

IN THE COURT OF COMMON PLEAS, FRANKLIN COUNTY, OHIO

Mary Jo Hudson, Superintendent of  
Insurance, Ohio Department of Insurance, in  
her capacity as Liquidator of LMI Insurance  
Company,

Plaintiff,

Case No. 00CVH03-2431

v.

Judge Schneider

LMI Insurance Company,

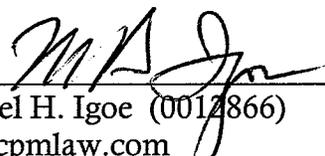
Defendant.

**MOTION FOR APPROVAL OF SEMI-ANNUAL ACCOUNTING OF LIQUIDATOR  
FOR JULY 1, 2006 THROUGH DECEMBER 31, 2006**

Now comes plaintiff, Mary Jo Hudson, Superintendent of Insurance, Ohio  
Department of Insurance, in her capacity as Liquidator of LMI Insurance Company, and  
moves this Court for an Order approving the Statement of Receipts and Disbursements of  
the Liquidator for the period from July 1, 2006 through December 31, 2006. The reasons  
for this Motion are more fully set forth in the attached Memorandum in Support.

Respectfully submitted,

MARC DANN  
Attorney General, State of Ohio

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*Special Counsel for the Attorney General, State of  
Ohio, representing Mary Jo Hudson, Superintendent of  
Insurance, Ohio Department of Insurance, in her  
capacity as Liquidator of LMI Insurance Company*

2007 MAY 11  
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COMMON PLEAS COURT  
FRANKLIN COUNTY, OHIO

## MEMORANDUM IN SUPPORT

The Liquidator brings this Motion in order to request that the Court approve the Statement of Receipts and Disbursements of the Liquidator for the period of July 1, 2006 through December 31, 2006. These receipts and expenditures are attached hereto as "Exhibit 1."

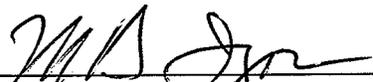
On May 23, 2000, LMI Insurance Company ("LMI") was declared insolvent and placed into liquidation, and the Ohio Superintendent of Insurance was appointed Liquidator. Section 3903.21 of the Ohio Revised Code and the Liquidation Order of May 23, 2000, direct the Liquidator to take possession of and liquidate all property and assets of LMI, to collect all debts and monies due LMI, and to pay reasonable compensation to persons employed to assist with the liquidation, and defray from the funds or assets of the insurer all expenses of taking possession of, conserving, conducting, liquidating, disposing, or otherwise dealing with the business property of the insurer.

The Liquidation Order and § 3903.18(E) of the Ohio Revised Code provide that the Liquidator must submit periodic accountings to the Court. Such accountings assist the Court in monitoring the status of the liquidation proceedings, and in particular, the receipt and disbursements in the LMI liquidation proceedings.

WHEREFORE, for the aforementioned reasons, the Liquidator respectfully requests that the Court approve the attached Statement of Receipts and Disbursements of the Liquidator for the period from July 1, 2006 through December 31, 2006.

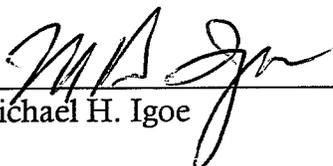
Respectfully submitted,

MARC DANN  
Attorney General, State of Ohio

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*Special Counsel for the Attorney General, State of Ohio, representing Mary Jo Hudson, Superintendent of Insurance, Ohio Department of Insurance, in her capacity as Liquidator of*

**CERTIFICATE OF SERVICE**

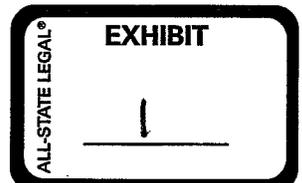
The undersigned hereby certifies that a copy of the foregoing was served upon Mary Jo Hudson, Superintendent, Ohio Department of Insurance, c/o Mr. Douglas L. Hertlein, Chief Deputy Liquidator, Ohio Department of Insurance, 1366 Dublin Road, Columbus, OH 43215 by ordinary U.S. Mail, postage prepaid, on this 10<sup>th</sup> day of MAY, 2007.

