2006 ANNUAL REPORT

PROFESSIONAL LIABILITY FUND

www.osbplf.org

May 2007

By Ira R. Zarov
PLF Chief Executive Officer

The PLF Board of Directors (BOD) and staff are pleased to report that in calendar year 2006 the PLF Primary and Excess Programs ended the year with combined net income of $1.7 million. This positive outcome follows a net income of $2.3 million in 2005 and just under $300,000 in 2004. These gains follow losses of around $600,000 for 2003 and $6.5 million in 2002.

In 2006, the PLF had 780 new claims, 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 clearly identifiable reason for the decrease in claims over the last two years. The lower rate of new claims that was experienced in 2006 continues so far in 2007.

THE 2008 PRIMARY PROGRAM ASSESSMENT

As covered parties are aware, the 2007 Primary Program assessment increased to $3,200, up $200 from the 2006 assessment. Although it is very difficult to predict whether an increase in the assessment will be necessary in 2008, the BOD is hopeful that it will not be required. The last three consecutive fiscal years with positive net income support this cautious optimism. A negative factor, however, is the increase in the average cost per claim in each of the last three years.

The need for an increase will be determined midyear 2007, 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 2008, in addition to other costs of operation.

Although the PLF's recent positive fiscal results are encouraging, cost projections and a steady increase in overall severity have raised concerns about future performance. Viewed historically, the projected indemnity costs for the 2003 and 2004 claims appear to be high, and defense costs for all recent years are increasing noticeably.

PLF Statistics
1992 – 2007

	Assessments	Claims
1992	$1800	640
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	814
2004	$2600	923
2005	$3000	843
2006	$3000	780
2007	$3200	800*

* Projected

HOW IS THE PLF DOING WITH CLAIMS HANDLING?

Historically, covered parties who returned the PLF claims-handling evaluation form were overwhelmingly satisfied with the performance of the PLF claims department. That trend continued in 2006.

The claims-handling evaluation form asks whether covered parties were satisfied, very satisfied, or not satisfied. In 2006, the PLF received 447 responses (51%). The responses gave high ratings to both claims attorneys and defense counsel.

The performance of claims attorneys was particularly noteworthy, with 8.3% of respondents stating that they were were satisfied with how their claim was handled and 91.2% stating that they were *very satisfied* – remarkable numbers. Combining these numbers, the evaluations indicated that covered parties were either satisfied or very satisfied with the performance of claims attorneys 99.5% of the time.

Covered parties' satisfaction with defense counsel was also very high. Among the 245 covered parties who responded to the questionnaire about defense counsel, 8% were satisfied, 89.5% were very satisfied, and 2.5% were unsatisfied. (The fewer responses regarding defense counsel reflects that many cases are handled by the PLF claims attorneys without being assigned out.)

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 2006 included programs on conflict 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, practice management, practice tips for new lawyers, and balancing work and personal life. In addition, we continue to offer free audio and video programs (currently 33 programs are available), publications (*In Brief* and *In Sight*), over 233 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 Professional Liability Fund at 503-639-6911 or 800-452-1639.

During 2006, the PLF presented video replays of the following programs: *Bankruptcy Abuse and Consumer Protection Act of 2005; Rebuilding Your Practice After Disaster Strikes; 60 Tips, Internet Sites, and Gadgets; Retiring or Changing Careers? How to Leave Your Law Practice Well; Best Practices for Avoiding Conflicts and Maintaining Confidentiality; First Annual Ethics Tune-up; Mandatory Child Abuse Reporting; Representing Impaired Clients: An Overview of Alcoholism, Chemical Dependency, and Mental Health Issues for Lawyers; Helping Clients Who Have Mental Health Impairments; Avoiding Legal Malpractice Claims;* and *Trust Accounting: Your Financial and Ethical Responsibilities Under Newly Adopted ORPC 1.15-1 and 1.15-2*. These video replays were presented in Albany, Astoria, Bend, Coos Bay, Eugene, Grants Pass, Hood River, Klamath Falls, La Grande, Medford, Newport, Ontario, Pendleton, Redmond, Roseburg, Salem, The Dalles, and Vale, Oregon

