

KNIGHT CROCKETT MILLER
INSURANCE *Group*

to be
the
best

Annual Report 2006

DECEMBER 2006

DEAR STAKEHOLDER:

The goal of being the best is always a moving target, yet the quest makes for an ever-improving organization. Knight Crockett Miller Insurance Group is on that quest, and what you will see in this year's Annual Report is our best in 2006.

We continued and expanded our 2005 initiatives to consult with our clients, bringing even more services to the table. We added team members to respond to our growing client base. And most importantly, we planned for our success with key five-year goals.

The heart of what we do is to help protect our clients from financial loss in the face of uncertainty. You'll see examples of how our insurance counseling saved two clients from financial devastation. These clients are proof that buying insurance is not about the lowest price. And proof of how valuable our advice truly is.

As you read the report, you'll sense the continued effort to be the best at what we do. We will continue to work toward that moving target, knowing that our stakeholders – clients, carriers, employees, and owners – are the beneficiaries of our efforts.

Best wishes to you for a prosperous 2007.

Sincerely,

Kenneth P. Knight

Kenneth P. Knight
CEO

Thomas G. Hart

Thomas G. Hart
CFO

Sam Hammons

Samuel Hammons, III
Vice President, Sales

FIVE-YEAR PLANS

The management team spent a great deal of time in 2006 building plans to achieve our strategic goals. Of all the varied possibilities, four areas rose to the top: commitment to the future, growth, total account development, and diversification.

We shared these ideas with the entire staff at a day-long, off-site event in October. On that day, everyone learned about these strategies, had an opportunity to ask questions, and helped expand on our goals and ideas.

COMMITMENT TO THE FUTURE

In a time when many agencies are selling to even larger agencies, we made a commitment to keep ownership inside our organization. We truly believe that to be the best, perpetuating ownership from within the organization is key. An employee-driven organization is one of our core values. Our employees are our strength – the reason we are better than our competitors.

We plan to slowly bring on as owners those employees who demonstrate the leadership abilities, the skills, and the business philosophies that will ensure KCM for another generation.

GROWTH STRATEGY

Our five-year growth strategy is a mix of organic growth, acquisitions, and additional staff. As the graph shows, our personal lines division is projecting a 21 percent growth by 2011, commercial lines will grow 58 percent, and financial

"Westfield Insurance recognizes Knight Crockett Miller as a highly valued agency partner. 'Sharing knowledge' is a theme that drives everything we do; Knight Crockett Miller's management team combines forward thinking with insurance expertise to create high levels of value and service for their clients and company partners."

Roger McManus, President
Westfield Insurance

services, 105 percent. In 2011, we expect our division ratios to be 23 percent, personal lines; 51 percent, commercial lines; and financial services, 26 percent.

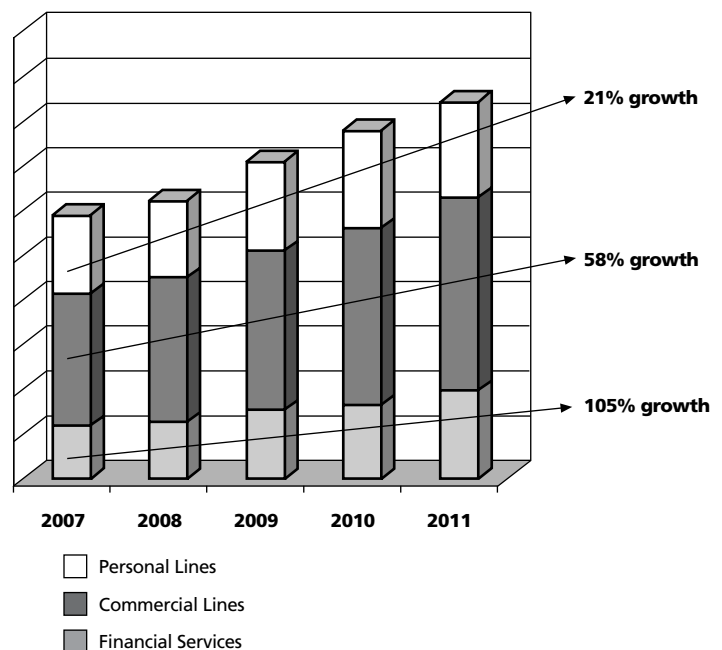
TOTAL ACCOUNT DEVELOPMENT

A significant strategy in the next five years is something we penned Total Account Development. Certainly not a new concept, for many businesses have espoused the benefits of selling clients multiple products and services. And the benefits are many: lower acquisition costs, lower servicing costs, higher sales ratios, and ultimately greater profitability.

