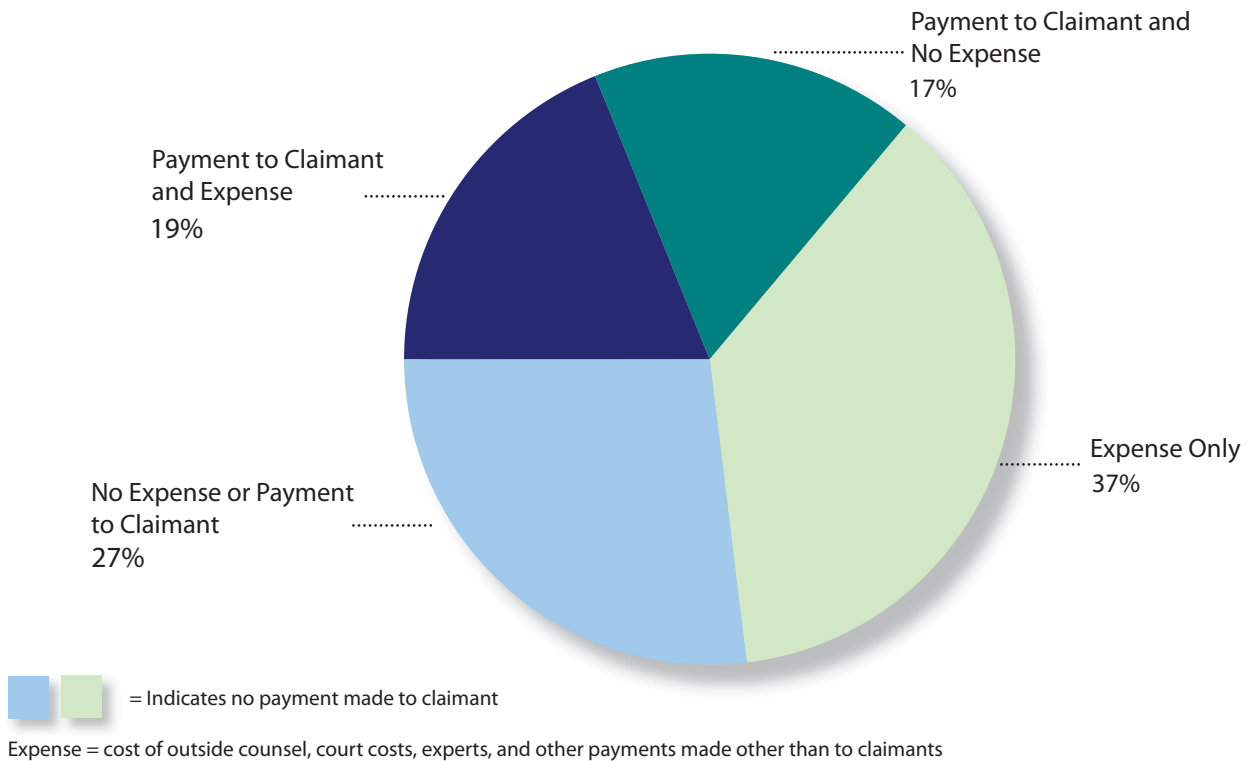
Administrative	\$5,935,821	\$5,625,856
Provision for Settlements	7,902,877	8,462,145
Provision for Defense Costs	7,112,589	8,462,145
TOTAL EXPENSE	<u>\$20,951,287</u>	<u>\$22,550,146</u>

NET INCOME	<u>\$5,604,817</u>	<u>\$1,719,785</u>
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These statements have been adjusted to remove prepaid assessments; e.g., payments of the 2008 assessment received in December of 2007. A complete copy of the December 31, 2006, audit report is available on request.

