

1  EXPEDITE

2  No Hearing is Set

3 The Honorable Judge Thomas McPhee

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7 **STATE OF WASHINGTON**  
8 **THURSTON COUNTY SUPERIOR COURT**

9 MIKE KREIDLER,  
10 INSURANCE COMMISSIONER,

11 Petitioner,

12 v.

13 CASCADE NATIONAL INSURANCE  
14 COMPANY,

Respondent.

NO. 04-2-02427-4

**TWENTY-FIRST QUARTERLY  
REPORT OF RECEIVER**

15 Mike Kreidler, Insurance Commissioner of the State of Washington and Statutory  
16 Receiver of Cascade National Insurance Company in Liquidation (“Cascade” or “CNIC”),  
17 James T. Odiorne, Deputy Insurance Commissioner and Court-appointed Receiver of Cascade,  
18 and Marshall McGinnis, court-appointed Deputy Receiver of Cascade (collectively the  
19 “Receiver”), by and through their attorneys, Robert M. McKenna, Attorney General, and  
20 Heather L. Polz, Assistant Attorney General, hereby submit the Twenty-First Quarterly Report  
21 of Receiver pursuant to RCW 48.31.040(5), and state as follows:

22 1. *Order of Liquidation.* On November 4, 2005, this Court declared Cascade  
23 insolvent and entered an Order of Liquidation and Approval of Plan of Liquidation (“Order of  
24 Liquidation” or “Order”) pursuant to Chapters 48.31 and 48.99 RCW.

25 2. *Accounting to the Court.* In accordance with the Order of Liquidation, the  
26 Receiver shall file a report with the Court quarterly. In order to ensure that the reports have the

1 most recent financial information, the reports will be filed after the accounts from the prior  
2 month are closed. The estimated filing dates for the reports are: February 15, May 15, August  
3 15, and November 15.

4 3. *Financial Report.* Attached hereto as Exhibits A, B and C are Cascade's  
5 January 31, 2011 Balance Sheet, and Statement of Receipts and Disbursements, and its  
6 Supplemental Claims Information as of December 31, 2010. The financial figures are derived  
7 from calculations made in accordance with the Receiver's Handbook for Insurance Company  
8 Insolvencies published by the National Association of Insurance Commissioners ("NAIC").

9 The enclosed financial statements have been prepared from available information.  
10 Certain assets and liabilities are estimates. Assets with uncertain realizable value have not  
11 been included. Additional assets resulting from legal and/or collection efforts may be recorded  
12 in the future when realized. The review of incoming claims is an ongoing process. The  
13 estate's largest creditors are various Insurance Guaranty Associations. Current known Class 2  
14 (Loss Claims) liabilities of \$28,399,041 are calculated based upon the Receiver's best estimate  
15 of outstanding loss and loss adjustment expense reserves for automobile claims as of the  
16 review completed for closed files returned to Cascade as of the end of 2008, and estimated  
17 Workers Compensation claims based on the most current actuarial study performed using  
18 claims data as of December 31, 2009. Since the Guaranty Associations are now handling the  
19 automobile claims, the usual and traditional actuarial methodology for estimating loss reserves  
20 is not applicable. The Receiver completed a detailed review of each individual automobile  
21 claim closed and returned to Cascade by all Guaranty Associations as of the end of 2008.  
22 Based upon that review of closed claims and known outstanding claims, the Receiver has  
23 adjusted Class 2 automobile claims liabilities to reflect the Receiver's best estimate of those  
24 liabilities going forward. Note that this adjustment includes a corresponding reduction in  
25 applicable reinsurance recoverable, a Balance Sheet asset. In this review process, the Receiver  
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1 also re-categorized estimated Insurance Guaranty Association unallocated loss adjustment  
2 expenses as Class 1 Liabilities.

