



The Lawyers' Fund for Client Protection of the State of New York

Highlights from the 2006 Annual Report of the Board of Trustees

This Report of the Board of Trustees of the Lawyers' Fund for Client Protection focuses on the activities and operations of the Lawyers' Fund for the 2006 calendar year.

The Lawyers' Fund was established in 1981 in order to maintain the integrity and protect the good name of New York's legal profession by reimbursing law client losses caused by the dishonest conduct of attorneys in our State. The legal profession is the only profession to provide such protection to its clients.

Over two decades of experience has clearly established that the vast majority of lawyers in New York State are honest and caring for their clients and deserving of their trust. The dishonest conduct and resulting client losses reimbursed by the Fund are attributable to substantially less than one-third of one percent of New York's current 229,000 registered lawyers.

These few dishonest lawyers can cause substantial harm. Since 1982, the Lawyers' Fund has awarded \$123 million to 6,163 eligible law clients. In 2006, there were 147 awards granted totaling \$7.1 million. The losses in 2006 were caused by 65 now suspended, disbarred or deceased lawyers, 35 of whom appear for the first time in 2006 in the Fund's awards.

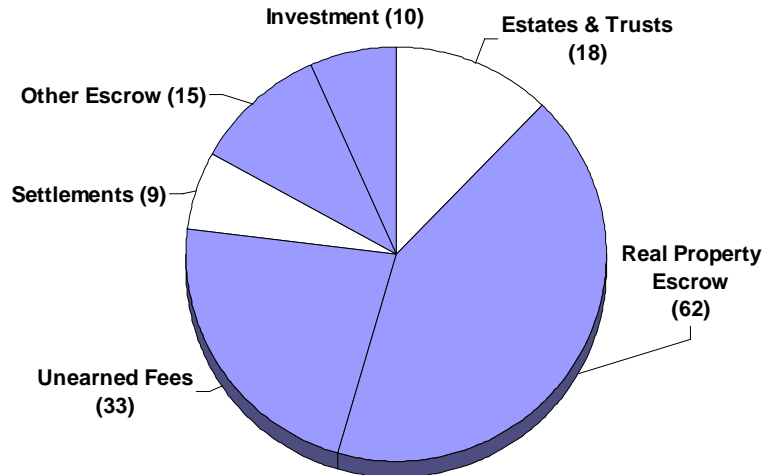
The Fund ended 2006 with 604 pending claims, up from 515 claims at the end of 2005. Of these 604 pending claims, 356, nearly 60 percent, involve one law firm whose attorneys are the subject of ongoing criminal proceedings. The Fund's exposure on the 604 pending claims was \$14.8 million. At the close of 2006, the Fund had \$7.0 million in revenue in the state treasury.

Since 1982, 91 cents out of every \$1 in revenue received by the Fund has been directly applied towards the payment of awards of reimbursement.

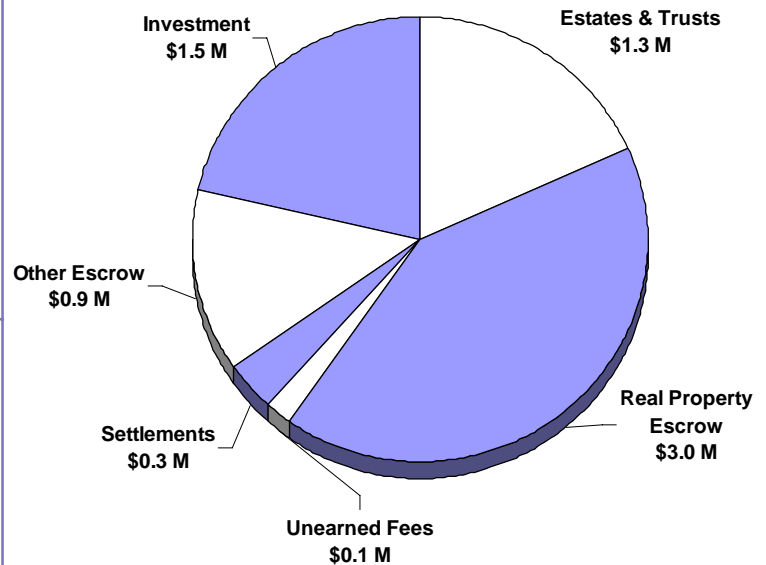
Coming Soon - 25th Anniversary of the Lawyers' Fund