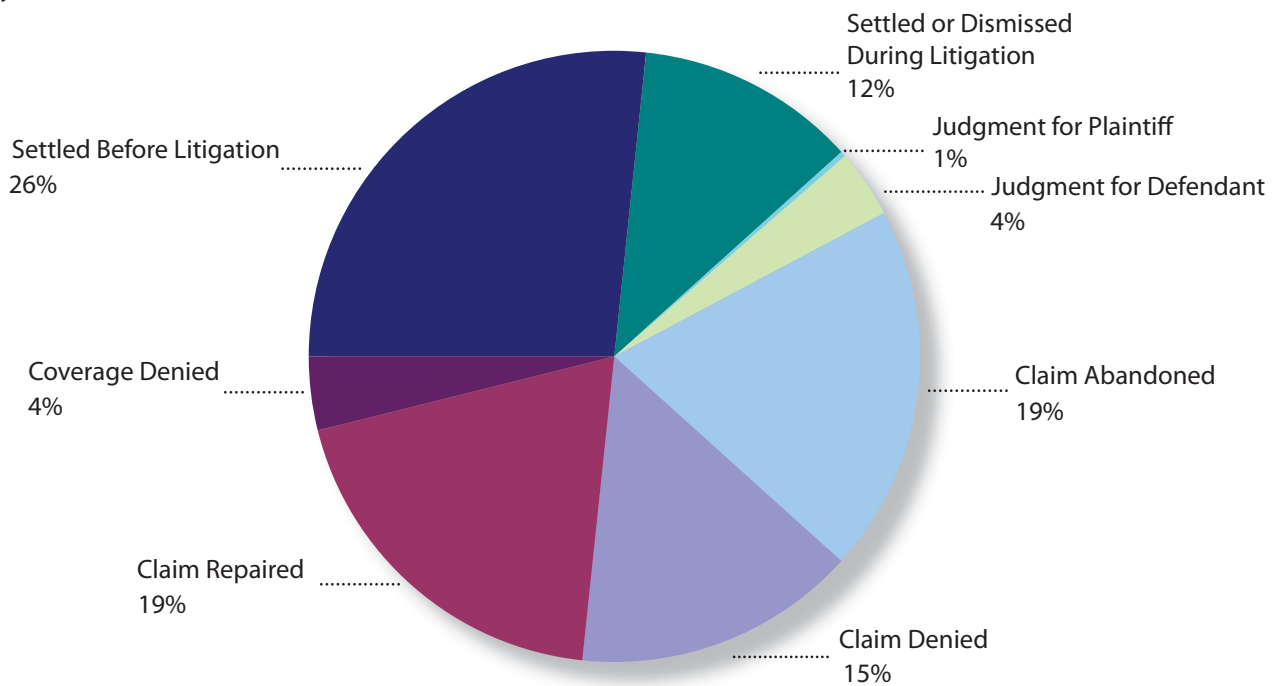
Closed Claims

January 1, 1998 – December 31, 2007



Disposition of Closed Claims

January 1, 1998 – December 31, 2007



Cost of Closed Claims by Area of Law

January 1, 1998 – December 31, 2007

AREA OF LAW	PERCENT INDEMNITY PAID	INDEMNITY PAID	PERCENT EXPENSES PAID	EXPENSES PAID	TOTAL PAID
Personal Injury	21%	\$13,872,344	13%	\$5,909,037	\$19,781,381
Business Transactions / Commercial Law	13%	\$8,881,139	21%	\$9,423,444	\$18,304,583
Real Estate	15%	\$10,092,228	12%	\$5,527,456	\$15,619,684
Domestic Relations / Family Law	12%	\$7,752,321	11%	\$4,944,600	\$12,696,921
Estate Planning & Estate Tax	10%	\$6,541,065	9%	\$3,873,453	\$10,414,518
Bankruptcy & Debtor-Creditor	10%	\$6,625,227	8%	\$3,475,763	\$10,100,990
Workers' Compensation / Admiralty	3%	\$2,242,863	2%	\$838,840	\$3,081,703
Criminal	1%	\$875,452	3%	\$1,343,594	\$2,219,046
Securities	1%	\$926,472	2%	\$868,952	\$1,795,424
Tax	1%	\$474,674	2%	\$725,061	\$1,199,735
Other	13%	\$8,498,237	17%	\$7,482,377	\$15,980,614
	100%	\$66,782,022	100%	\$44,412,577	\$111,194,599