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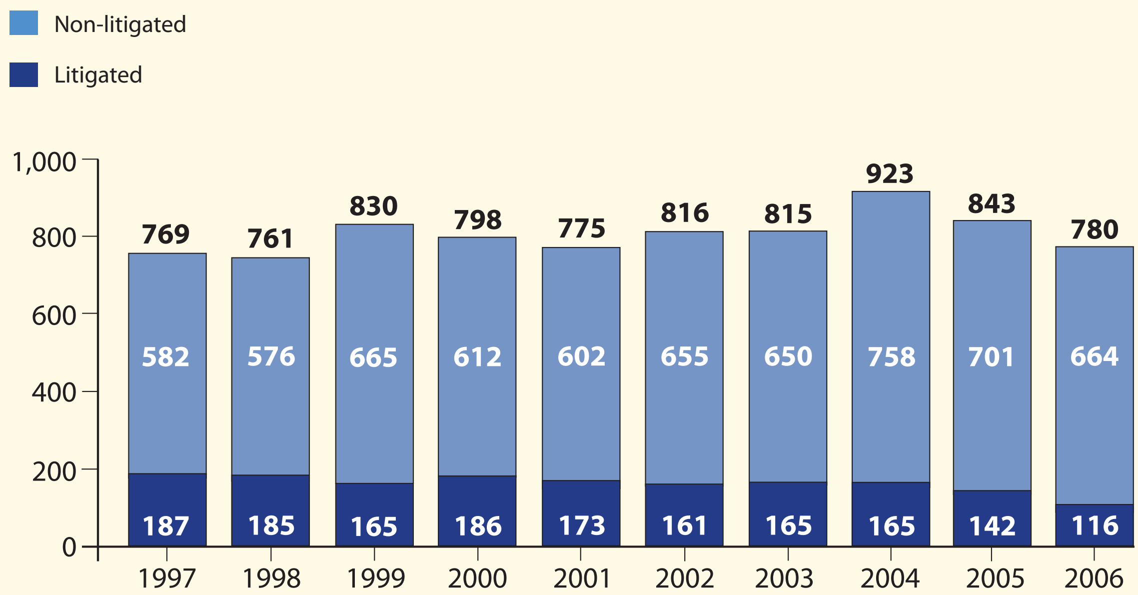
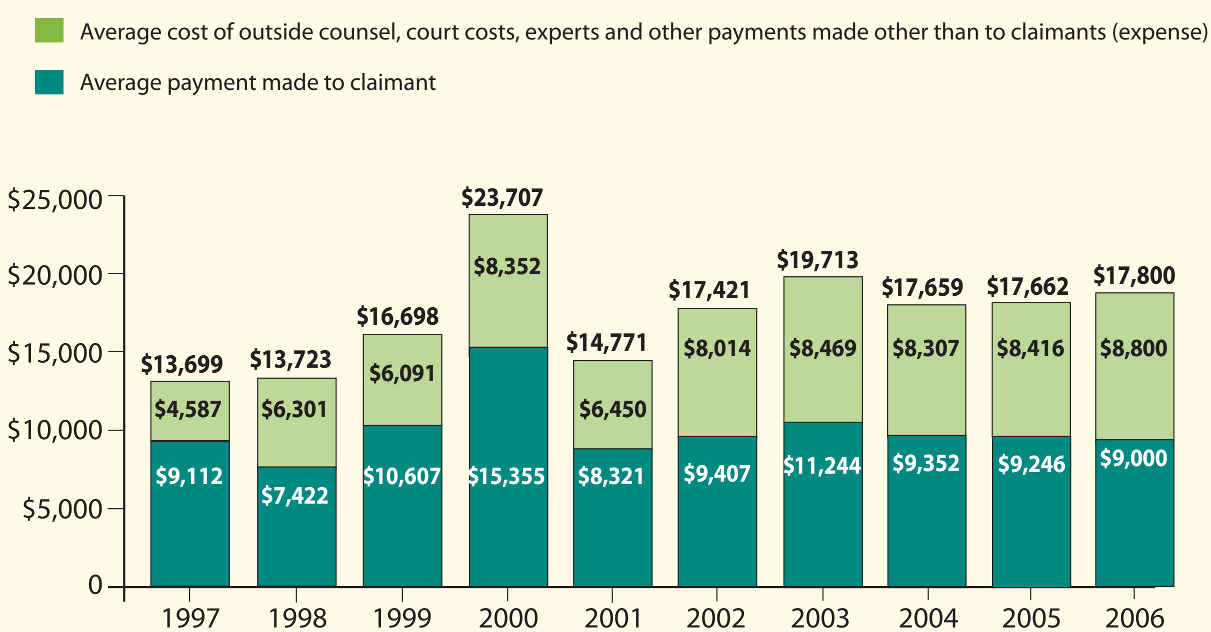
Number of Claims