  
Michael H. Igoe

LMI INSURANCE COMPANY, IN LIQUIDATION  
LIQUIDATION DATE MAY 23, 2000  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
CUMULATIVE FROM MAY 23, 2000 THROUGH DECEMBER 31, 2006

	Current Period 07/01/2006 TO 12/31/2006	Year to Date 01/01/2006 TO 12/31/2006	CUMULATIVE FROM 5/23/2000
Beginning Cash & Invested Assets (Note 1)	12,328,204.68	12,243,915.29	6,286,534.64
Receipts:			
Recovery from Affiliates	0.00	0.00	397,753.45
Interest Income (Note 2)	315,497.39	590,565.53	3,783,141.88
Premiums Collected	0.00	0.00	48,031.16
Salvage & Subrogation (Note 3)	325.00	114,748.00	3,477,209.48
Reinsurance Recoveries (Note 4)	744,549.92	964,087.84	5,367,233.17
Proceeds from ADIC Class 5 Distribution (Note 5)	127,895.69	127,895.69	1,086,849.69
Proceeds from Sale of Prudential Stock	0.00	0.00	245,760.65
Refund of Premium Tax Overpayment	0.00	0.00	37,778.62
Return of Statutory Deposits	0.00	0.00	1,692,435.50
Reimbursement of Losses Paid	0.00	0.00	70,263.63
Loc Draw Down-(REAC)	0.00	0.00	2,141.00
Insurance Recovery - Theft of Computer/Equipment	0.00	0.00	5,128.26
Recovery of Loss Adjustment Expenses	0.00	0.00	8,847.79
Miscellaneous Interest Income	0.00	0.00	15.24
Dividend Income	0.00	0.00	4,217.63
Other Income (Note 6)	50,038.11	86,754.73	208,947.75
Recovery from NC Ins. Underwriting Assoc.	0.00	0.00	44,373.34
Return of Collateral	0.00	0.00	35,000.00
Refund of Corporate Franchise Tax	0.00	0.00	52,668.24
First Union National Bank - Reimbursement of 1995 Fraudulent Check	0.00	0.00	15,011.11
Recovery from Compensation Rating and Inspection Bureau	0.00	0.00	33,333.78
Recovery from California Fair Plan Association	0.00	0.00	204,503.00
Recovery from New Jersey Comm. Auto Insurance	0.00	0.00	49,931.00
Recovery from NJ Dept of Treasury-Proceeds From Unsatisfied Claims	0.00	0.00	358,623.96
Prudential PruPac Arbitration	0.00	0.00	13,276.22
RPNY-American Home Buyout-LAD/CLAD Buyout Files	0.00	0.00	5,153.00
Cash Transfers:			
Proceeds from ADIC Estate Closure - Operating Funds (Note 7)	237,969.40	237,969.40	237,969.40
Proceeds from ADIC Estate Closure - Collateral Funds (Note 8)	121,862.10	121,862.10	121,862.10
Proceeds - HealthFirst Estate Closure - Operating Funds	37,402.02	37,402.02	37,402.02
Total Receipts	1,635,539.63	2,281,285.31	17,644,862.07
Disbursements:			
Compensation:			
Salaries (Note 9)	109,637.84	239,089.56	1,808,865.37
Employee Benefits (Note 10)	13,298.26	30,999.51	196,122.78
Payroll and Other Taxes (Note 11)	7,814.73	18,633.69	139,739.66
Professional Fees:			
Legal Fees (Note 12)	121,132.17	285,138.69	1,829,466.02
Tax Preparation and Audit Fees	4,154.00	4,154.00	40,346.25
Consulting Fees and Other Outside Contracts (Note 13)	213,612.46	359,868.52	2,934,538.04
Ohio Department of Insurance - Examiner Fees	0.00	0.00	46,528.76
Other Expenses of Administration of Company and its Property:			
Rent and Rent Items (Note 14)	21,699.40	41,922.18	285,113.25
Equipment Expenses (Note 15)	665.54	2,000.47	15,494.16
Travel and Travel Items (Note 16)	899.90	1,939.33	44,323.19
Postage, Freight and Telephone (Note 17)	5,628.13	8,941.37	85,327.61
Office Supply Expense (Note 18)	1,050.67	2,371.41	22,429.19
Data Processing (Note 19)	578.68	23,825.49	254,633.92
Paid Losses Direct	0.00	0.00	81,257.31
Furniture, Fixtures & Equipment Cost (Note 20)	108,761.17	108,761.17	108,761.17
Other Expenses (Note 21)	11,921.32	54,665.17	359,892.89
All Other Disbursements:			
Return of Funds to NJ Comm. Auto Insurance	0.00	0.00	49,931.00
Return of Funds - Reinsurance Overpayments	0.00	0.00	5,672.78
Additional Cost - Replacement of Ancillary Deposits	0.00	0.00	2,409.99
Interim Distribution to Insurance Guaranty Associations	0.00	0.00	2,782,377.00
Total Disbursements	620,854.27	1,182,310.56	11,093,230.34
Recovery of Statutory Deposit (US Trea. Note) OH	0.00	0.00	504,876.89
Security Amortization for the Period	0.00	0.00	(153.22)
Ending Cash & Invested Assets (Note 1)	13,342,890.04	13,342,890.04	13,342,890.04

