



COMMONWEALTH OF PENNSYLVANIA
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May 22, 2006

Daniel Schuckers
Prothonotary
Commonwealth Court
628 South Office Building
Harrisburg, PA 17120-0001

RE: M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania v. Villanova Insurance Company,
No. 182 M.D. 2002

Dear Mr. Schuckers:

Enclosed for filing please find the original and two hard copies of the Liquidator's Notice of Filing, Submission of 2006 Budget and Petition for Approval of Administrative Expenses.

As directed by the Court's Order we are also enclosing copies of the documents on a computer disk.

Thank you for your courtesies in filing the documents.

Very truly yours,

Amy L. Weber
Special Funds Counsel

ALW:mm
Enclosure

RECEIVED
COMMONWEALTH COURT
GENERAL COUNSEL
22 MAY 2006 12 13

IN THE COMMONWEALTH OF PENNSYLVANIA

M. Diane Koken, Insurance Commissioner,
Commonwealth of Pennsylvania,

Plaintiff,

v.

No. 182 M.D. 2002

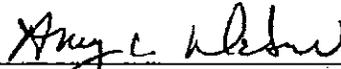
Villanova Insurance Company,

Defendant.

LIQUIDATOR'S NOTICE OF FILING

The Statutory Liquidator of Villanova Insurance Company (in Liquidation), by and through her undersigned counsel, gives notice to all interested persons currently on the Master Service list that on May 22, 2006, she filed her 2006 Budget and Petition to Approve the Liquidator's Administrative Expenses Paid for July 1, 2005 to December 31, 2005. A copy of the filing is attached and served on all persons listed on the master service list. Comments, if any, may be filed with the Commonwealth Court within 30 days of the date of this Notice. A copy of this filing will also be available for viewing, downloading, and/or printing on the Legion website at: www.legioninsurance.com.

Respectfully submitted,



Amy L. Weber (I.D. # 45447)
Special Funds Counsel
Office of Liquidations, Rehabilitations and Special Funds
901 N. 7th Street
Harrisburg, Pennsylvania 17102
(717) 787-6009

Attorney for M. Diane Koken, Insurance Commissioner
for the Commonwealth of Pennsylvania in her
official capacity as Statutory Liquidator of Villanova
Insurance Company (In Liquidation)

Dated: 5/22/06

22 MAY 2006 12
COMMONWEALTH COURT
OF PENNSYLVANIA

IN THE COMMONWEALTH OF PENNSYLVANIA

M. DIANE KOKEN :
Insurance Commissioner of the :
Commonwealth of Pennsylvania :
 :
Plaintiff, :
 :
v. : No 182 M.D. 2002
 :
Villanova Insurance Company :
 :
Defendant. :

LIQUIDATOR'S SUBMISSION OF 2006 BUDGET AND PETITION FOR
APPROVAL OF ADMINISTRATIVE EXPENSES PAID
FOR THE PERIOD JULY 1, 2005 THROUGH DECEMBER 31, 2005

The Honorable M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), in her official capacity as Statutory Liquidator ("Liquidator") for Villanova Insurance Company ("Villanova"), by and through her counsel, respectfully submits her 2006 Budget pursuant to this Court's Order dated January 8, 2004 and her Petition for Approval of Administrative Expenses paid for the period July 1, 2005 through December 31, 2005.

SUBMISSION OF 2006 BUDGET

1. On January 8, 2004, the Court entered an Order requiring the Liquidator, inter alia, to provide the budget for the cost of professional services including expense reimbursements and necessary administrative expenses for Villanova.

2. The Liquidator respectfully attaches as Exhibit A to this submission the 2006 Budget for Villanova, which includes the Liquidator's budgeted items for the cost of professional services, (including Legal Fees, IT Services, and Professional and other Services), as well as the necessary administrative expenses for Villanova, which include, among other items, salaries, benefits and rent (collectively "the 2006 Budget").