By calendar year 1997 – 2006



Average Cost per Claim

By year of reporting



Summary Financial Statements (unaudited)

(Primary and Excess Programs Combined)

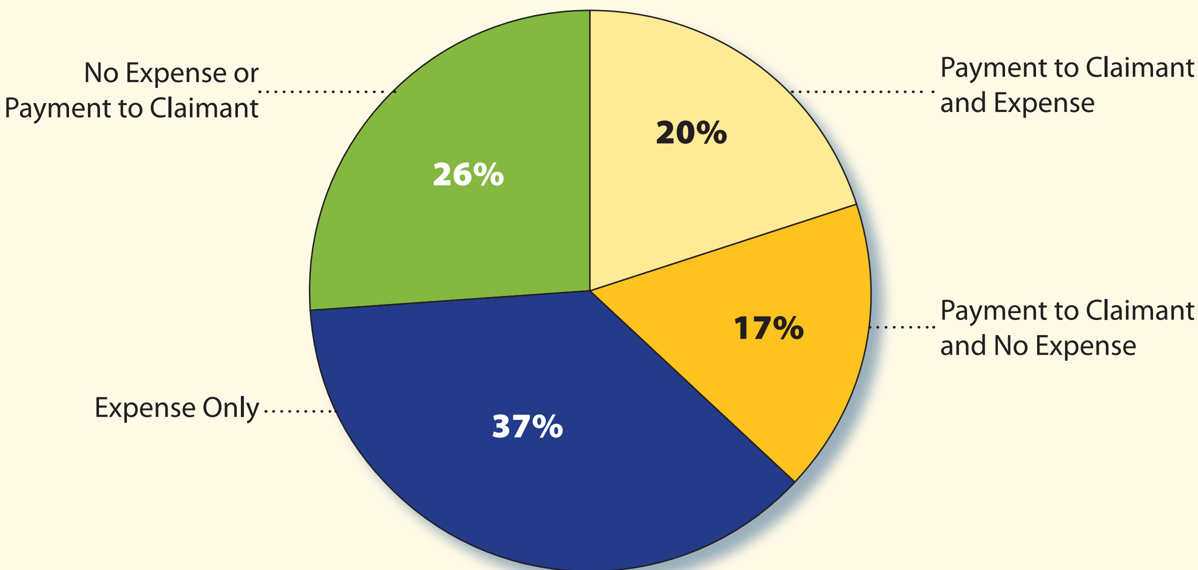
ASSETS	12/31/06	12/31/05
Cash and Investments at Market	$27,436,527	$24,237,018
Other Assets	836,350	694,973
TOTAL ASSETS	**$28,272,877**	**$24,931,991**
LIABILITIES AND FUND EQUITY		
Estimated Liabilities for Claim Settlements and Defense Costs	$27,000,000	$25,500,000
Other Liabilities	724,507	604,068
Fund Equity	548,370	(1,172,077)
TOTAL LIABILITIES AND FUND EQUITY	**$28,272,877**	**$24,931,991**

