

**ANNUAL REPORT
OF THE
MINNESOTA
CLIENT SECURITY BOARD**

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I. OVERVIEW AND YEAR IN REVIEW

Rule 1.10, Minnesota Rules of the Client Security Board (MRCSB), provides:

At least once a year and at such other times as the Supreme Court may order, the Board shall file with the Court a written report reviewing in detail the administration of the fund, its operation, its assets and liabilities.

This fifteenth annual report of the Minnesota Client Security Board covers the Board's fiscal year, FY 2002, which began July 1, 2001, and ended on June 30, 2002. Highlights from the past year include:

Rule Change to Raise Maximum Payment. As was identified in last year's annual report, in April 2001 the Client Security Board had filed a petition for a rule change with the Supreme Court, requesting that Rule 3.14 (c), Minnesota Rules of the Client Security Board, be amended to increase the maximum amount the Board may pay on a claim from its current level of \$100,000 to \$150,000. In June 2001, the Minnesota State Bar Association at its annual convention had recommended approval of the Board's petition. The Supreme Court adopted the recommendation on September 14, 2001 (Appendix 1, A. 1). The Board did not need to make use of this new authority during this year.

Reduction in Registration Fee. The Board prepares an annual budget that is presented to the Court for approval in May of each year. The Court requires the Board to notify the Court if the balance of the Client Security Fund is to exceed \$2.5-million. The budget prepared for next year, FY2003, originally projected a balance by June 2004 (the Board's fiscal year runs from July 1 to June 30, and the Board must make two-year projections as part of its budgeting process) of over \$3.1-million. The Board decided to take a proactive approach and recommended to the Court that the portion of the attorney registration fee apportioned to the Fund be reduced by \$5 per attorney per year, from the then-current amount of \$17 to \$12. On May 28, 2002, the Court reduced the fee as requested, effective July 1, 2003 (Appendix 2, A. 2-5). At the end of next year, before the new reduced assessment takes effect, and assuming that claims continue at an amount consistent with past years, the Fund will have a year-end balance as of June 2003 of approximately \$2.78-million. With the reduced assessment, the Board now projects a balance as of June 2004 of \$2.8-million.

Restitution/Subrogation. Last year's annual report highlighted that the Board had successfully resolved several civil litigation matters involving third-party financial institutions. One significant case remained open into this year, involving claims that arose out of the actions of former attorney Peter I. Orlins. An action brought by two of his victims against a financial institution, and to whom the Board had previously paid the maximum amount of \$100,000 but who still had not been made whole, was settled during trial. The Board, represented by the Attorney General's office, received \$42,500 as a pro-rata share of the settlement. This matter was very complex and had been appealed once to the Court of Appeals and then remanded for trial. Along with regular payments received from several other former attorneys, the Board collected approximately \$75,000 on its subrogation rights this year.

Statistics. The Client Security Board paid out on 38 claims this year, in the total amount of \$330,116.55 (*see*

Appendix 3, A. 6-7). Twenty-one of those claims were paid against one attorney, Steve Samborski, who was disbarred this past year. The \$223,794.50 paid against Samborski represented the fifth highest total amount paid against a lawyer in Minnesota history.

Thirty-two (32) new claims were filed this past year. Forty-four (44) claims were carried-over from the previous year. As noted, 38 claims were approved for payment [Ftn1](#) and 14 claims were denied. Thus, at the end of June 2002, 24 claims against 24 lawyers remain pending before the Board. Eleven (11) of those remaining claims have related disciplinary or civil proceedings pending, completion of which the Board is awaiting prior to being able to resolve the claim.

Overall, after fifteen years of paying claims, the Board has now paid \$4.23-million on 355 claims against 98 lawyers (*see* Appendix 6, A. 10-14).

II. THE CLIENT SECURITY BOARD AND ITS PROCEDURES

Board Members. As of June 30, 2002, the following individuals served on the Board (*see* Appendix 4; A. 12):

<u>Name</u>	<u>City</u>	<u>Term Expires</u>
Timothy J. Kuntz, Chair	South St. Paul	June 30, 2002 (second term)
Richard I. Diamond	Minnetonka	June 30, 2003 (second term)
Beverly K. McKinnell	St. Paul	June 30, 2002 (second term)
Judith A. Pinke	Minneapolis	June 30, 2004 (second term)
Michael T. Rengel	Fergus Falls	June 30, 2004 (first term)
John S. Watson	Minneapolis	June 30, 2003 (first term)
Margaret J. Westin	Minneapolis	June 30, 2002 (first term)

Tim Kuntz was elected and served as the Board's Chair for the past year, and has now completed his second and final term on the Board. Mr. Kuntz has been a consistent voice of reason on the Board, always searching for the basis upon which a consensus can be built, but also insisting upon an articulated reason behind each Board decision. Such quiet leadership will be missed. Pursuant to the Board's present policy of selecting the most senior lawyer member as its chair, the Board chose Richard I. Diamond as its new Chair for the upcoming year at its most recent meeting. Mr. Diamond has served on the Board for five years.