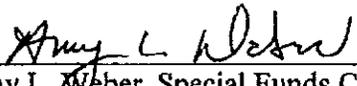
PETITION FOR APPROVAL OF ADMINISTRATIVE EXPENSES PAID

3. The Liquidator previously filed a petition for approval of administrative expenses paid for the period July 29, 2003 through December 31, 2004 which was approved by the Court on June 30, 2005; and, filed a petition for approval of administrative expenses paid for the period January 1, 2005 through June 30, 2005, which was approved by the Court on September 16, 2005.

4. The Liquidator respectfully petitions the Court for approval of her administrative expenses paid for the period July 1, 2005 through December 31, 2005, as set forth on the attached Exhibit B, Combined Expense Analysis – Cash Basis, which were reasonable and necessary expenses for the administration of the Villanova liquidation.

5. The Affidavits of the Chief Liquidation Officer and the Senior Vice President of Financial Operations in support of the Liquidator's submission of Combined Expense Analysis and 2006 Budget and Petition for Approval of Administrative Expenses Paid and the Certification of Special Funds Counsel related to legal expenses paid are attached to this Petition.

Respectfully submitted,



Amy L. Weber, Special Funds Counsel
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Harrisburg, Pennsylvania 17102
(717) 787-6009

Attorneys for M. Diane Koken, Insurance
Commissioner of the Commonwealth of
Pennsylvania, in her official capacity
As Statutory Liquidator for Villanova
Insurance Company (In Liquidation)

DATED: 5/22/06

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. Diane Koken
Insurance Commissioner of the
Commonwealth of Pennsylvania

Plaintiff,

v.

Villanova Insurance Company
One Logan Square, Suite 1400
Philadelphia, PA 19103

Defendant.

Docket No. 182 M.D. 2002

AFFIDAVIT OF JOSEPH ZARANDONA
IN SUPPORT OF THE LIQUIDATOR'S SUBMISSION OF THE
COMBINED EXPENSE ANALYSIS AND 2006 BUDGET AND
PETITION FOR APPROVAL OF ADMINISTRATIVE EXPENSES
PAID FOR THE PERIOD JULY 1, 2005-DECEMBER 31, 2005

I, **JOSEPH ZARANDONA**, hereby depose and state as follows:

1. I am Chief Liquidation Officer of Legion Insurance Company (In Liquidation) and Villanova Insurance Company (In Liquidation)("the Estates"), and am responsible for overseeing their daily business operations.
2. I directed the preparation of and have reviewed the Liquidator's 2006 Combined Expense Analysis and 2006 Budget for the Estates ("the Budget") and Petition for Approval of Administrative Expenses paid for the period July 1, 2005-December 31, 2005.
3. Based on my review of the Budget, my personal knowledge and business experience, and having considered information that I believe necessary to assess the Estates' projected expenses for 2006, including significant business developments and trends, cash flow expectations, capital build projects, and fixed overhead costs such as

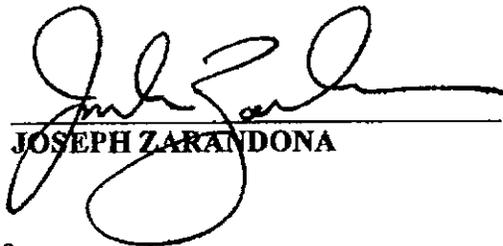
compensation and rent, I certify that the Budget is appropriate and fairly presents in all material respects the Estates' expected expenses for 2006.

4. I know of no significant expenses or outlays for 2006 that are not included in the Budget.

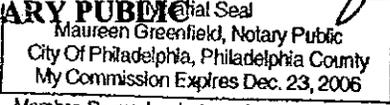
5. Based on my knowledge, the Petition for Approval of Administrative Expenses paid for the period July 1, 2005-December 31, 2005 fairly presents in all material respects the administrative expenses paid by the Estates for the period July 1, 2005-December 31, 2005.

6. My certification is made in reasonable reliance on the work of qualified staff and the Estates' internal procedures for financial operations, planning and budgeting.

7. I verify that the matters stated therein are true and correct to the best of my knowledge, information and belief, and make these statements subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.