	For the year ending December 31	
REVENUE	**12/31/06**	**12/31/05**
Assessments	$19,784,930	$19,097,862
Investment and Other Income	4,485,001	3,185,942
TOTAL REVENUE	**$24,269,931**	**$22,283,804**
EXPENSES		
Administrative	$5,625,856	$5,269,409
Provision for Settlements	8,462,145	7,804,499
Provision for Defense Costs	8,462,145	6,937,332
TOTAL EXPENSES	**$22,550,146**	**$20,011,240**
NET INCOME	**$1,719,785**	**$2,272,564**

These statements have been adjusted to remove prepaid assessments; i.e., payments of the 2007 assessment received in December of 2006. A complete copy of the December 31, 2005, audit report is available on request.

Closed Claims

January 1, 1997 – December 31, 2006

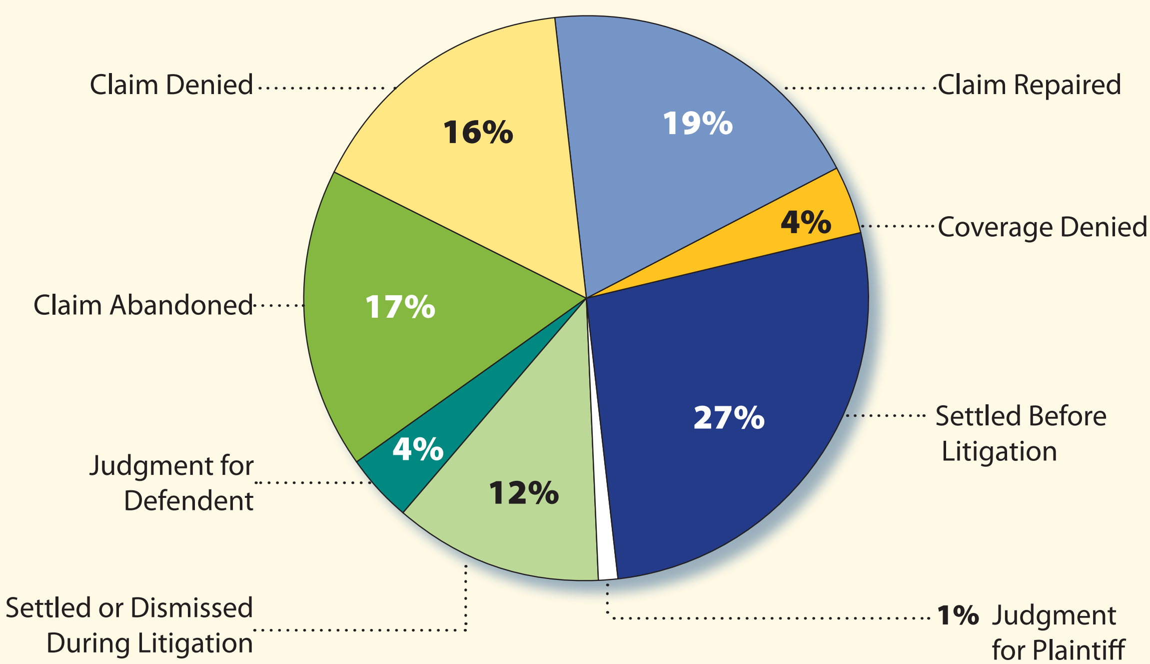


Indicates no payment made to claimant

Expense = Cost of outside counsel, court costs, experts, and other payments made other than to claimants