We took a look at our efforts in this area and decided that it was time to take the concept to greater heights. A committee was formed, as a result of our day-long event, to build a more inclusive strategy. Their first output was the name, Total Account Development, which describes a focus of serving the client in every way possible.

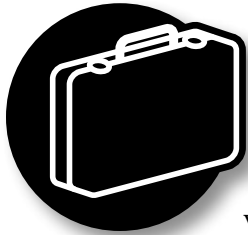
Our sales team will converse with clients about their needs, their frustrations, their business issues. Then they will work to find solutions – whether under our umbrella of services or not. For it is all about being a solution provider for our clients.

Overall Growth



DIVERSIFICATION

Closely tied with Total Account Development, our diversification strategy gives us the opportunity to offer two new services to our existing clients: business consulting and information technology services.



Business consulting is headed by Diane Roe, our Vice President of Operations, in partnership with international consulting firm, Dannemiller Tyson.

Diane has been with Knight Crockett Miller since 1985. She has a master of organization development degree from Bowling Green State University. She has held numerous seminars in the past six years and consulted with many small business owners. At Knight Crockett Miller, she helped facilitate its merger, re-designed its workflows, set strategy plans, and instituted many employee performance improvements. Her outside consulting projects include performance review overhauls, strategic plan development, and formal reward programs.

Dannemiller Tyson, a leader in its industry, developed the trademarked system Whole Scale Change®, used worldwide to bring about rapid, yet lasting change. Together, KCM and DTA bring high-caliber consulting within reach.



John Gage heads our **Information Technology** division. Having worked as KCM's Systems Administrator for the last seven years, John is excited to now offer

both technology consulting and implementation services to KCM clients.

For those clients who do not have their own in-house systems administrator, John offers his expertise. Whether it be replacing an aging workstation, transitioning to a paperless environment, leveraging the advantages of multiple monitors, or installing a new server, he can deliver the technology solutions that are right for the client.

John has a bachelor of science in computer science from the University of Toledo. In the winter of 2007, John will complete his master's studies in computer science at Bowling Green State University.

Areas of Expertise

- Group Facilitation
- Visioning/Strategy/Long-Range Planning
- Whole-System Changes
- Reward Systems/Compensation Programs
- Employee Performance Review Systems

If you have needs in either area, please contact Diane or John at 419 241-5133.

Areas of Expertise

- Network design and implementation
- Research purchasing decisions
- Upgrade Installations (hardware and software)
- Establish e-mail identity (under 75 users)
- Preventative maintenance services
- Terminal server installations
- Assist attaining technology goals for greater productivity
- Wireless and remote access solutions
- Disaster planning



WEATHERING THE STORMS

On June 21, 2006, the Toledo area experienced a storm that many say was like no other – tornadoes, winds in excess of 60 miles per hour, hail, lightning, and rain – lots and lots of rain. When the storms were finally over, some areas reported up to 10 inches of rain. And where there's rain, there's likely flooding and water backing up into basements.

That's where we came in. The day after the storm, we were prepared. Our personal service team did nothing but take claims. And every single client's call was handled immediately. No one was told to wait or go into voice mail. No one had to be called back. Each and every client was able to talk to an agent who could guide them about what to do.

Even more important than taking the calls promptly is what we were able to say to our clients. "Yes, you have coverage," was said to **every** homeowner who called in a claim. That's a testament to the quality of our advice and our products. We doubt that another agency was able to deliver that kind of service.