Frequency of Closed Claims by Area of Law

January 1, 1998 – December 31, 2007

AREA OF LAW	PERCENT	COUNT
Personal Injury	18%	1,335
Domestic Relations / Family Law	16%	1,189
Bankruptcy & Debtor-Creditor	12%	925
Real Estate	11%	826
Business Transactions / Commercial Law	10%	780
Estate Planning & Estate Tax	9%	694
Criminal	7%	485
Workers' Compensation / Admiralty	3%	224
Tax	1%	52
Securities	1%	50
Other	12%	881
	100%	7,441

THE 2009 PRIMARY PROGRAM ASSESSMENT

As covered parties are aware, the 2008 Primary Program assessment remained at \$3,200. Although it is highly unlikely that the positive results achieved in 2007 will be replicated and it is inherently difficult to predict future needs, the BOD is hopeful that no increase in the assessment will be necessary in 2009. The last three consecutive fiscal years with positive net income support this optimism. Negative factors, however, are creeping into the picture, specifically: (1) the increase in claim frequency we are currently experiencing; (2) the potential economic downturn, which is generally thought to increase both the frequency and severity of claims; and (3) the increase in the average cost per claim in each of the last three years.

The 2009 assessment will be determined midyear 2008, when more of the year's claim information will be available for the actuaries to consider. The actuaries will base their recommendations on the predicted number (frequency) and severity of claims for 2009, in addition to other costs of operation.

HOW IS THE PLF DOING WITH CLAIMS HANDLING?

Historically, covered parties who have returned the PLF claims-handling evaluation form have been overwhelmingly satisfied with the performance of the PLF claims department. That level of satisfaction continued in 2007.

The claims-handling evaluation form asks whether covered parties were satisfied, very satisfied, or not satisfied. In 2007, the PLF received 350 responses (42%). The responses gave high ratings to both claims attorneys and defense counsel.

The performance of defense counsel was particularly noteworthy in 2007. Among the 199 covered parties who responded to the questionnaire about defense counsel, 10.6% were satisfied, 88.9% were very satisfied, and just .5% were unsatisfied. (The fewer responses regarding defense counsel reflects that many cases are handled by the PLF claims attorneys without being assigned out.) Combining these numbers, the evaluations indicated that covered parties were either satisfied or very satisfied with the performance of defense counsel 99.5% of the time.

Covered parties' satisfaction with claims attorneys was

also very high, with 8.4% of respondents stating that they were satisfied with how their claim was handled and 90.7% stating that they were very satisfied. Combining these numbers, the evaluations indicated that covered parties were either satisfied or very satisfied with the performance of claims attorneys 99.1% of the time.

WHAT IS THE PLF DOING IN THE AREAS OF PERSONAL AND PRACTICE MANAGEMENT ASSISTANCE?

The PLF continues to provide free and confidential personal and practice management assistance to Oregon lawyers. These services include legal education, on-site practice management assistance (through the PLF's Practice Management Advisor Program), and personal assistance (through the Oregon Attorney Assistance Program).

Personal and practice management assistance seminars in 2007 included programs on electronic storage and retention of files, conflicts of interest systems, billing, collections, trust accounting, setting up a sole practice, time management, confidentiality in the law office, technology tips, avoiding malpractice with your computer, and practice management. In addition, we continue to offer free audio and video programs (currently 36 available), publications (*In Brief* and *In Sight*), over 271 practice aids, and the following handbooks: *Planning Ahead: A Guide to Protecting Your Clients' Interests in the Event of Your Disability or Death* (2006); *A Guide to Setting Up and Running Your Law Office* (2005); *A Guide to Setting Up and Using Your Lawyer Trust Account* (2005); and *Oregon Statutory Time Limitations* (2003). Our practice aids and handbooks are all available free of charge. You can download them at www.osbplf.org, or call the PLF at 503-639-6911 or 800-452-1639.

During 2007, the PLF presented video replays of the following programs: *Best Practices for Avoiding Conflicts and Maintaining Confidentiality*; *Calendaring, Docketing, and File Tickling Systems*; *Fee Agreements*; *File Management*; *First Annual Ethics Tune-up*; *Make Every Penny Count*; *Mandatory Child Abuse Reporting*; *Professionalism and the Legal Profession*; and *Things You Need to Do Now to Comply With the New E-Discovery Rules*. These video replays were presented in Albany, Astoria, Bend, Coos Bay, Eugene, Grants Pass, Klamath Falls, Medford, Newport, Pendleton, Roseburg, Salem, and Vale, Oregon.