The Court this past year appointed Fergus Falls attorney Michael Rengel to the Board. Replacements for Mr. Kuntz and Ms. McKinnell will need to be found by the Court. The Minnesota State Bar Association (MSBA) nominates three of the attorney members; Mr. Kuntz was a direct Court appointee, however. Margaret Westin was nominated by the MSBA to a second three-year term and recently reappointed by the Court. The other two MSBA-nominated members are John Watson and Michael Rengel. Ms. McKinnell and Judith Pinke are the Board's two non-lawyer members. Ms. McKinnell has been an outstanding board member. The non-lawyer members of the Board have been excellent without exception. It is anticipated that Ms. McKinnell's successor will be named shortly.

Justice James Gilbert was appointed this year to be the Board's liaison justice on the Supreme Court. He attended the Board's most recent meeting and made a presentation to departing Board members. The Board looks forward to an on-going relationship with Justice Gilbert this coming year.

Funding and Budget Procedures. All active lawyers in Minnesota paid \$17 per year to support the Fund through the end of this current fiscal year. The Supreme Court's May 22, 1998, order implemented recommended parameters for the fund of \$1.5-million and \$2.5-million, with the Board to report to the Court if the fund drops below or exceeds these figures. The Board's recently filed budget for FY2003 projects a year-end balance in excess of the \$2.5-million amount, and projects a balance of near \$3-million after FY2004. As a result, the Board determined to recommend to the Court that the assessment in favor of the Board could be lowered by \$5 to \$12 per year per attorney. Mr. Kuntz so advised the Court at its recent meeting to approve the Board's budget, and the Court accepted the recommendation starting with fiscal year 2004 (Attachment 2, A. 2-5). Thus the revised budget projects balances as of June 2003 of \$2.78-million and as of

June 2004 of \$2.8-million. The Board will continue to keep a close eye on the Fund balance should any major defalcation matters arise in the next year.

The Board does not handle any funds directly nor the investment of the Fund. The assessment is collected through the Office of Attorney Registration and placed into a segregated fund within the State Treasury. This past year the assessment generated approximately \$333,000. The Board also received approximately \$100,000 in interest income and approximately \$75,000 in restitution payments from lawyers on whose behalf claims have been paid, or from third parties, including the settlement discussed in the highlights section.

The Board anticipates total income this coming year of approximately \$508,000. The Board has budgeted \$299,500 in total expenditures for next year. Based upon the information presently available to the Board concerning pending claims or known potential claims, \$250,000 has been budgeted for claims payment next year, less than the current year's total. Just less than \$50,000 has been budgeted for staff services, travel for up to two Board members to attend a national conference on client protection, and administrative supplies and any additional enhancements to the Board's computer database.

Administration. Since the Board's inception in 1986, the Office of Lawyers Professional Responsibility has provided staff services to the Client Security Board. Edward Cleary is the Director of the Office of Lawyers Professional Responsibility and the Client Security Board. Assistant Director Martin Cole handles most daily operations for the Board. Mr. Cole serves as a director-at-large of the National Client Protection Organization (NCPO), and is a member of the ABA's Advisory Commission on Client Protection Funds. Board member Richard Diamond recently attended the ABA's eighteenth annual Client Protection Forum, held this year in Vancouver, British Columbia, Canada. Topics discussed included fact-finding and a workshop on resolving difficult claims. Involvement in such national-level activities allows the staff and Board to remain current with any trends or developments in the client protection field.

The Board maintains a computerized record-keeping system, for which several minor enhancements were undertaken and completed during the past year, allowing greater ability to answer queries from the Board, bar and public. Following each meeting, the Board issues a press release pursuant to the Board's policy. The Board posts its press releases on the Board's Internet website [Ftn 2](#) as well, in the hopes that the public better will be able to obtain information about the Board's activities. The site also contains answers to frequently asked questions (FAQ), the Board's rules, claim form, staff directory, a copy of the latest annual report and an updated list of attorneys against whom claims have been paid, similar to that at Appendix 6 (A. 10-14). The site also has links to articles written about the Client Security Board. This past year, an article by Mr. Cole appeared in the July 2001 issue of *Bench & Bar* concerning the Board's request to raise the maximum payment per claim, and Mr. Cleary has written an article that will appear in the May/June 2002 *Bench & Bar* regarding the large sums paid by the Board as a result of the acts of a small group of lawyers.