"We are proud to be represented by a high-caliber agency like Knight Crockett Miller. Their professionalism, expertise and commitment to extraordinary customer service are values we look for as we select only the best agencies to represent our company. Knight Crockett Miller exhibits the highest standards in their people and practices, which result in their clients receiving the best in protection, service and value."

John S. Benson, President & COO
Frankenmuth

**SPOTLIGHT ON CLAIMS**

We exist to provide financial security against devastation. Following are two examples of clients who would have suffered a financial disaster were it not for the insurance policies we wrote.

ART RICHARDSON, OREGON INN

Art Richardson is new to entrepreneurship, having bought his first restaurant after 28 years as a Ford employee. "When I bought this business, I just continued the insurance coverage that was in place," says Art Richardson, owner of Oregon Inn. "My wife's company has its insurance through Knight Crockett Miller, and she suggested I talk to Sam Hammons. Wow, am I glad I did!"

Sam reviewed the business insurance for Oregon Inn and noted three serious gaps – inadequate building coverage, no business income, and no umbrella. (Business income pays the owner for income lost as a result of a covered loss.) Sam proposed a new policy that properly insured the building, included business income, an umbrella policy, and other additional coverages – and still reduced Art's insurance expense.

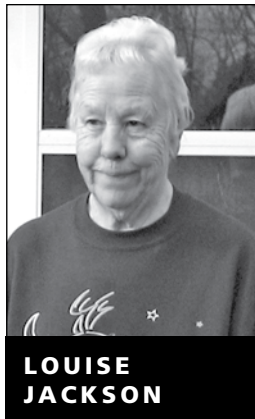
Neither Art nor Sam could have imagined how timely their transaction was. On October 1, the date of the new policy, the Oregon Inn suffered an electrical fire. As a result, Art was unable to open for business, which meant no income. Luckily, Art agreed to Sam's recommendations, so he was paid for his lost income during the down time and had sufficient insurance on the building.

"Without business income, I'd be out of business," said Art. "Sam's advice saved my business. With the money I received from the insurance company, I was able to pay my employees during the down time, ensuring their job security and my future business."

Not only did Art retain all of his employees, he also retained his customers. And six weeks later, the Oregon Inn is open again for business.

**ART RICHARDSON**

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**LOUISE
JACKSON**

"All those years of paying insurance premiums—this one claim made me very appreciative that I had proper insurance. If I had skimped, I would have lost my house," Mrs. Jackson said. "I am better off than a lot of people on my street, and Knight Crockett Miller is the reason why."

LOUISE JACKSON

The June storms seriously damaged homes in several parts of Toledo. Mrs. Jackson's home, where she has lived for 23 years, was one that suffered extensive damage. Water came in through the front door and the garage of her slab home and flooded every room of her house. "I didn't know where to begin. Water was everywhere. My phone was disconnected. My neighbors had damage as bad as mine," said Mrs. Jackson. By the time the storm stopped, she had nine inches of water throughout her entire house.

She got to a phone and called us right away. We reviewed her Westfield policy and assured her that she had the highest limit of water damage available – \$50,000. In addition, she had a flood insurance policy. "What a relief to know I had coverage. I had no idea at the time how much money it was going to cost, and I also didn't know what to do next."

That's where we came in. Westfield's claim adjuster contacted her the same day and arranged for a construction company to come to begin drying out her house. Six days after the storms, Mrs. Jackson had a Westfield check for \$50,000, and the construction company had removed drywall 18 inches off the floor to dry it out. But there was much more work to be done.

"I needed new flooring, new walls, new furniture – it seemed like everything. There were construction men telling me what they were going to do, but I didn't understand it. I was grateful to have the people from Knight Crockett Miller," said Mrs. Jackson. Dewayne Perry and Sandi Mominee came out and met the construction crew to review the work they were proposing. "It was a



comfort to have them confirm that the work was proper," said Mrs. Jackson. "As a widow, I didn't want to be taken advantage of."