Disposition of Closed Claims

January 1, 1997 – December 31, 2006



Cost of Claims by Area of Law

January 1, 1997 – December 31, 2006

Area of Law	Percent Indemnity Paid	Indemnity Paid	Percent Expenses Paid	Expenses Paid	Total Paid
Personal Injury	21%	$13,761,959	13%	$5,444,728	$19,206,687
Business Transactions/Commercial Law	15%	$9,801,671	22%	$9,014,265	$18,815,936
Real Estate	15%	$9,745,864	11%	$4,793,488	$14,539,352
Domestic Relations/Family Law	11%	$7,382,193	11%	$4,727,045	$12,109,238
Estate Planning & Estate Tax	10%	$6,695,995	9%	$3,744,616	$10,440,611
Bankruptcy & Debtor-Creditor	10%	$6,443,609	8%	$3,407,734	$9,851,343
Workers' Compensation/Admiralty	3%	$2,312,284	2%	$895,606	$3,207,890
Criminal	1%	$961,202	3%	$1,283,877	$2,245,079
Securities	2%	$1,043,972	2%	$873,957	$1,917,929
Tax	1%	$655,191	2%	$651,593	$1,306,784
Other	11%	$7,940,778	17%	$6,895,846	$14,836,624
	100%	**$66,744,718**	**100%**	**$41,732,755**	**$108,477,473**

Frequency of Claims by Area of Law

January 1, 1997 – December 31, 2006

Area of Law	Percent	Count
Personal Injury	18%	1,322
Domestic Relations/Family Law	16%	1,163
Bankruptcy & Debtor-Creditor	13%	928
Real Estate	11%	826
Business Transactions/Commercial Law	11%	819
Estate Planning & Estate Tax	9%	669
Criminal	6%	462
Workers' Compensation/Admiralty	3%	242
Tax	1%	51
Securities	1%	50
Other	11%	832
	100%	**7,364**

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, 100% of those who responded said they would recommend the PLF's practice management advisor services to others. In addition, 100% 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 2006, the practice management advisors presented live programs in Portland, Bend, Redmond, Prineville, Lincoln City, Tillamook, Roseburg, Medford, Klamath Falls, Pendleton, La Grande, Baker City, Ontario, Coos Bay, and Gold Beach, Oregon.

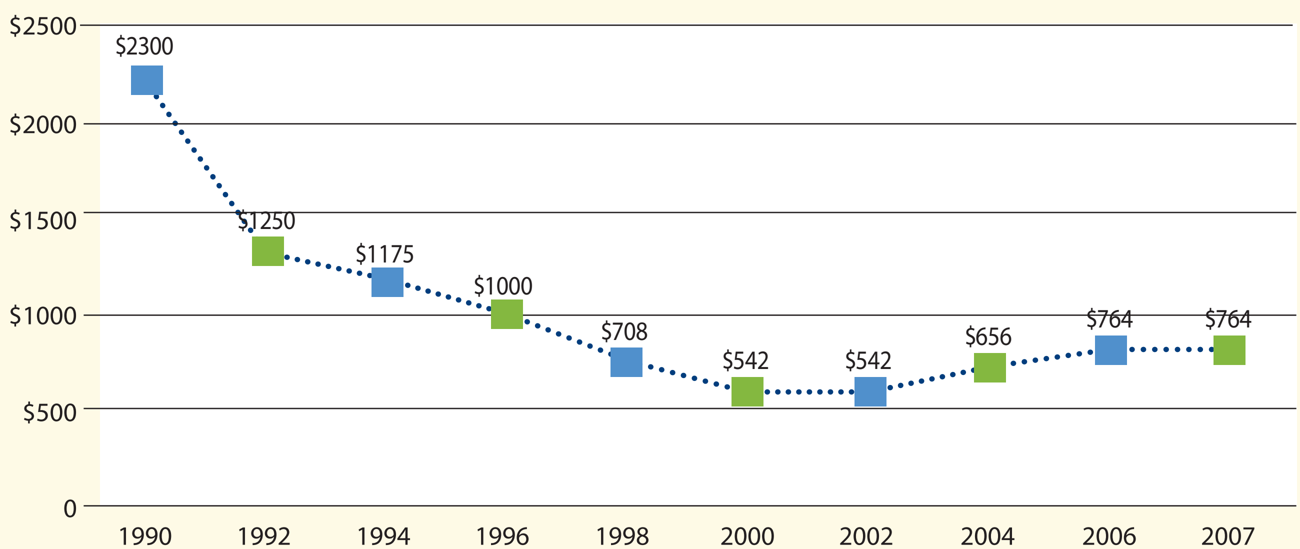
Oregon Attorney Assistance Program. The Oregon Attorney Assistance Program (OAAP) attorney counselors, Meloney Crawford Chadwick, Shari R. Gregory, Mike Long, and Douglas Querin, continue to provide assistance with alcohol and chemical dependency; burnout; career change and satisfaction; depression, anxiety, and other mental health issues; stress management; and time management. In 2006, the OAAP sponsored addiction support groups, lawyers-in-transition meetings, career workshops, an addiction recovery workshop, depression support groups, support groups for adult children of dysfunctional families, support groups for overcoming procrastination, and women's support groups. In addition, the OAAP attorney counselors assisted over 750 lawyers with personal issues in 2006, including alcoholism, drug addiction, career satisfaction, retirement, and mental health issues.