The Minnesota Attorney General provides legal services to the Client Security Board in enforcing its subrogation rights against attorneys on whose behalf the Board has paid claims, or against any third persons from whom payments may be legally obtained. Attorney David Flowers is the Board's current attorney. He and Legal Assistant Laura Kelly provide outstanding representation for the Board. Mr. Flowers began representation of the Board this past year, continuing a line of excellent attorneys assigned to the Board's work. The Board pays no attorney's fees for this representation, but is responsible for direct costs of collection efforts and litigation.

As noted in the highlights section, this past year continued to involve considerable activity in the area of subrogation and restitution, particularly against third-party entities, such as banks that were potentially negligent in overseeing accounts of attorneys known to have misused their trust accounts. The Attorney General's staff again had to spend considerably more time on these matters than in some previous years, but with remarkable success. The final amount to be recovered this year is \$75,685. The Board has budgeted this coming year to recover \$44,600.

Also as a part of the collection process, the Board may forward matters to the Minnesota Collections Enterpris (MCE), an agency created to assist government agencies in their collection work. Although the Attorney General continues to handle most matters for the Board that are to be contested, or that appear capable of prompt resolution, other matters are now referred to MCE to pursue.

Samuel Mark Vaught - 1 claim	18,568.30
David L. Brehmer - 7 claims	7,656.25
Stanley Leino - 4 claims	6,306.50
Heidi H. Crissey - 1 claim	3,000.00
Richard G. Day - 1 claim	300.00

^{2/}The Client Security Board's internet address is: www.courts.state.mn.us/csb.

APPENDIX

Appendix 1

September 14, 2001, Supreme Court Order Amending
Rules Of The Minnesota Client Security Board

Appendix 2

May 28, 2002, Supreme Court Order
Amending Rules For Registration Of Attorneys

Appendix 3

Reimbursements And Losses Claimed

Appendix 4

CLIENT SECURITY FUND FINANCIAL HISTORY

Fiscal Year	Contribution by Bar	Investment Income	Restitution	Number of Claims Paid	Amt. Paid to Claimants	Other Expenses	Balance Year End
1989	93,318	79,049	0	21	236,016	24,068	876,791
1990	79,350	70,952	768	25	260,561	22,884	744,416
1991	137,851	66,264	39,249	23	235,316	28,905	723,559
1992	328,954	52,748	14,302	28	150,180	30,490	938,893
1993	353,560	49,156	12,104	16	200,681	33,170	1,119,862
1994	369,320	47,244	9,830	24	123,600	24,538	1,398,118
1995	349,424	85,075	37,075	14	62,421	25,471	1,781,800
1996	368,450	82,630	31,361	22	705,524	35,427	1,523,290
1997	375,730	94,547	23,797	12	103,073	27,207	1,887,084
1998	255,762	119,276	25,217	35	341,984	40,481	1,904,874
1999	325,207	118,078	200,416	42	413,231	35,575	2,099,769
2000	328,746	121,970	45,783	23	481,187	50,814	2,064,267
2001	333,805	134,507	80,028	14	99,073	61,436	2,452,098

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[Appendix 5](#)

Minnesota Client Security Board Members

1987-2002

CHAIRS

Melvin I. Orenstein	Minneapolis	1987-1993
Nancy L. Vollertsen	Rochester	1993-1995
Bailey W. Blethen	Mankato	1995-1997
Kim Buechel Mesun	St. Paul	1997-1999
Daniel L. Bowles	Edina	1999-2000
Daniel L. Rust	Crookston	2000-2001
Timothy J. Kuntz	South St. Paul	2001-2002

BOARD MEMBERS

*Sister Mary Madonna Ashton	St. Paul	1992-1998
Bailey W. Blethen	Mankato	1991-1997
Daniel L. Bowles	Edina	1994-2000
*Sandra Brown	Minnetonka	1990-1996
Kim Buechel Mesun	St. Paul	1993-1999
Richard I. Diamond	Minnetonka	1997-
Gilbert W. Harries	Duluth	1987-1991
*Jean L. King	St. Paul	1987-1992
Timothy J. Kuntz	South St. Paul	1996-2002
Earle F. Kyle IV	Minneapolis	1993-1996
*Beverly K. McKinnell	St. Paul	1996-2002
Melvin I. Orenstein	Minneapolis	1987-1993
*Constance S. Otis	St. Paul	1987-1990
*Judith A. Pinke	Minneapolis	1998-
Michael T. Rengel	Fergus Falls	2001-
Daniel L. Rust	Crookston	1995-2001