3 As of January 31, 2011, known assets totaled \$18,517,318 with 52% in cash and short-  
4 term investments. The estate's cash and short-term investment decreased significantly as a  
5 result of early access distributions to the insurance guaranty associations totaling \$6 million.  
6 All of Cascade's Alaska automobile claims have been closed. In accordance with Alaska  
7 statutes, Cascade's restricted deposit held by the state was transferred to the Alaska Guaranty  
8 Association, increasing the amount advanced to it by \$312,749. The Receiver has requested  
9 the finalization of the association's previously submitted proof of claim against the estate and  
10 is awaiting their response. Known liabilities totaled \$33,380,752 resulting in a deficiency of  
11 assets over liabilities of \$14,863,434. For the twenty-first quarter ending January 31, 2011,  
12 exclusive of the early access distribution of \$6 million, cash disbursements exceeded cash  
13 receipts by \$896,091. Cash receipts were primarily from asset recovery efforts, collection of  
14 loss recoverable from reinsurers, refund of state premium taxes and recovery of salvage and  
15 subrogation on paid loss claims. Operating expenses continue to be well within amounts  
16 budgeted by the Receiver. Based on electronic claims data received from the guaranty  
17 associations as of December 31, 2010, a total of \$14,941,168 of loss claims and allocated loss  
18 adjustment expenses have been paid. See the Supplemental Claims Information, Exhibit C for  
19 details.

20 4. *Proof of Claims.* In accordance with paragraph 3.5 of the Plan of Liquidation,  
21 the Receiver issued Proof of Claim forms to all policyholders and other potential claimants.  
22 All claimants had until March 4, 2006, to file a timely Proof of Claim form. Claims continue  
23 to be reviewed. Some have been denied. The Receiver is seeking additional information from  
24 some claimants. The Receiver anticipates that there may be some claims that will be rejected  
25  
26

1 in whole or part, which will be disputed by the claimant and will require a hearing for ultimate  
2 resolution.

3           5.     *Operations.* The Receiver received approval by the Court to cease all  
4 operations of its subsidiary, MBR Corporation DBA Allied Pacific Adjusting Group  
5 (“Allied”), effective April 14, 2006. All Allied assets were disposed of or sold, with all funds  
6 received from the sale maintained in a separate account. The funds were subsequently  
7 disbursed and documents to dissolve the corporation were filed with all appropriate  
8 jurisdictions. All activities required to cease all operations of Allied have now been  
9 completed.

10           6.     *Marshalling Assets.* The Receiver completed a global reconciliation of  
11 accounts current for its former general agents, Kenneth I. Tobey, Inc. and the Statewide  
12 General Insurance Agency, and has billed them for closing amounts totaling over \$1 million.  
13 Both general agents dispute the global reconciliations presented by the Receiver.

14           The Office of the Insurance Commissioner (“OIC”) initiated a license revocation action  
15 against K.I. Tobey for failure to pay and mishandling of trust funds, and K.I. Tobey has  
16 voluntarily accepted revocation. Settlement negotiations between the OIC and K.I. Tobey  
17 failed, and K.I. Tobey filed for bankruptcy in Atlanta, Georgia. A trustee was subsequently  
18 appointed by the bankruptcy court. The Receiver is pursuing the claim in the bankruptcy court,  
19 but the likelihood of recovery is unknown. On October 23, 2009, the case was converted from  
20 Chapter 11 to Chapter 7.

21           In 2007, the Receiver initiated an adversarial claim for wrongfully withheld premiums  
22 against Statewide General Insurance Agency and Marcel Matar, personal guarantor of amounts  
23 owed. Statewide was served, and its attorneys filed notices of appearance. In 2008, an Answer  
24 was filed claiming lack of personal service against Mr. Matar. The Receiver’s counsel  
25 requested information regarding the financial status of Mr. Matar and his business in order to  
26

1 determine whether resources exist to repay Cascade. The information provided was limited  
2 and insufficient to determine the financial status of Mr. Matar. Mr. Matar was personally  
3 served in Pasadena, California on January 28, 2010. The original attorneys have since  
4 withdrawn, and another counsel for Statewide and Mr. Matar filed a Notice of Appearance in  
5 May 2010. The parties are currently engaged in the discovery process.