See Schedule A for Analysis of Increase in Cash and Invested Assets (Unencumbered)



**LMI INSURANCE COMPANY, IN LIQUIDATION**  
**LIQUIDATION DATE MAY 23, 2000**  
**ANALYSIS OF INCREASE IN CASH AND INVESTED ASSETS (UNENCUMBERED)**  
**FOR THE PERIOD JULY 1, 2006 THROUGH DECEMBER 31, 2006**

**SCHEDULE A**

<b>Beginning Cash (Unencumbered) and Non Cash (Encumbered) Assets as of 06/30/06</b>	<b>12,637,489.42</b>
Increase in Cash and Invested Assets (Unencumbered)	617,451.84
Cash Transfers - ( Note A )	<u>397,233.52</u>
<b>Actual Increase in Cash and Invested Assets (Unencumbered and Cash Transfers)</b>	<b>1,014,685.36</b>
Non Cash Assets (Encumbered) Amortization of Premium/Discount	<u>612.13</u>
<b>Ending Cash (Unencumbered) and Non Cash (Encumbered) Assets as of 12/31/06</b>	<b><u><u>13,652,786.91</u></u></b>

Note A - These cash transfers are comprised of :

Proceeds from ADIC Estate Closure - Operating Funds	\$237,969.40
Proceeds from ADIC Estate Closure - Collateral Funds	121,862.10
Proceeds from HealthFirst Estate Closure - Operating Funds	<u>37,402.02</u>
Total	<u><u>\$397,233.52</u></u>

The funds are deposited in separate bank accounts except for the proceeds from HealthFirst which was transferred to LMI - HealthFirst \ PIC bank account on 1/5/2007.

**LMI INSURANCE COMPANY, IN LIQUIDATION**  
**LIQUIDATION DATE MAY 23, 2000**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE PERIOD JULY 1, 2006 THROUGH DECEMBER 31, 2006**

Note 1	<u>Cash and Invested Assets</u>	Beginning Balance 06/30/2006	Ending Balance 12/31/2006
<b>Unencumbered Cash &amp; Invested Assets</b>			
Cash		22,204.68	10,656.52
Cash Transfers		0.00	397,233.52
Repurchase Agreements		12,306,000.00	12,935,000.00
U.S. Government Obligations		0.00	0.00
	<b>Total Unencumbered Cash &amp; Invested Assets</b>	<b>12,328,204.68</b>	<b>13,342,890.04</b>
<b>Encumbered Non Cash Assets</b>			
Statutory Deposits (A)		309,284.74	309,896.87
	<b>Total Encumbered Non Cash Assets</b>	<b>309,284.74</b>	<b>309,896.87</b>
	<b>Total Cash and Invested Assets and Non Cash Assets</b>	<b>12,637,489.42</b>	<b>13,652,786.91</b>

**Statutory Deposit (A)**

These assets are held by various state insurance departments as statutory deposits for the benefit of creditors in their states. It is uncertain whether all or any portion of such assets will be returned to the Liquidator.

State	Cusip # Description	Where Deposited	Interest Rate	PAR	Amortized Value
Delaware	912828-DJ-6 U S Treasury Note	Wilmington Trust Co	3.125%	100,000.00	99,896.87
Georgia	Evergreen Inst. Treasury M/M Fund	US Bank	4.870%	100,000.00	100,000.00
Virginia	Commonwealth of Virginia - Treasurer	Local Gov't Invest. Pool	5.300%	15,000.00	15,000.00
Virginia	Commonwealth of Virginia - Treasurer	Local Gov't Invest. Pool	5.300%	500,000.00	500,000.00
* New Jersey	State of New Jersey Cash Management Fund	Morgan Stanley Trust	1.200%	8,036,776.00	8,036,776.00
Arizona	Evergreen Inst. Treasury M/M Fund	US Bank	4.870%	110,000.00	110,000.00
Subtotal				8,861,776.00	8,861,672.87

**Other Investment or Withheld Interest:**

NJ - Interest Income withheld		620,228.31
VA - Interest Income withheld		130,393.41
GA - Interest Income withheld		21,869.44
AZ - Interest Income withheld		8,104.01
<b>Subtotal</b>		<b>8,861,776.00 9,642,268.04</b>

**Statutory Deposit (B)**

Please note the following deposits have now become the assets of either the various Insurance Departments or IGA's.