The Lawyers' Fund began operations on April 1, 1982. The Trustees will therefore celebrate the 25th Anniversary of the Fund in 2007. Next year's Annual Report will review the Fund's development and progress in 25 years of service to the public and the legal profession. The Trustees welcome any comments the reader may wish to make concerning experiences with the Fund, the legal profession, and the importance and value of law client protection. Comments may be directed to the Lawyers' Fund, 119 Washington Avenue, Albany, New York, 12210, or by e-mail addressed to info@nylawfund.org

Number of Awards Approved in 2006 by Category of Loss : 147 Awards



Amount of 2006 Awards By Misconduct : \$7.1 Million



"I don't know of any other organization that is willing to stand up and take responsibility for the wrong doings and illegal actions of another member of that profession. I find this admirable and would like to extend my thanks to all 229,000 members of New York State's legal profession who make this Fund possible. It is comforting to see there are lawyers who take extra time and effort to uphold the ethical standards of their profession..."

Message from a Claimant 2006.

Section 97-t of the State Finance Law provides for the establishment of the Fund and for the management of its assets as a special revenue fund by the State Comptroller.

Section 468-b of the Judiciary Law governs the administration of the Fund. This statute provides the Trustees with full authority to administer the Fund, subject to the general supervisory authority of the Court of Appeals.

The Trustees' Regulations for administration and claims procedures are published in Title 22 of the Official Compilation of Codes, Rules and Regulations of the State of New York (22 NYCRR Part 7200, et seq.).

The Trustees' primary focus is the reimbursement of losses caused by the dishonest conduct of attorneys who were admitted to the practice of law in New York State. Losses reimbursed by the Fund include the theft of estate and trust assets, escrow deposits in real property transactions, settlements in personal injury litigation, debt collection receipts, money embezzled in investment transactions within an attorney-client relationship and the practice of law, and unearned fees paid in advance to lawyers who falsely promise their legal services.

The Dishonored Check Notice Rule is a client protection device instituted at the request of the Fund's Trustees. Under the court rules for this program, the Lawyers' Fund acts as a statewide clearing house for reports of bounced checks on attorney trust, special and escrow accounts. In 12 years, the Fund has processed over 7,000 bounced check reports with a total face amount in excess of \$153 million. The reports have identified upwards of 145 lawyers who had misused escrow funds.

Court rules designate the Lawyers' Fund as a depository for money owed to missing law clients and escrow beneficiaries. 22 NYCRR 1200.46(f). Deposits of \$1,000 or less will be accepted without court order in order to prevent the depletion of nominal deposits. The Fund's staff attempts to locate these clients to return deposits. As of December 31, 2006, a total of 1,123 deposits totaling \$2.0 million were received by the Fund. Staff successfully located 101 missing clients and restored \$259,421.

The Fund's internet site at www.nylawfund.org is a source of detailed information about the Fund and helpful advice for consumers and the legal community. The site contains frequently asked questions on the Fund and its procedures; the Trustees' Regulations; reimbursement claim forms; recent Annual Reports; consumer publications; and press releases.

Claims Received and Processed

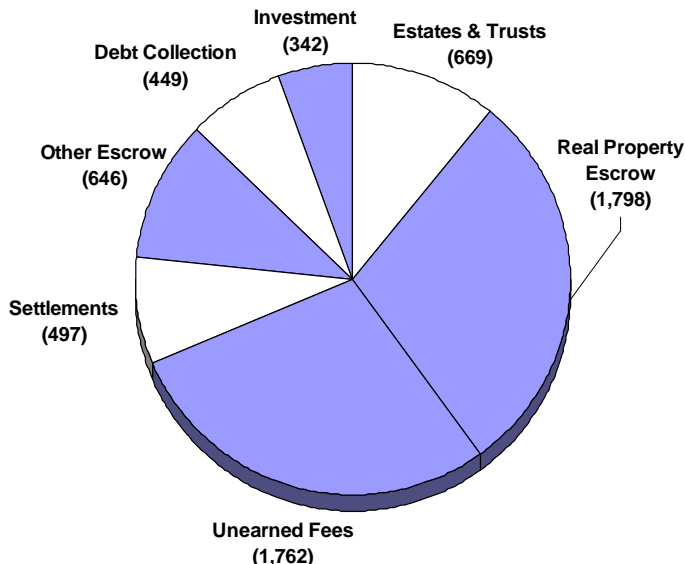
In 2006, 520 claims were filed with the Fund, a decrease of 29 percent from 2005. The largest number (139) of claims sought reimbursement for losses in real estate transactions. The largest reported losses (\$8.2 million) also involved alleged losses in real estate transactions. The second largest reported losses (\$3.4 million) involved estates and trusts.