Five months later, Mrs. Jackson's home has concrete block around its perimeter. Land was graded to help water drain away from her foundation. She has tile floors, new kitchen cabinets, and new furniture. And she had enough insurance proceeds to pay for it all – over \$90,000.

"All those years of paying insurance premiums—this one claim made me very appreciative that I had proper insurance. If I had skimped, I would have lost my house," Mrs. Jackson said. "I am better off than a lot of people on my street, and Knight Crockett Miller is the reason why."

Our focus on coverage saved these two clients from financial hardship. Stories like these are why we are in this business – to help businesses and individuals in their time of need.



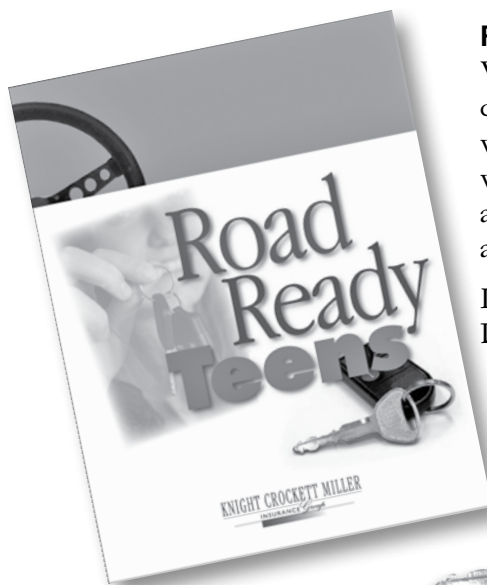
OUR CONTINUED EFFORT TO DO MORE

Multi-Quote Advantage

Our Personal Lines Division has been busy developing new ways to market our advantages and to educate our clients on important topics.

This fall, we launched the Multi-Quote Advantage, a logo to describe the benefits of buying home and auto insurance from an independent agent. The benefits are far superior to what a single-carrier agent can offer.

We give people their time back – time from researching a variety of complicated insurance options – time from calling several insurance agents – time that could be better spent with family or doing something enjoyable! One call to us, and we research up to eight different carriers, weigh the benefits against the client's needs, and find the most affordable option. All in one call.



Road Ready Teens

We partnered with area high schools to offer a seminar to driving teens and their parents. The seminar teaches teens ways they can keep their insurance premiums in line, and what things cause premiums to jump considerably. Parents and teens learn about smart options for lower rates and about various discounts for which they could qualify.

If you would like this seminar at your teen's school, call Diane Roe at 419 241-5133.



GET TO KNOW OUR NEW EMPLOYEES

In 2006, four new team members were added.

Allison Adkins joined us in January as a new commercial salesperson. Allison came to us from Auto Owners, where she was a commercial underwriter for the last two years. She is excited to be a part of the KCM team again. She interned with us in 2003 and worked summers in 2000 and 2001. She has a bachelor's in business from Muskingum College. Allison is the daughter of Sam Hammons.

Bridget Donovan is our marketing assistant, charged to develop and implement new marketing ideas to promote KCM. She has a marketing degree from Mercyhurst College, where she graduated in 2003. She also coaches freshman basketball at Notre Dame Academy.

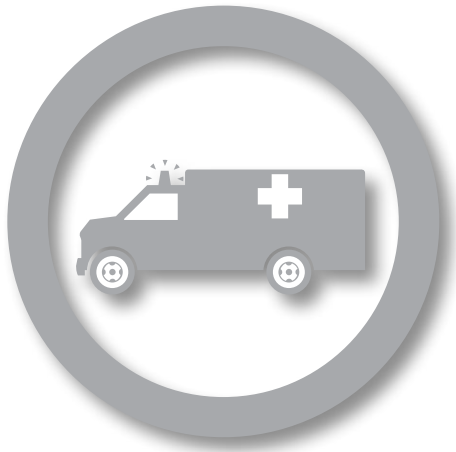
Dewayne Perry joined us in June as a commercial salesperson. Dewayne has extensive experience as a commercial salesperson for Universal Underwriters of Indiana, having worked there from 1996 to 2003. His expertise is in insurance for auto and equipment dealers. He is also a new father to Jackson, born in October!