* NJ - Liquidated to the IGA	State of New Jersey Cash Management Fund	Morgan Stanley Trust	1.200%	(8,036,776.00)	(8,036,776.00)
NJ - Interest Income withheld					(620,228.31)
VA - Liquidated Bureau of Insurance	Commonwealth of Virginia - Treasurer	Local Gov't Invest. Pool	5.300%	(15,000.00)	(15,000.00)
VA - Liquidated Bureau of Insurance	Commonwealth of Virginia - Treasurer	Local Gov't Invest. Pool	5.300%	(500,000.00)	(500,000.00)
VA - Interest Income withheld					(130,393.41)
GA - Interest Income withheld					(21,869.44)
AZ - Interest Income withheld					(8,104.01)
	<b>Ending Balance As of December 31, 2006</b>			<b>310,000.00</b>	<b>309,896.87</b>

\* Deposit Net of Early Access Offset.

**LMI INSURANCE COMPANY, IN LIQUIDATION**  
**LIQUIDATION DATE MAY 23, 2000**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE PERIOD JULY 1, 2006 THROUGH DECEMBER 31, 2006**

Note 2	<b><u>Interest Income</u></b>	
	Interest on Bonds	0.00
	Accrued Discount on Bonds from Maturity	0.00
	Amortized Premium on Bonds from Maturity	0.00
	Interest on Bonds	0.00
	Interest Paid on Bonds	0.00
	Interest on Repurchase Agreements	313,934.89
	Interest on Ancillary Bonds	1,562.50
		<u>315,497.39</u>

Note 3	<b><u>Salvage &amp; Subrogation</u></b>	
	Salvage & Subrogation	325.00
		<u>325.00</u> *

\* Some portion may be due various reinsurers, and thus not be part of the general assets of the estate.

Note 4	<b><u>Reinsurance Recoveries</u></b>	
	American Agricultural Insurance Company	529.39
	American Reinsurance Company	697,502.06
	American States Insurance Company	2,646.98
	Dorinco Reinsurance Company	529.39
	Folksamerica Reinsurance Company	3,970.46
	GE Reinsurance Corporation	5,293.96
	GenAmerica Management Corporation / Generali	1,058.80
	GMAC Reinsurance / Motors Insurance Corporation	2,646.98
	Nationwide Mutual Insurance Company	7,940.93
	North Star Reinsurance Corporation	6,352.74
	Partner Reinsurance Company of the US	3,970.46
	The TOA Reinsurance Company of America	10,587.91
	Towers Perrin Reinsurance	196.38
	Zenith Insurance Company	1,323.48
		<u>744,549.92</u>

Note 5	<b><u>Proceeds from ADIC Class 5 Distribution</u></b>	
	American Druggists Ins. Co., In Liq. - Class 5 Surplus Distribution	127,895.69
		<u>127,895.69</u>

Note 6	<b><u>Other Income</u></b>	
	Reimbursement for Copying Documents	650.00
	Equipment Income	49,388.11
		<u>50,038.11</u>

Note 7	<b><u>Proceeds from ADIC Estate Closure - Operating Funds</u></b>	
	LMI-ADIC Operating Funds	237,969.40
		<u>237,969.40</u> **

Note 8	<b><u>Proceeds from ADIC Estate Closure - Collateral Funds</u></b>	
	LMI-ADIC Collateral Funds	121,862.10
		<u>121,862.10</u> **

\*\* Transfers made pursuant to Court Order.

The LMI ADIC Operating Funds are set aside to cover for the remaining unpaid ADIC Holdback operating expenses. The LMI - ADIC Collateral funds are reserved for disbursements to the appropriate ADIC policyholders. Any collateral balance not returned will be disbursed pursuant to R.C. Chapter 169.

**LMI INSURANCE COMPANY, IN LIQUIDATION**  
**LIQUIDATION DATE MAY 23, 2000**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE PERIOD JULY 1, 2006 THROUGH DECEMBER 31, 2006**

Note 9	<u>Salaries</u>	
	Chief Deputy Liquidator	3,947.99
	Deputy Liquidators	9,446.37
	Liquidation Office Employees	96,243.48
		<u>109,637.84</u>

Note 10	<u>Employee Benefits</u>	
	(Liquidation Office Employees)	
	Employee Relations Other	142.62
	Employee Insurance Benefits	11,169.53
	Salaries 401K Employer Contribution	1,986.11
		<u>13,298.26</u>