The Trustees approved 147 awards in 2006, with documented losses of \$7.3 million. Awards totaled \$7.1 million, and ranged between \$300 and \$300,000. The median loss and award was \$13,000. All awards since 1982 involve actual client and escrow losses of \$160.6 million.

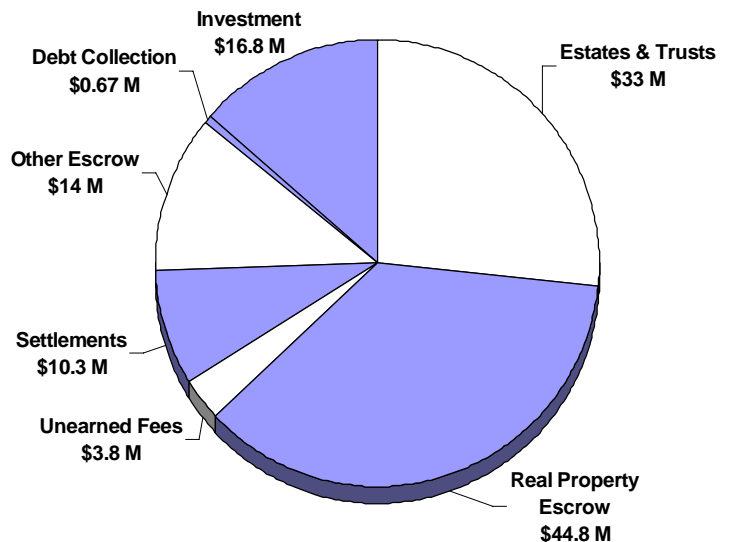
Of the 147 awards in 2006, losses in real estate transactions was the largest category of awards in both number (62) and dollar amount (\$2.9 Million). In 2006, 42 percent of the awards approved, and 41 percent of the amount of reimbursement provided, involved thefts of real property escrows.

Since 1982, final determinations have been reached in 13,172 claims: 6,163 (47%) were found to qualify for reimbursement and 7,009 (53%) were determined to be ineligible.

Number of Awards Approved Since 1982 by Category of Loss : 6,163 Awards



Amount of Awards Since 1982 By Misconduct : \$123.4 Million



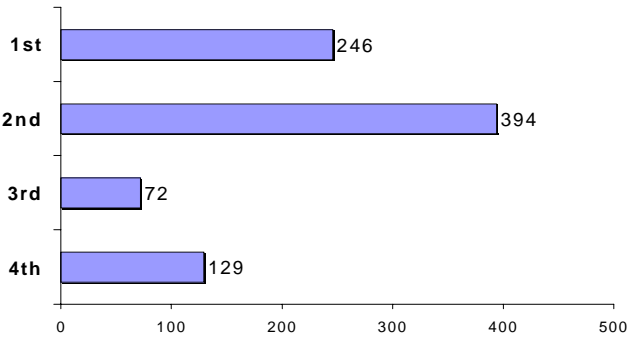
Lawyers Involved in Awards, 1982 to 2006

Only 841 former members of the bar have been responsible for the 6,163 awards granted by the Fund in 24 years. The Trustees' awards in 2006 were attributable to dishonest conduct by 65 now suspended, disbarred or deceased lawyers. Of these 65 former lawyers, 30 were respondents in awards from prior years and the names of 35 dishonest lawyers appear for the first time in 2006 awards.