Sara Warrick is a new commercial service representative, joining the team of Sandi Mominee and Bridgett Purpich. Sara spent the last 15 years at Hylant Group in their large commercial department. Sara enjoys the family environment at KCM and has spent this year getting to know her new clients.



Left to right

**ALLISON ADKINS,
SARA WARRICK,
BRIDGET DONOVAN
AND DEWAYNE PERRY**



OUR CIVIC OUTREACH

In 2004, a little-known proposal was passed by the City of Toledo that charged users for fire department services. It took until this year for the proposal to impact one of our clients, and we immediately became active in learning more about it.

We learned that Cost Recovery Corporation had initiated this proposal, claiming that it was an untapped source of income to the City. Basically, the fire department sends a bill to a user of its services, expecting that the insurance company will pick up the tab.

Unfortunately there are several problems with this proposal:

- Toledo residents already pay for fire department services through the $\frac{3}{4}$ percent add-on tax.
- “Municipal fee charges” are not a covered item under an auto insurance policy.
- Uninsured drivers are not billed.
- Individuals have been billed for hundreds, even thousands, of dollars when their insurance company has denied payment. On several occasions, threatening letters were sent to these individuals.
- Cost Recovery’s invoices erroneously state that certain insurance companies cover these invoices.

Now a proposal was before the City to pass a similar proposal for the Police Department.

We joined forces with WSPD and the Ohio Insurance Institute in pro-active efforts to make the public aware of the proposal. Our own Marlene Lemons and Diane Roe were on WSPD, explaining the realities of the proposal. We mailed a special advisory to our clients, encouraging them to express their opinions to their council representatives.

In November, City Council held a Committee of the Whole to discuss the fire department charges and the police proposal. Several of our team attended the meeting.

The current status of either the fire department charges or the police proposal is unknown, yet we are cautiously optimistic that both will be rejected. We will continue to stay on top of the issue and advise you of any new developments.

CLIENT SEMINARS

We continued to sponsor business seminars for our clients in 2006, hosting three sessions during the year. These sessions are free to clients and prospects. In a two-hour session, attendees gain resources to help them run their businesses more effectively.

Take a look at the key learning points from each of our seminars this year.

February

How to Create an Employee Performance System that Works

by Diane Roe
of Knight Crockett Miller

Key Learning Points:

- Common mistakes with annual reviews
- Guidelines for effective reviews
- Setting strategies for pay
- How to measure performance
- An introduction to gainsharing

June

What is Your Company Worth? How to Determine and Increase the Value of your Business

by Garth Tebay of Value Defined

Key Learning Points:

- The reason for valuing your business impacts the resulting value
- Monitoring methods that can help enhance value
- How to plan for the value you need

November

Five Steps to Improving Your Bottom Line

by Al Blixt of Dannemiller Tyson

Key Learning Points:

- The necessary ingredients for change to occur
- Five steps to improving your organization
- How to ensure lasting improvement, not just quick fixes



If you haven't had a chance to attend one of our seminars, make a point to do so in 2007!

Here are some of the topics on tap:

- Lean Business Solutions
- Smart tax planning for businesses

FINANCIAL SERVICES

In order to stay abreast of the most current trends and products, the Financial Services team attended several educational seminars in 2006. In January at ING Quickstart, there was intensive training for four days covering compliance regulations in the financial industry, new product offerings, and updated technology for analyzing and reporting our clients' portfolios.

Tom Hart had the honor of being one of a few brokers in the United States who were invited to a 401(k) Planning Summit and Broker Dealer Summer Summit this year. This was timely, as KCM Consulting helped design and implement customized retirement programs to meet the needs of five new clients. Existing retirement program clients were reviewed for any improvement and cost saving opportunities as well. Another two days were spent at a Client Centered Planning Model seminar to help us expand our planning methodology and offer additional solutions to clients.

KCM consultants are our partners and our friends. Tom Hart and Carol Ulrich provide a very high level of service, communicating to our employees the benefits of sound investment decisions. They are visible and very well informed. Through their efforts, our 401(k) plans have nearly tripled in value during the last seven years. I respect them personally and I value their expertise in providing tangible retirement benefit growth for all of our employees.