6 The Receiver is also pursuing amounts owed by Mainstay, one of Cascade's workers'  
7 compensation accounts in California, which include payment for premium, paid claims, and  
8 reserves. Cascade has requested payment and information required under the policy with  
9 Mainstay for Cascade to conduct a premium audit. Mainstay has not provided payment, but an  
10 agreement regarding the audit premiums due has been reached. Cascade made a formal  
11 demand for payment from Mainstay on November 19, 2009. Cascade is attempting to  
12 communicate about these issues with Mainstay.

13 The Receiver, through counsel, continues to pursue various legal avenues that could  
14 result in recovery of assets to the receivership estate. The Receiver filed a Complaint for  
15 Damages in King County Superior Court against several defendants, including Danny Pixler,  
16 Anthony Huff, American Staff Resources of California, Inc., Certified Services, Inc., and  
17 Midwest Merger Management, LLC. The Complaint alleged that Cascade was victimized in a  
18 deceptive scheme and sought damages in excess of \$18.7 million arising from the workers'  
19 compensation coverage that was not paid for by Defendants. The case was removed to U.S.  
20 District Court for the Western District of Washington, No. C06-697 RSL. On May 21, 2010  
21 the jury returned a \$19,310,744 verdict in favor of the Receiver on claims of civil conspiracy,  
22 criminal profiteering, unfair trade practices/consumer protection, misrepresentation and fraud.  
23 On January 3, 2011, the Court denied defendants Anthony Huff, Sheri Huff, and Midwest  
24 Merger Management, LLC's motion for judgment as a matter of law or, alternatively, for a  
25 new trial. That same day the Court granted in part and denied in part the Receiver's Motion  
26

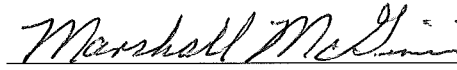
1 For An Award Of Attorney's Fees And Expenses against defendants Anthony Huff, Sheri  
2 Huff, and Midwest Merger Management, LLC. Specifically, the Court awarded \$2,031.925.75  
3 in attorney's fees and \$494,496.61 in litigation expenses under the Consumer Protection Act  
4 and Criminal Profiteering Act. On January 19, 2011, the Court entered a Final Judgment. On  
5 February 2, 2011, defendants Anthony Huff, Sheri Huff, and Midwest Merger Management,  
6 LLC filed an appeal to the U.S. Court of Appeals for the Ninth Circuit. Proceedings are  
7 ongoing.

8 By way of additional background, the SEC initiated criminal proceedings against  
9 defendant Danny Pixler in Florida. Defendant Pixler has entered into a plea agreement in those  
10 proceedings, pleading guilty to conspiracy to commit wire fraud, and is now incarcerated on a  
11 five year sentence. The SEC initiated civil proceedings against Anthony Huff and a bench trial  
12 was held beginning February 16, 2010. On September 30, 2010, the judge entered an order in  
13 favor of the SEC, finding Huff violated federal securities laws and ordering him to disgorge  
14 over \$10 million in ill-gotten gains.

15 After filing suit against the Defendants, the Receiver learned that Certified HR  
16 Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered  
17 into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No.  
18 05-22912-BKC-RBR. The Receiver ultimately entered into an agreement with the bankruptcy  
19 trustee and obtained a Court order establishing that none of Cascade's claims against the  
20 Defendants in the Washington litigation were affected by the Florida bankruptcy action, and  
21 preserving the possibility of recovery against the consolidated Certified HR Services/Certified  
22 Services bankruptcy estate. The Receiver subsequently filed a \$2 million claim against the  
23 bankruptcy estate, and it is uncertain when or whether there will be actual payment on this  
24 claim.