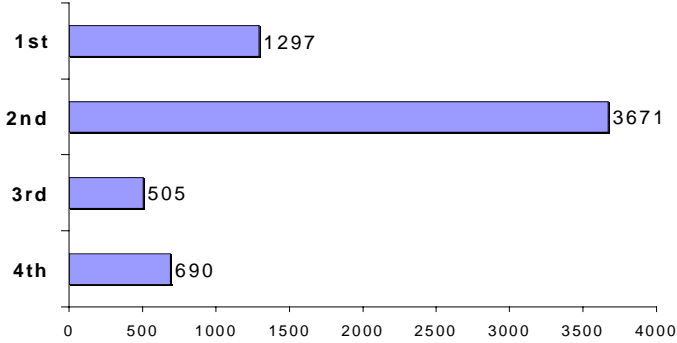
Most thefts involve sole practitioners, the majority of which are male and middle-aged. The apparent causes of misconduct by these lawyers are often traced to alcohol or drug abuse. Other causes are economic pressures, mental illness, marital, professional and medical problems, and gambling activity.

The geographic distribution of these 841 former lawyers, and the Fund's 6,163 awards, among the state's judicial departments is represented in the bar graphs to the right:

Lawyers Involved in All Awards Since 1982



Distribution of Awards Since 1982



First Judicial Department

New York and Bronx County

Second Judicial Department

Kings, Richmond, Queens, Nassau, Suffolk, Dutchess, Orange, Putnam Rockland and Westchester Counties

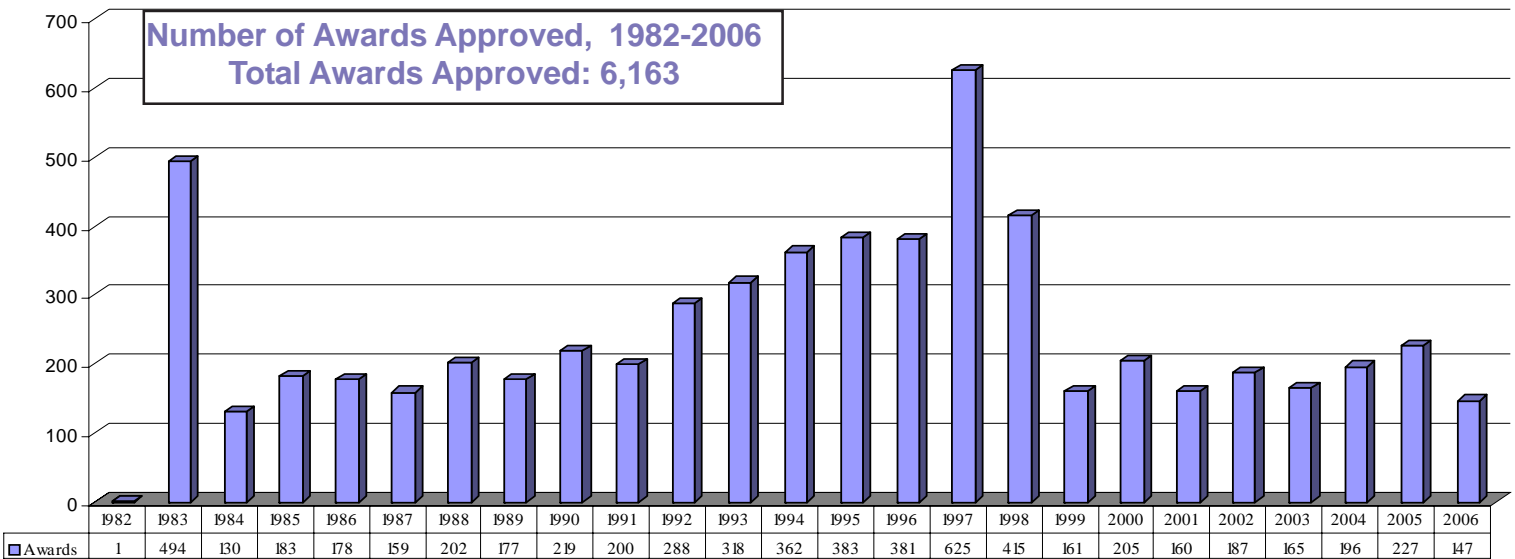
Third Judicial Department

Albany, Broome, Chemung, Chenango, Clinton, Columbia, Cortland, Delaware, Essex, Franklin, Fulton, Greene, Hamilton, Madison, Montgomery, Otsego, Rensselaer, St. Lawrence, Saratoga, Schenectady, Schoharie, Schuyler, Sullivan, Tioga, Tompkins, Ulster, Warren and Washington Counties