Tim Brown, President & CEO
New Horizons Baking Co.

The Market In Retrospect

The market indexes have all experienced strong performance. We had a very positive first quarter followed by a market correction in the second quarter. The markets have rebounded to set new record highs. The S&P has had its best performance since 1996. The International EAFE Index has doubled its trailing five-year return this year. Weaker inflation and service sector growth are both adding to the optimism of investors. As always, our job is to help clients to stay on track with their portfolio objectives and not be swayed by market returns, whether positive or negative.

NEW SALES

Commercial Lines

The trend of softening rates that began in 2005 continued full force in 2006. Two divergent circumstances impacted our new sales results this year. On one side, many prospects were content with their premiums, and unwilling to invest the time involved in shopping and switching insurance. On the other side, a few carriers entered the market trying to “buy business” with pricing far below what is warranted.

We are concerned about these carriers, because experience tells us that in a few years, they will either exit the market or significantly increase their rates to offset claims that exceed their premiums. To us, this situation is an example of the adage, “You get what you pay for.” The lowest price is not always the best value. What happens at claim time? Or when they lose money in this marketplace?

We pride ourselves on representing companies who are stable, reputable, and fair at claim time. This provides stability for our clients’ businesses in the long run. We convey these values to our prospects and clients at every sale and renewal.

Personal Lines

Personal Lines sales mirrored last year, an achievement considering the pricing changes this year. We credit our success to new, innovative carriers, which allowed us to write a greater breadth of clientele. We also developed a couple of unique marketing programs that drove business to us.

The launch of Multi-Quote Advantage in the fall of this year holds promise for us in 2007 to better communicate our competitive advantage to clients and prospects. We will also unveil special program pricing for prospects who qualify.

Financial Services

Financial Services had a very good year in terms of sales. We are excited to have partnered with some large long-term clients. We continue to receive many referrals. We have expanded our referral sources to include existing clients, strategic partners, CPA firms, and investment companies. These sources have expressed their confidence in our ability to provide solutions and excellent service to clients. Our technical expertise and individual attention are a few of the ways we differentiate ourselves from our peers.

In 2007, we are excited about our total account development program, which will enable us to offer a full range of services to all of the Knight Crockett Miller clients.

New Sales Statistics

	Count	Premium
Personal Lines	135	\$ 228,966
Commercial Lines	72	\$ 704,187
Total P&C	207	\$ 933,153
Financial Services*	38	\$ 98,105

*The dollar amount represents commission.

“ACUITY has tremendous respect for Knight Crockett Miller. They are extremely professional and highly ethical, always putting the interests of their clients ahead of their own. We are proud to have them represent us.”

Ben Salzmann, President & CEO
Acuity

LOST BUSINESS

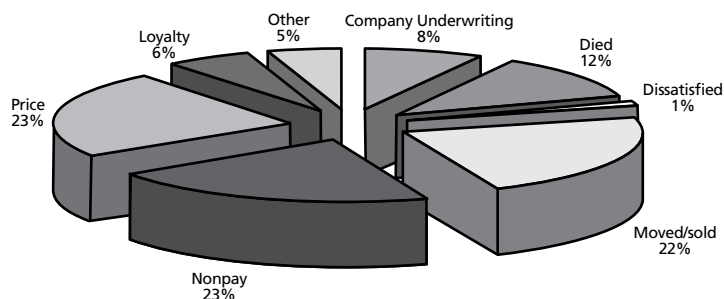
Lost business in our commercial department was down significantly, helping to maintain our overall volume. Soft pricing helped us retain more clients in 2006, albeit sometimes at a lower premium. We know the value of retaining clients – the \$280,000 improvement from last year is the equivalent of writing that same amount as new.

Personal lines saw an increase in lost business. As we examine the reasons why clients leave, three categories stand out: moved/sold, nonpayment, and price. These three categories represent 68 percent of our total lost business. This fall, we implemented strategies to help counter these losses, and expect an improvement in 2007's statistics.