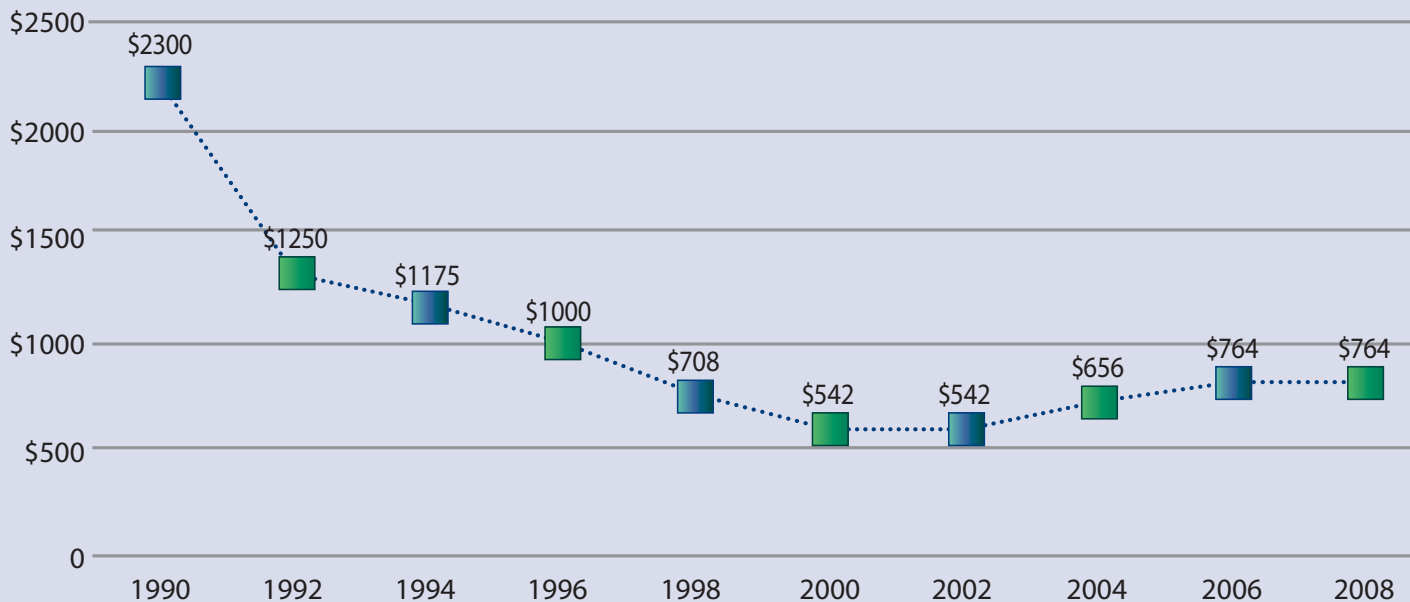
Practice Management Advisor Program. Our practice management advisors, Dee Crocker, Beverly Michaelis, and Sheila Blackford, answer practice management questions and provide information about effective systems for conflicts of interest, mail handling, billing, trust accounting, general accounting, time management, client relations, file management, and software. In a recent survey about our practice management advisors, 99% of those who responded said they would recommend the PLF's practice management advisor services to others. In addition, 99% said they were either satisfied or very satisfied with how promptly their phone calls were returned, follow-up, how they were treated, how helpful the information was, the practice management advisor's ability to explain information clearly, and the overall level of service. In 2007, the practice management advisors presented live programs in Albany, Clackamas, Corvallis, Eugene, Gresham, Hillsboro, McMinnville, Portland, and Salem, Oregon.