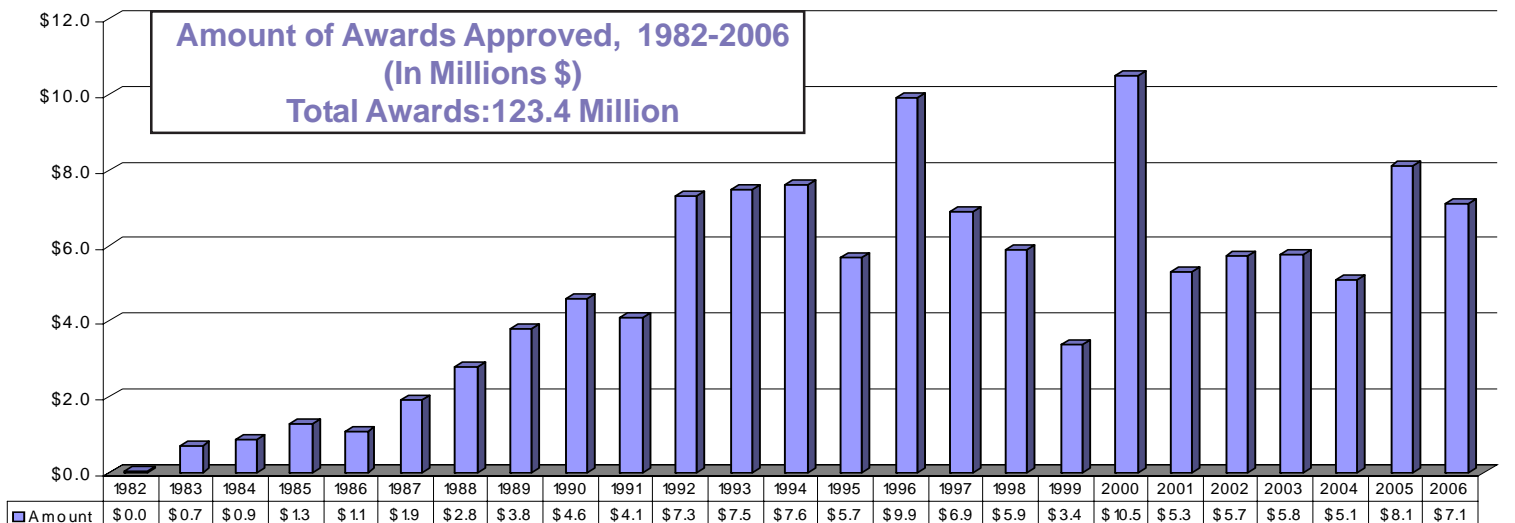
Fourth Judicial Department

Herkimer, Lewis, Oneida, Onondaga, Oswego, Cayuga, Livingston, Monroe, Ontario, Seneca, Steuben, Wayne, Yates, Allegany, Cattaraugus, Chatauga, Erie, Genesee, Niagara, Orleans and Wyoming Counties

Number of Awards Approved, 1982-2006
Total Awards Approved: 6,163



Amount of Awards Approved, 1982-2006
(In Millions \$)
Total Awards: 123.4 Million



The Board of Trustees



Eleanor Breitel Alter of Manhattan has served as Chairman of the Board of Trustees since 1985. She is a partner in the Manhattan law firm of Kasowitz, Benson, Torres & Friedman.



Bernard F. Ashe of Delmar, Albany County, is Vice-Chairman of the Board. Mr. Ashe is a former General Counsel to New York State United Teachers.

The Lawyers' Fund is administered by a Board of Trustees who are appointed by the Court of Appeals. Since 1981, the Board has been composed of five members of the bar and two business and community leaders.

The Trustees serve renewable three-year terms. They receive no compensation for their services.



Nancy Burner of Suffolk County, is the founding partner of Burner, Cherches & Smith, an estate planning, trusts and estates, and elder law firm in Setauket and Westhampton Beach.