Lost Business Statistics

	Count	Premium	Change from 2005
Personal Lines	287	\$ 370,739	\$ 55,177
Commercial Lines	81	\$ 460,513	\$(280,319)
Total P&C	368	\$ 831,252	\$(225,142)

Lost Business Reasons, Personal Lines



CARRIER STATISTICS

As one of our stakeholder groups, our carriers are an important part of our past success and our future growth. It truly is a partnership built on trust, common business philosophies, and joint goals.

We seek to have a portfolio of carriers that complement each other in their offerings. This provides us the ability to meet the needs of the greatest number of clients. In 2006, we expanded our relationship with two carriers, offering more of their product lines, and added two others. In 2007, our goal is to build those new relationships, while at the same time, solidify our already existing relationships.

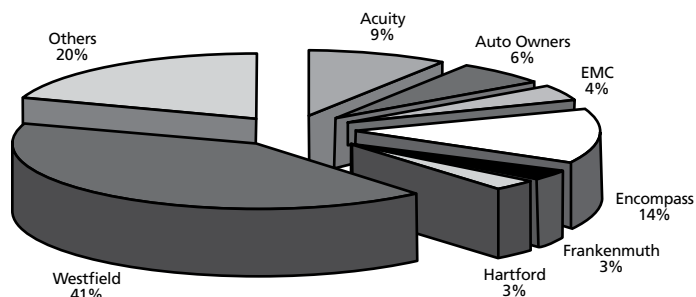
In 2006, we conducted planning sessions with our partner-carriers, sharing with them our five-year plans and discussing how we can work together for mutual benefit. Open dialogue on specific strategies often led to untapped resources that each side could use. Where we found commonalities, we were able to build joint goals.

LOSS RATIOS

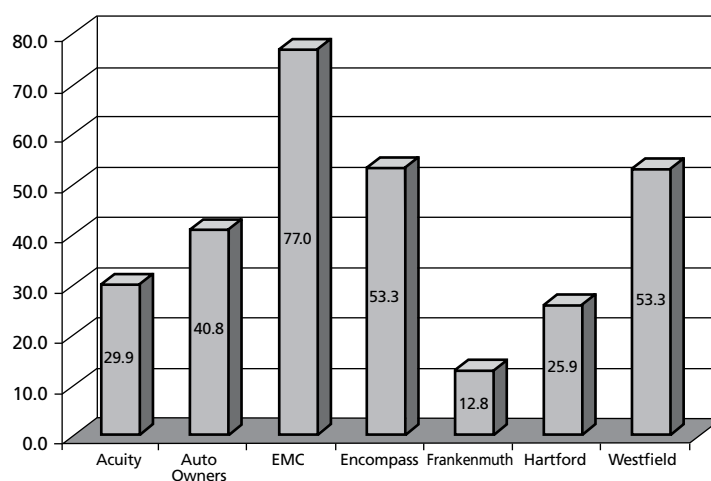
Certainly, our loss ratios were impacted by the June storms. Those carriers where we have significant personal lines premium include Encompass, Westfield, and Auto Owners. The storms added roughly 10 to 13 points to our loss ratios. Even so, we again had favorable loss ratios.

Consistent performance of loss ratios under 55 percent clearly shows underwriting diligence. Profitable loss ratios are a key indicator of our success, and these results confirm our professional standing to our carriers.

2006 Premium Volume



2006 Loss Ratios



Our best to you in 2007!

Ronald Carter Carol L. Taylor Sam Hammons

Cynthia Matus Thomas G. Hart Jason K. Jones

Marlene Lemons Bridget G. Donovan Kenneth P. Knight

Martha E. Kupsky Sandra Monner John F. Werner

John Gorin Mike Callingham Diana Lee

Denise C. Rogers Lisa LeBaron

Theresa A. Holman

Matthew C. Wynne

John Gage

Amber J. Espinoza

Allison L. Adkins

Carol A. Ulrich

Bridgett Purpich

Carl Richardson

C. D. B.



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