JOSEPH ZARANDONA

Sworn to and subscribed before me
this 8th day of MAY, 2006.


NOTARY PUBLIC 
Maureen Greenfield, Notary Public
City Of Philadelphia, Philadelphia County
My Commission Expires Dec. 23, 2006
Member, Pennsylvania Association Of Notaries

3. I certify that the Budget is appropriate and fairly presents in all material respects the Estates' anticipated expenses for 2006 for the following areas of expected expenditure:

A. Salaries: "Salaries" includes anticipated expenses for salary and overtime compensation for all the Estates' employees, the cost of temporary help and contractor services, the performance compensation program, and a compensation program for displaced employees of the Estates.

B. Benefits: "Benefits" includes anticipated expenses for employee group health, life and disability programs, 401(k) contributions, employee training, workers' compensation insurance, FICA and federal and state unemployment taxes.

C. Occupancy: "Occupancy" includes anticipated expenditures for lease expenses in Philadelphia and Milwaukee, utility and office maintenance expenses for leased premises, records retention, furniture repair and maintenance expenses and rental costs for postage and copier/fax equipment.

D. Equipment: "Equipment" includes depreciation expenses for EDP equipment, operating and applications systems software, office furniture and fixtures and leasehold improvements, and anticipated expenditures for purchases and repairs of all other equipment used by the Estates.

E. Legal Fees and Expenses: "Legal Fees and Expenses" includes anticipated expenditures to outside law firms for matters related to reinsurance litigation, policyholder collections, managing general agent and third party administrators, Legion defendant issues and liquidation issues.

F. Professional Services: "Professional Services" includes anticipated expenditures for outsourced reinsurance services, audit and tax consulting fees of independent CPA firms, actuarial consulting services, management consulting services, fees for collection of overdue premium and other fees and fees to outside firms for technology support and outsourcing.

G. Other: "Other" includes anticipated expenditures for telephone, postage, express mail, printing and freight expenses, letterhead, envelopes and other office supplies; transportation, meals, lodging and other costs of employees while traveling; costs of the Pennsylvania Insurance Department for the oversight of the Estates; and insurance for fidelity and surety bonds on employees, general liability insurance, Directors and Officers and omissions coverage for directors and personal property coverage.

4. I know of no significant expenses or outlays for 2006 that are not included in the Budget.

5. I certify that the Petition for Approval of Administrative Expenses paid for the period July 1, 2005-December 31, 2005 fairly presents in all material respects the Estates' paid administrative expenses for the period July 1, 2005-December 31, 2005 for the following areas of expenditure:

A. Salaries: "Salaries" includes expenses for salary and overtime compensation for all the Estates' employees, the cost of temporary help and contractor services, the performance compensation program, and a compensation program for displaced employees of the Estates.

B. Benefits: "Benefits" includes expenses for employee group health,

life and disability programs, 401(k) contributions, employee training, workers' compensation insurance, FICA and federal and state unemployment taxes.

C. Occupancy: "Occupancy" includes expenditures for lease expenses in Philadelphia and Milwaukee, utility and office maintenance expenses for leased premises, records retention, furniture repair and maintenance expenses and rental costs for postage and copier/fax equipment.

D. Equipment: "Equipment" includes depreciation expenses for EDP equipment, operating and applications systems software, office furniture and fixtures and leasehold improvements, and expenditures for purchases and repairs of all other equipment used by the Estates.

E. Legal Fees and Expenses: "Legal Fees and Expenses" includes expenditures to outside law firms for matters related to reinsurance litigation, policyholders collections, managing general agent and third party administrators, the Estates' defendant issues and liquidation issues.

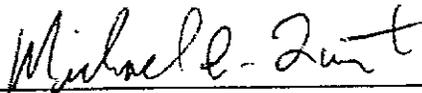
F. Professional Services: "Professional Services" includes expenditures for outsourced reinsurance services, audit and tax consulting fees of independent CPA firms, actuarial consulting services, management consulting services, fees for collection of overdue premium and other fees and fees to outside firms for technology support and outsourcing.

G. Other: "Other" includes expenditures for telephone, postage, express mail, printing and freight expenses, letterhead, envelopes and other office supplies; transportation, meals, lodging and other costs of employees while traveling; costs of the Pennsylvania Insurance Department for the oversight of the

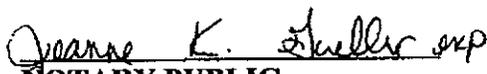
Estates; and insurance for fidelity and surety bonds on employees, general liability insurance, Directors and Officers and omissions coverage for directors and personal property coverage.

6. Based on my knowledge, the Petition for Approval of Administrative Expenses paid for the period July 1, 2005-December 31, 2005 fairly presents in all material respects the administrative expenses paid by the Estates for the period July 1, 2005-December 31, 2005.

7. I verify that the matters stated therein are true and correct to the best of my knowledge, information and belief, and make these statements subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

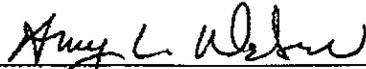

MICHAEL I. QUIST

Sworn to and subscribed before me
this 5 th day of May, 2006.

 exp 5-10-09
NOTARY PUBLIC

CERTIFICATION

I, Amy L. Weber, Special Funds Counsel, of the Office of General Counsel, assigned to the Office of Liquidations, Rehabilitations and Special Funds, of the Pennsylvania Insurance Department, am duly authorized to make this Certification for and on behalf of M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator ("Liquidator") of Legion Insurance Company. I have read the Combined Expense Analysis for Legion Insurance Company (In Liquidation) and Villanova Insurance Company (In Liquidation) and certify that the legal fees and expenses stated therein for the period July 1, 2005 to December 31, 2005 are reasonable and necessary expenses to the best of my knowledge, information and belief. I understand that this Certification is made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.



Amy L. Weber
Special Funds Counsel

Dated: May 19, 2006

EXHIBIT

A

Legion Insurance Company (In Liquidation)
 Villanova Insurance Company (In Liquidation)
COMBINED EXPENSE ANALYSIS
 2006 Budget
 (\$ In Thousands)

Staffing - Average	
Full Time	256
Part Time	1
Contractor Help	14
Total Staffing - Average	270

	Annual 2006 Budget	% of Total Operating
G & A Expenses		
Salaries	\$ 27,190	46.1%
<i>Salary and overtime compensation for all Legion employees and the cost of temporary help and contractor services utilized. Also includes the performance compensation program and compensation program for displaced Legion employees.</i>		
Benefits	4,419	7.6%
<i>Expenses incurred for employee group health, life and disability programs, 401(k) contributions, employee training, workers' compensation insurance and FICA and Federal and state unemployment taxes.</i>		
Occupancy	3,544	6.0%
<i>Lease expenses for both Milwaukee and Philadelphia locations, utility and office maintenance expenses for leased premises, records retention, furniture repair and maintenance expenses and rental costs for postage and copier/fax equipment.</i>		
Equipment	4,109	7.0%
<i>Depreciation expense for EDP equipment, operating and applications systems software and depreciation of office furniture and fixtures and leasehold improvements. Also includes purchases and repairs for all other equipment used by Legion.</i>		
Legal Fees and Expenses	5,145	8.7%
<i>Legal retainers and fees to outside law firms for matters related to reinsurance litigation, policyholders collections, managing general agent and third party administrators, Legion defendant issues and liquidation issues.</i>		
Professional Services	11,510	19.5%
<i>Fees for outsourced reinsurance services, audit and tax consulting fees of independent CPA firms, fees to outside firms for actuarial consulting services, management consulting services, fees for collection of overdue premium and other fees and fees to outside firms for technology support and outsourcing.</i>		
Other	3,114	5.3%
<i>Telephone, postage, express mail, printing and freight expenses. Also includes cost of letterhead, envelopes and other office supplies, transportation, meals, lodging and other costs of employees while traveling, costs of the PA Insurance Department for the oversight of the Legion and Villanova estates and insurance expense for fidelity and surety bonds on employees, general liability insurance, Directors and Officers and omissions coverage for directors and personal property coverage.</i>		
Total Expenses	59,032	100.0%
Large Deductible Collection Revenue	(1,283)	
<i>Revenue the estates receive for the collection of large deductible recoveries on behalf of the guaranty associations.</i>		
Net Budget	\$ 67,749	

**EXHIBIT
B**

Legion Insurance Company (in Liquidation)
 Villanova Insurance Company (in Liquidation)
 COMBINED EXPENSE ANALYSIS - CASH BASIS
 July 1, 2005 to December 31, 2005
 (\$ in Thousands)

<u>Staffing - Average</u>		
Full Time	255	
Part Time	2	
Contractor Help	26	
Total Staffing - Average	283	

	Cash Basis	% of Total Operating
<u>G & A Expenses</u>		
Salaries	\$ 10,502	41.13%
<i>Salary and overtime compensation for all Legion employees and the cost of temporary help and contractor services utilized. Also includes the performance compensation program and compensation program for displaced Legion employees.</i>		
Benefits	1,763	6.67%
<i>Expenses incurred for employee group health, life and disability programs, 401(k) contributions, employee training, workers' compensation insurance and FICA and Federal and state unemployment taxes.</i>		
Occupancy	2,229	8.73%
<i>Lease expenses for both Milwaukee and Philadelphia locations, utility and office maintenance expenses for leased premises, records retention, furniture repair and maintenance expenses and rental costs for postage and copier/fax equipment.</i>		
Equipment	881	3.45%
<i>Depreciation expense for EDP equipment, operating and applications systems software and depreciation of office furniture and fixtures and leasehold improvements. Also includes purchases and repairs for all other equipment used by Legion.</i>		
Legal Fees and Expenses	1,480	5.72%
<i>Legal retainers and fees to outside law firms for matters related to reinsurance litigation, policyholders collections, managing general agent and third party administrators, Legion defendant issues and liquidation issues.</i>		
Professional Services*	8,224	32.21%
<i>Fees for outsourced reinsurance services, audit and tax consulting fees of independent CPA firms, fees to outside firms for actuarial consulting services, management consulting services, fees for collection of overdue premium and other fees and fees to outside firms for technology support and outsourcing.</i>		
Other	456	1.90%
<i>Telephone, postage, express mail, printing and freight expenses. Also includes cost of letterhead, envelopes and other office supplies, transportation, meals, lodging and other costs of employees while traveling, costs of the PA Insurance Department for the oversight of the Legion and Villanova estates and insurance expense for fidelity and surety bonds on employees, general liability insurance, Directors and Officers and omissions coverage for directors and personal property coverage.</i>		
Total Expenses	26,535	100.00%
Capital Expenditures	413	
<i>Purchases of personal computer equipment, operation software and other data processing equipment</i>		
Investment Expenses#	1,044	
<i>Banking, management and custodial fees</i>		
Total	\$ 28,992	

This exhibit reflects the cash activity of the operating expenses and does not include the change in asset and liability account balances on a cash basis.

* Professional fees include collection expense for which the premium had been received net for the period 7/28/03 to 12/31/05.

Investment expense includes expenses paid for the period 7/28/03 to 12/31/05.

LEGION/VILLANOVA MASTER SERVICE LIST

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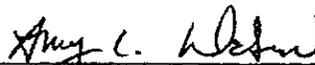
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Last Updated: April 13, 2006

CERTIFICATE OF SERVICE

I hereby certify that on this day a true and correct copy of the foregoing Notice of Filing and Liquidator's 2006 Budget and Petition for Approval of Administrative Expenses Paid was served on all persons listed on the attached Master Service List by U.S. Mail, postage prepaid.



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Attorneys for M. Diane Koken,
Insurance Commissioner for the Commonwealth
of Pennsylvania in her official capacity as
Statutory Liquidator of Legion Insurance
Company

DATED: 5/22/06