Warren R. Sagstuen	Minneapolis	2000
Ronald B. Sieloff	St. Paul	1987-1994
James B. Vessey	Minneapolis	1987-1993
Nancy L. Vollertsen	Rochester	1987-1995
John S. Watson	Minneapolis	2000-
Margaret L. Westin	Minneapolis	1999-
*Public Members		

Appendix 6

CSB Claims Paid by Attorney

2002 CLAIMS PER ATTORNEY

Attorney	Number of Claims Paid	Total of Claims Paid	Disciplinary Action	City of Practice
Anderson, Harold W. E.	2	\$39,258.97	Disbarred	Grand Forks ND
Andrew, John M.	2	\$100,000.00	Disbarred	Shoreview
Barta, Loren M.	2	\$3,947.93	Suspended	Burnsville
Batdorf, Richard K.	1	\$50,000.00	Disbarred	Minneapolis
Benson, John T.	1	\$50,000.00	Disbarred	St. Paul
Bieter, Thomas J.	2	\$1,500.00	Disability	Duluth
Brehmer, David L.	7	\$7,656.25	Disbarred	Bloomington
Campbell, Dyan L.	5	\$2,953.53	Suspended	North St. Paul
Carpenter, Gregory A.	1	\$1,000.00	Suspended	Minneapolis
Chacon, Jeanne T.	1	\$700.00	Disbarred	St. Paul
Cohen, Sr., Edward M.	1	\$2,245.83	Disbarred	St. Louis Park
Crissey, Heidi H.	1	\$3,000.00	Suspended	Stillwater
Danna, Anthony A.	3	\$81,625.00	Disbarred	St. Paul
Davis, Daniel A.	3	\$44,486.66	Disbarred	Edina
Day, Richard G.	2	\$1,000.00	Suspended	Edina
Douglas, Bruce C. Deceased	11	\$225,309.60	None	Edina
Dovolis, Helen A.	15	\$68,317.19	Disbarred	Minneapolis
Dygert, Robert W.	3	\$70,491.00	Disbarred	Minneapolis
Erickson, Bruce E.	2	\$1,995.00	Suspended	Winona
Feldman, John H.	2	\$12,954.00	Disbarred	Minneapolis
Flanagan, John J.	6	\$113,626.59	Disbarred	St. Paul
French, Rodney M.	6	\$4,062.50	Suspended	Minneapolis
Getty, Paris DonRay	5	\$24,278.00	Disbarred	St. Paul
Goldstein, Robert Mark	4	\$11,173.40	Disbarred	St. Paul
Gomsrud, Richard G.	1	\$700.00	Suspended	St Paul
Graham, Timothy E.	3	\$6,257.98	Disbarred	Edina
Grzybek, John E.	1	\$750.00	Disbarred	St. Paul
Gurstel, Norman K.	33	\$147,270.05	Disbarred	Minneapolis
Harp, Reynaud L.	2	\$3,702.00	Disbarred	St. Paul
Heikens, Steven G.	2	\$12,800.00	Suspended	Minneapolis
Heikkila, Neil D.	2	\$90,916.82	Disbarred	Hopkins
Hendricksen, Harald F.	2	\$17,875.00	Suspended	Glencoe
Henke, David E.	1	\$1,000.00	Suspended	Spring Lake Park
Hollender, R. Fred Deceased	1	\$2,227.74	None	Minneapolis
Hunter, James W.	5	\$21,900.00	Disbarred	Minneapolis
Isaacs, Clark F.	1	\$535.78	Disbarred	St. Paul
Johnson, Richard W.	2	\$9,362.00	Disbarred	Red Wing
Johnson, Ronald J.	1	\$7,196.71	Disbarred	Hopkins