Charlotte G. Holstein of Syracuse is a civic leader, founder and Executive Director of F.O.C.U.S. Greater Syracuse, a community interest group.

The Fund's office is located in Albany. The Trustees are assisted by a five-member staff composed of Timothy J. O'Sullivan, Executive Director and Counsel; Michael J. Knight, Deputy Counsel; Sue Gartley, Administrative Secretary; Ray Wood, Investigator, Jahnel Hall-Worthen, Secretary and Harriett Tremblay, Secretary.



Charles Joseph Hynes of Brooklyn is the District Attorney of Kings County.



Theresa B. Mazzullo of Rochester, Monroe County, is the CEO of Excell Partners, Incorporated, a state supported seed capital fund.

As one of the smallest of state agencies, the Fund relies greatly upon the support and kindness of colleagues in public service. The Trustees acknowledge our special appreciation to the Court of Appeals; the staffs of the Attorney Grievance Committees and District Attorneys' Offices; the Office of Court Administration; the Attorney General's Office and the Office of the State Comptroller.

Former members of the Board of Trustees include the Hon. Judith S. Kaye, Chief Judge of the State of New York (1981-1983); Joseph Kelner, Esq. of Manhattan (1981-1982); Anthony R. Palermo, Esq. of Rochester (1981-1990); John F. X. Mannion of Syracuse (1981-1992); Ray W. Manuszewski of Cheektowaga (1981-2002); Theodore D. Hoffmann of Hicksville (1990 to 2002); and Shirley B. Waters of Rome (1992 to 2001).



Eric A. Seiff of the Bronx is a partner in the Manhattan law firm of Seiff, Kretz & Abercrombie.



In Memoriam - Theodore D. Hoffmann, Esq.

The Trustees, and the Lawyers' Fund, lost a cherished friend and colleague in 2006. On February 3, former Trustee Theodore D. Hoffmann passed away at the age of 86. "Ted" served as a Trustee and the Fund's Vice-Chairman from 1990 to 2002. An attorney for 56 years, Ted was a former president of the Nassau County Bar Association and a proud World War II veteran and recipient of the Distinguished Flying Cross for service as an Air Force Pilot. The Fund was fortunate to have Ted's wise counsel and compassion for client protection during his 12 years of dedicated public service.

Revenue of the Lawyers' Fund

The biennial attorney registration fee required of every practicing attorney is the Fund's principal source of revenue. Section 468-a of the Judiciary Law allots \$60 of each \$350 registration fee to the Lawyers' Fund. Since April 1, 1993, additional revenue from the biennial registration fee has been made available to the Fund.

The Lawyers' Fund does not receive any revenue from the Interest on Lawyer Account (IOLA) program. The Fund also does not receive any tax dollars.

Other sources of revenue for the Fund include restitution, interest, sanctions and contributions. Since 1982, the Fund has received \$120 million from attorney registration fees; \$10.9 million in restitution; \$4.8 million in interest income; \$2.6 million in judicial sanction revenue; and \$251,000 in contributions from lawyers and the public. The Fund's revenues are annually appropriated to the Board of Trustees by the State Legislature as one component of the Judiciary Budget.

"...I would like to...thank you and your staff for the expeditious and professional handling of my claim. We appreciate everyone's effort on our behalf."

Message from a Claimant, 2006.



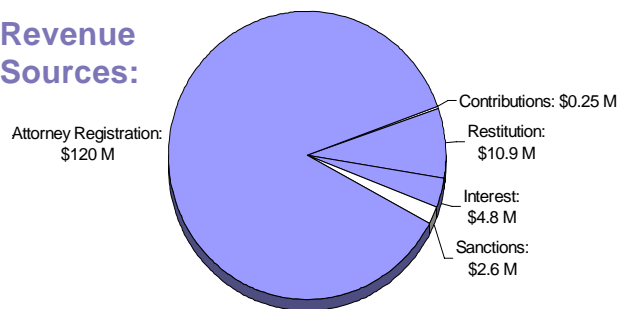
The Lawyers' Fund for Client Protection

119 Washington Avenue, Albany, New York 12210 • 518/434-1935 or 1-800-442-FUND

www.nylawfund.org

The Fund's Finances Since 1982

Revenue Sources:



Claims and Operations:

