

Smith

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PLAINTIFF'S
EXHIBIT
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Memorandum

TO: M. R. Greenberg

FROM: C. R. Schader

CC: E. G. Greenberg, K. P. Moor, S. M. Rivera, H. I. Smith,
K. L. Duckett

DATE: April 28, 2000

RE: Auto Warranty - Update

1. **Service Guard Litigation:** The trial on Service Guard's application for a preliminary injunction ended on April 11. Post-trial briefs were submitted to the court on April 19. We anticipate that there will be a ruling by the end of next week. As I noted on a prior occasion, if this action were in New York, the likelihood of a favorable ruling would be overwhelmingly in our favor. However, this action was heard in Texas State Court where a Texas "hometown" decision is always a possibility, regardless of the merits.

2. **ISI:** Ten days ago, Insurance Specialists, Inc. (ISI) one of our larger TPA's, advised us that persistent negative cash flow would force it to close its doors on April 28 -- unless there was an infusion of fresh capital from those parties interested in its continued existence. We were already planning to transfer claims handling from ISI's operation in Denver to our facility in Maitland, Florida in mid to late June. Ideally, we would have preferred that ISI continue operation for an additional two months while we effected a phased transition.

Over the past several days there have been many meetings and conference calls among the affected parties: Ed Allen (ISI's current owner), Dan Haugen & Michael La Rue (ISI employees pursuing a buyout), Lyndon Insurance Company (ISI's current carrier), Protective Life (Lyndon's parent company), Deutsche Financial (a sponsor of an ISI program now in runoff), BCS (an insurer of an ISI computer warranty program now in runoff), Elliston (BCS's reinsurer representative), and AIG. Each party had its own agenda and interests often were conflicting. No plan emerged which made any sense whatsoever, financially or operationally, from an AIG perspective.

In fact, we anticipated this outcome. During the past two weeks, a special operations team, drawn from my several runoff departments -- and aided by ISG and CTO staff -- developed a plan which effects the immediate transfer of claims handling from ISI to our Maitland office this coming Monday morning.

Chris