1 The Receiver had filed a civil action in King County Superior Court, No. 06-2-34413-  
2 8-SEA, to recover damages for officer/director actions that harmed Cascade. A favorable  
3 settlement has been reached and the action has been dismissed.

4 RESPECTFULLY SUBMITTED this 14 day of February, 2011

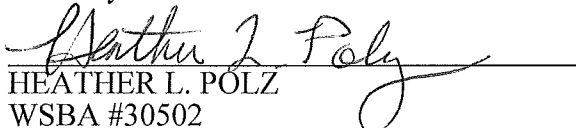
5 

6 MARSHALL MCGINNIS

7 *Deputy Receiver*

8 Presented by:

9 ROBERT M. MCKENNA  
10 Attorney General

11 

HEATHER L. POLZ

WSBA #30502

Assistant Attorney General

*Attorneys for the Insurance Commissioner*

**Cascade National Insurance Company in Liquidation  
Balance Sheet  
As of January 31, 2011**

	1/31/2011	
<b>ASSETS</b>		
Operating cash	25,627	
ST investments	9,647,727	
Cash & ST Investments	(1)	9,673,354
Advances to Guaranty Associations	6,312,749	
Reinsurance recoverable (net)	(2) 2,524,668	
Rental deposit	6,547	
Total Other Assets		8,843,964
<b>TOTAL ASSETS</b>	(3)	<b>18,517,318</b>
 <b>LIABILITIES</b>		
Secured Claims	-	
Class 1	(4) 4,771,510	
Class 2	(5) 28,399,041	
Class 3	-	
Class 4	-	
Class 5	55,284	
Class 6	138,863	
Class 7	16,054	
Class 8	-	
Class 9	-	
<b>TOTAL LIABILITIES</b>		<b>33,380,752</b>
<b>Excess (Deficiency) of Assets Over Liabilities</b>		<b>(14,863,434)</b>
<b>TOTAL</b>		<b>18,517,318</b>

**Note:** The information contained in this report is prepared by the receiver from information available to, known or estimated by the receiver as of the date of the report. The receiver makes no warranty as to the accuracy of the information or of the opinions or evaluations contained in this report and expressly disclaims any liability arising from the statements of fact, evaluation or opinion contained in the report.

- (1) Cash & ST investments include \$133,733 of restricted state deposits.
- (2) Reinsurance recoverable includes \$2.5 million of ceded loss, loss adjustment expenses and related incurred but not reported losses estimated for Company's automobile business.
- (3) Assets reported in this statement do not include all possible recoveries that may result from various legal and/or collection efforts.
- (4) The Class 1 Liability represents the remainder of the six-year operating expense budget for the receivership and estimated unallocated loss adjustment expenses of the Insurance Guaranty Associations.
- (5) Automobile loss reserves are the best estimates based on detailed review of each individual automobile claim closed and returned to the estate by all guaranty associations as of the end of 2008. These estimates will continue to be updated as more claim files are closed and returned to the estate. For workers' compensation policies, the receivership, with the help of an independent consulting actuary, updated its Class 2 workers' compensation liabilities using paid losses and loss reserves data from the California Guaranty Association as of 12/31/09. Additionally, the Class 2 liabilities exclude \$2.7 million of reserves for reimbursable workers' compensation losses for which the receivership is currently holding a standby letter of credit.

**Cascade National Insurance Company in Liquidation**  
**Statement of Receipts and Disbursements**  
**Period Ending January 31, 2011**