Kinnunen, Steven J.	1	\$500.00	Suspended	Minneapolis
LaChapelle, Arthur W.	2	\$18,400.00	Disbarred	St. Paul
Ladd, William L.	13	\$49,542.60	Disbarred	Minneapolis
Larsen, Dean D.	1	\$40,000.00	Disbarred	Minneapolis
Leino, Stanley J.	6	\$9,921.06	Suspended	Scandia
Levenstein, Eli C.	1	\$368.00	Suspended	Minneapolis
Logan, Diana Smith	3	\$560.00	Suspended	Minneapolis
Magadance, Pamela M.	1	\$585.00		New Richmond
Maresh, Thomas F.	1	\$6,500.00	Disbarred	St. Paul
Marshall, Gary L.	7	\$24,170.00	Disbarred	Hoffman
McCarthy, Justin H.	2	\$58,679.24	Disbarred	Rochester
McGrath, F. Patrick	1	\$1,128.00	Suspended	St. Paul
McNabb, Gerald	13	\$147,866.06	Disbarred	White Bear Lake
Merlin, Carol Sue	1	\$500.00	Suspended	Minneapolis
Moe, Carlton E.	1	\$89,325.52	Disbarred	St. Paul
Morgeson, Sr., Dennis John Wyant, Bruce P	8	\$547,922.67	Disability	Edina
Mose, William G.	2	\$400.00	Suspended	Minneapolis
Murphy, Gerald W.	9	\$4,980.99	Disbarred	Duluth
Olsen, Lawrence E.	1	\$50,000.00	Disbarred	Minneapolis
Orlins, Peter I.	11	\$419,843.39	Disbarred	Minneapolis
Ornstein, Mitchell Ross	1	\$919.75	Suspended	Minneapolis
Ostfield, Benjamin J.	3	\$15,297.72	Disbarred	Minneapolis
Ostroot, Timothy V.	1	\$1,200.00	Disbarred	Champlin
Palm, Dennis L.	2	\$4,080.00	Disability	St. Louis Park
Pang, Gary Y.	3	\$6,323.00	Disbarred	Minneapolis
Pearson, Kenneth R.	2	\$39,000.00	Disbarred	Minneapolis
Pegg, J. C.	1	\$2,500.00	Reprimanded	Minneapolis
Ploetz, John W.	2	\$108,494.71	Disbarred	St Paul
Plowman, George E. Deceased	4	\$81,144.77	Disbarred	Harmony
Polt, Thomas M.	3	\$17,082.02	Disbarred	Rochester
Pucel, Cherylyn T.	1	\$3,500.00	Suspended	North St. Paul
Pyles, David A.	1	\$16,450.00	Suspended	Minneapolis
Ramler, George C.	1	\$1,500.00	Disbarred	Minneapolis
Randall, Michael H.	2	\$4,708.00	Disbarred	Minneapolis
Rothstein, Morry N.	3	\$7,500.00	Disbarred	Minneapolis
Ruttger III, Max J. Deceased	1	\$25,678.15	Disbarred	Brainerd
Samborski, Steve C.	21	\$223,794.50	Disbarred	Minnnetonka
Sampson, Mark A.	20	\$404,742.04	Disbarred	Fridley
Scott, John O. Deceased	2	\$57,821.34	None	Perham
Seiler, Victor P. Deceased	1	\$2,810.77	None	Minneapolis
Sheffey, Ralph E.	1	\$5,000.00	Suspended	Rochester
Simonet, William B.	5	\$50,411.56	Disbarred	Stillwater
Simonson, Paul L.	1	\$2,360.23	Disbarred	Minneapolis
Singer, Michael G.	1	\$63,000.00	Suspended	Minneapolis
Skonnord, James T.	5	\$2,349.26	Suspended	St. Paul
Smith, Glenn L.	3	\$139,391.05	Disbarred	Edina
Soderberg, James W.	1	\$557.87	Suspended	Winona
Stockman, William L.	1	\$25,000.00	Disbarred	Duluth
Strid, Dennis W.	1	\$1,197.00	Suspended	Minneapolis
Sullivan, Kevin P. Deceased	1	\$200.00	Suspended	Elk River
Swerine, Brian A.	8	\$23,645.40	Disbarred	Minneapolis
Thompson, Joel R.	2	\$6,160.00	Suspended	Detroit Lakes
Ulstad, Bjorn Deceased	1	\$2,500.00	None	St. Paul
Vaught, Samuel M.	1	\$18,568.30	Suspended	St Paul
Vinitsky, Richard S.	2	\$20,000.00	Disability	Golden Valley
Walker Jr., Samuel	5	\$19,945.00	Disbarred	St. Paul
Weems, Mark T.	7	\$70,901.64	Disbarred	Minneapolis
Wheat, Donald A.	3	\$37,841.70	Disbarred	Eagan
Wylde, John R. Deceased	1	\$3,775.00	None	Minneapolis
Total Number of Respondents: 98	355	\$4,232,618.84		

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