Oregon Attorney Assistance Program. The Oregon Attorney Assistance Program (OAAP) attorney counselors, Meloney Crawford Chadwick, Shari R. Gregory, Mike Long, and Douglas Querin, provide assistance with alcohol and chemical dependency; burnout; career change and satisfaction; depression, anxiety, and other mental health issues; stress management; and time management. In 2007, the OAAP offered addiction support groups, lawyers-in-transition meetings, career workshops, a depression support group, a support group for adult children of dysfunctional families, a support group for lawyers going through divorce, an Inner Peace support group, a support group for chronic health issues, and a women's support group. In addition, the OAAP attorney counselors assisted over 687 lawyers with personal issues, including alcoholism, drug addiction, career satisfaction, retirement, and mental health issues.

During 2007, the OAAP presented the following semi-

Cost of Excess Coverage

By Calendar Year 1990 - 2008



Graph shows cost of \$700,000 excess coverage above primary PLF limits.

Figures are the cost per attorney of \$700,000 PLF excess coverage above the primary limits. Figures for 1995 to 2008 do not include the continuity credit granted to firms for each year of continuous excess coverage with the PLF. Figures are not adjusted for inflation.

nars and workshops: *Health Insurance Today, at 65, and in Retirement; What Do You Want to Do With Your Law Degree and How to Get There; Lawyers at Midlife: A Retirement Planning Workshop for Oregon Lawyers*; and a *Women's Wellness Retreat*.

CHANGES TO THE COVERAGE PLAN

There were a number of minor changes to the PLF Primary Coverage Plan designed to clarify the Plan's meaning. These changes do not affect the existing coverage grant.

In addition, the following sections of the Coverage Plan were revised:

Exclusion 2 of Section V relates to claims involving intentional, dishonest, fraudulent, criminal, or other wrongful conduct. The revision removed section b. of the exclusion because it covered the same conduct as exclusion 4.b (relating to claims involving the imposition of attorney fees, fines, sanctions, etc. on a covered party for bad faith conduct or the assertion of frivolous claims or defenses).

The title of Exclusion 20 of Section V has been changed from "Bond and Surety Exclusion" to "Contractual Obligation Exclusion." The change reorganizes the exclusion and adds comments that clarify that the Plan does not indemnify attorneys for contractual obligations they enter into voluntarily.

You can find the entire Coverage Plan at the PLF Web site at www.osbplf.org. Select Coverage Plan under Primary Coverage, then select Complete 2008 Primary Claims Made Plan.

EXCESS PROGRAM

The PLF Excess Program rates have remained stable, and participation continues to grow. In 2007, 716 firms with a total of 2,597 lawyers purchased PLF excess coverage. These numbers are consistent with historic growth in the PLF Excess Program.

A few minor changes were made in the PLF Excess Coverage Program this year. These changes follow changes made to the PLF 2008 Primary Claims Made Plan.

As in the past, the PLF Excess Program is entirely reinsured and financially independent from the PLF's mandatory Primary Coverage Program. Because of the success of

the PLF's Excess Program, we are able to negotiate very favorable reinsurance rates. That savings is passed on to Oregon lawyers in lower excess coverage rates. We continue to offer continuity credits of 2% for each year of participation (up to 20%).

CHANGES IN PLF BYLAWS AND POLICIES

No changes were made to PLF Bylaws and Policies in 2007.

FORECAST FOR THE FUTURE

As mentioned earlier, the PLF's positive fiscal performance in 2007 was driven primarily by the decrease in number of new claims, but other contributors to the positive results included a stabilization of claim severity and a better-than-expected performance of PLF investments. Unfortunately, this year is not likely to have the same convergence of positive factors. Claim frequency appears to be increasing in 2008, and the economy is experiencing a downturn, which is thought to correlate to increased claim severity. Nonetheless, based on the 2007 results, we are cautiously optimistic that 2008 will yield positive fiscal results, allowing the PLF to maintain the current assessment.

The PLF is embarking on several projects in 2008. The PLF Board of Governors (BOG) has requested that the BOD examine the adequacy of the current \$300,000 primary coverage limit. A special committee of the BOD will undertake this task. In addition, the PLF is hosting the annual convention of the National Association of Bar Related Insurance Companies (NABRICO) from August 20 to 23. This yearly event is attended by providers of attorney professional liability insurance from throughout Canada and the United States.

If you have questions or suggestions about the PLF, please contact me.

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