CHANGES TO THE COVERAGE PLAN

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

Cost of Excess Coverage

By calendar year 1990 – 2007



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 2007 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.

The following sections of the Coverage Plan were revised:

Section III – What Is a Covered Activity. This section relates to the types of activities and services covered, the coverage period, and prior claims or knowledge of prior claims.

Section V – Exclusions from Coverage.

Exclusion 1. This exclusion relates to claims involving fraud or collusion by a covered party.

Exclusion 2. This exclusion relates to claims involving sanctions imposed against a covered party for bad faith.

Exclusion 10. This exclusion relates to claims for fees, costs, and disbursements.

Exclusion 11. This exclusion relates to claims of family members.

Exclusion 16. This exclusion relates to claims for personal injury and other torts.

Exclusion 17. This exclusion relates to claims arising out of sexual harassment or other protected-class discrimination.

Exclusion 18. This exclusion relates to claims involving patent prosecution when the covered party is not registered with the U.S. Patent and Trademark Office.

Section VIII – Coverage Determinations. This section provides for the judicial determination of Coverage Plan disputes between covered parties and the PLF.

Section XII – Relation of PLF Coverage to Insurance Coverage or Other Coverage. This section discusses the relation of PLF coverage to other coverage.

You can find the entire Coverage Plan at the PLF Web site at **www.osbplf.org**. Select Coverage Plan under Primary Coverage, and then select Complete 2007 Primary Claims Made Plan.

EXCESS PROGRAM

The PLF Excess Program continues to enjoy success. Excess rates have remained stable, and participation continues to grow. In 2006, 722 firms with a total of 2,572 lawyers purchased PLF excess coverage. These numbers are consistent with historic growth in the PLF Excess Program. Over the years, increase in participation has averaged approximately 4% to 5% per year.

No major changes were made in the PLF Excess Coverage Program this year. 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

The PLF BOD amended Article 3 and Article 11 of the PLF Bylaws. The amendments are related to one another and clarify the procedures that the BOD and affected directors must follow when a director's law firm begins a representation that constitutes a conflict of interest prohibited by Article 11. Article 11 prohibits, among other things, PLF directors and their law firms from accepting legal malpractice cases involving a PLF covered party.

The BOD also made minor changes to several PLF Policies. The changes include new procedures for circumstances in which the PLF purchases real property as part of a repair or settlement (PLF Policy 4.400(C)), a new requirement that firms on the PLF Defense Panel carry excess insurance of at least $700,000 (PLF Policy 4.500(K)), and an adjustment of the Asset Allocation policy for PLF investments (PLF Policy 5.200(I)).

The Oregon State Bar Board of Governors has approved these changes to the PLF Bylaws and Policies.

FORECAST FOR THE FUTURE

As mentioned earlier, the PLF's positive fiscal performance in 2006 was driven primarily by the decrease in number of new claims, despite an unexpected increase in the severity of claims last year and in previous claim years. Because of the preliminary nature of projections and the rising severity of claims, it is impossible to predict the 2008 assessment with any certainty. However, actual claim numbers from early 2007 indicate that claim frequency may remain low for the year. Also, there have been some indications that claim expenses may be stabilizing. Based on these preliminary observations, we are cautiously optimistic that 2007 will yield positive fiscal results, allowing the PLF to maintain the current assessment.

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

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