Note 11	<u>Payroll &amp; Other Taxes</u>	
	(Liquidation Office Employees)	
	Workers Comp Insurance	414.23
	State Unemployment Tax	37.87
	Federal Unemployment Tax	8.86
	FICA Tax	7,353.77
		<u>7,814.73</u>

Note 12	<u>Legal Fees</u>			
	<u>Special Counsel</u>	<u>Rehabilitation Expenses Paid after Liquidation</u>	<u>Post Liquidation Expenses</u>	<u>Total</u>
	Carfile, Patchen & Murphy LLP	0.00	121,101.81	121,101.81
		<u>0.00</u>	<u>121,101.81</u>	<u>121,101.81</u>
	<u>Legal Counsel</u>	<u>Rehabilitation Expenses Paid after Liquidation</u>	<u>Post Liquidation Expenses</u>	<u>Total</u>
	Kegler, Brown, & Hill and Ritter	0.00	30.36	30.36
		<u>0.00</u>	<u>30.36</u>	<u>30.36</u>
	<b>Total Legal Fees</b>	<u>0.00</u>	<u>121,132.17</u>	<u>121,132.17</u>

Note 13	<u>Consulting Fees and Other Outside Contracts</u>			
		<u>Rehabilitation Expenses Paid after Liquidation</u>	<u>Post Liquidation Expenses</u>	<u>Total</u>
	ADP-Process Liquidation Office Payroll	0.00	260.64	260.64
	Glenn Cornett - Claims Consultant	0.00	632.50	632.50
	KB Resolutions - Reinsurance Consultant	0.00	16,062.50	16,062.50
	Lynda G Loomis - Reinsurance Consultant	0.00	12,945.27	12,945.27
	Kim M Burnside - POC Admin. Consultant	0.00	790.33	790.33
	Smart & Associates - Forensic Accountants	0.00	181,488.50	181,488.50
	Teksystems - EDP Consultants	0.00	1,432.72	1,432.72
		<u>0.00</u>	<u>213,612.46</u>	<u>213,612.46</u>

**LMI INSURANCE COMPANY, IN LIQUIDATION**  
**LIQUIDATION DATE MAY 23, 2000**  
**NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE PERIOD JULY 1, 2006 THROUGH DECEMBER 31, 2006**

Note 14	<b><u>Rent and Rent Items</u></b>	
	Rent on Leased Properties	16,968.80
	Rent - Other	13.95
	Furniture, Fixtures, & Equipment Rent	920.92
	Utilities - Gas & Electric	3,159.85
	Janitor Service	635.88
		<u>21,699.40</u>
Note 15	<b><u>Equipment Expense -(Includes Furniture &amp; Fixtures Expense)</u></b>	
	ADT Security	70.65
	Gordon Flesch Co - Copier Maintenance	152.78
	Halls Maintenance Service-Maint. at Warehouse	25.38
	Ikon Office Solutions - Copier Maintenance	327.92
	Fire King Security - Cabinet Replacement Keys	1.82
	Parallel Technologies Inc - Electric Repair	79.56
	Xerox Corporation - Copier Maintenance	1.47
	Pan-L-Tek, Inc. - Electrical Repair	5.96
		<u>665.54</u>
Note 16	<b><u>Travel and Travel Items</u></b>	
	(Liquidation Office Employees)	
	Travel/Accommodation-Transportation	811.60
	Travel Expenses and Meals	88.30
		<u>899.90</u>
Note 17	<b><u>Postage, Freight and Telephone</u></b>	
	Postage	4,544.26
	Express & Freight	154.28
	Liquidation Office Phone & Fax	753.29
	Internet Fees	176.30
		<u>5,628.13</u>
Note 18	<b><u>Office Supply Expense</u></b>	
	Liquidation Office Computer Supplies	398.30
	Liquidation Office - Office Supplies	652.37
		<u>1,050.67</u>
Note 19	<b><u>Data Processing</u></b>	
	Computer Maintenance	560.30
	Computer Software Lease	18.38
		<u>578.68</u>
Note 20	<b><u>Furniture, Fixtures &amp; Equipment Cost</u></b>	
	Multifunction Copiers ( 8 Units )	108,761.17
		<u>108,761.17</u>
Note 21	<b><u>Other Expenses</u></b>	
	Training & Seminars	70.82
	Professional Liability Insurance	8,196.53
	FF & E Non Capital	80.16
	Books & Periodicals	84.61
	Contract Printing	46.53
	Bank Fees	40.75
	Temporary Help	3,267.37
	Investment Expense	75.00
	Miscellaneous Expense	3.55
	Collection Expense - Rissman, Barrett, Hurt, Donahue & McClain, P	56.00
		<u>11,921.32</u>