	<b>3 Months Ending 1/31/2011</b>	<b>Since Date of Liquidation Order</b>
<b>RECEIPTS</b>		
Reinsurance recoveries	31,962	2,771,665
Agents balances	-	142,718
Salvage & subrogation recoveries	408	299,301
Recovery of taxes previously paid	-	283,221
Asset Recovery	-	1,500,000
Other receipts	-	265,457
Receipts Before Investment Activities	32,371	5,262,362
Investment receipts	626	1,497,157
Proceeds from sales & maturity	-	915,000
Receipts from Investment Activities	626	2,412,157
<b>TOTAL CASH RECEIPTS</b>	<b>32,996</b>	<b>7,674,519</b>
<b>DISBURSEMENTS &amp; DISTRIBUTIONS</b>		
Claims processing expenses	-	506,948
Legal fees	34,613	2,848,308
Consulting fees	21,399	495,115
Salaries	83,631	2,185,337
Employee benefits	600	90,820
Payroll & other taxes	3,096	126,491
Rent & related expenses	10,172	211,770
Equipment expenses	140	119,626
Office expenses	2,515	136,756
Other disbursements	3,010	63,983
Disbursements	159,175	6,785,155
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	159,175	12,785,155
Investment Expenses	1,477	17,408
Purchase of Investments	626	1,768,048
Disbursements for Investment Activities	2,103	1,785,456
<b>TOTAL CASH DISBURSEMENTS &amp; DISTRIBUTIONS</b>	<b>161,278</b>	<b>14,570,610</b>
<b>Net Cash Receipts over/(under) Disbursements</b>	<b>(128,282)</b>	<b>(6,896,091)</b>
Cash at beginning of period	83,909	773,413
Net Cash Receipts over/(under) Disbursements	(128,282)	(6,896,091)
Cash transferred from/(to) ST investment	70,000	6,148,306
Cash at end of period	25,627	25,627

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**Cascade National Insurance Company in Liquidation  
Supplemental Claims Information  
Claims and Adjusting Expenses Paid by Insurance Guaranty Funds  
As of December 31, 2010**

	<b>Auto</b>	<b>Workers Compensation</b>	<b>Total</b>
Alaska	754,382	-	754,382
California	764,525	9,525,603	10,290,129
Oregon	1,010,780	-	1,010,780
Washington	2,885,877	-	2,885,877
	<u>5,415,564</u>	<u>9,525,603</u>	<u>14,941,168</u>

## Notes:

- The above amounts do not include reserves established by the insurance guaranty associations for outstanding claims nor the estate's residual liabilities on these claims.

**Cascade National Insurance Company in Liquidation**  
**Supplemental Claims Information**  
**Claim Counts by Loss Event**  
**As of December 31, 2010**

	<b>Auto (1)</b>		<b>Workers Compensation</b>		<b>Total</b>	
	Transferred to IGF	Closed by IGF	Transferred to IGF	Closed by IGF	Transferred to IGF	Closed by IGF
Alaska	6	6	-	-	6	6
California	186	184	366	274	552	458
Oregon	66	63	-	-	66	63
Washington	178	163	-	-	178	163
	<u>436</u>	<u>416</u>	<u>366</u>	<u>274</u>	<u>802</u>	<u>690</u>

Note:

- (1) A substantial number of closed auto claims are claims closed by the insurance guaranty associations without loss payment. These claims may have been settled by the claimants' own insurance carrier. As a result, these insurance carriers may have recovery rights against the estate of Cascade.

1  EXPEDITE

2  No Hearing is Set

3 The Honorable Judge Thomas McPhee

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7 **STATE OF WASHINGTON**  
8 **THURSTON COUNTY SUPERIOR COURT**

9 MIKE KREIDLER,  
10 INSURANCE COMMISSIONER,

Petitioner,

11 v.

12 CASCADE NATIONAL INSURANCE  
13 COMPANY,

Respondent.

NO. 04-2-02427-4

CERTIFICATE OF SERVICE

14 This will hereby certify that on the 15<sup>th</sup> day of February, 2011, I mailed or emailed a  
15 true and correct copy of the **Twenty-First Quarterly Report of Receiver, Exhibits A, B,**  
16 **and C, and Certificate of Service** via the U.S. Mail, first-class postage prepaid, in sealed  
17 envelopes, from Olympia, Washington, or if indicated by electronic mail, to the following  
18 interested parties:

19 Robert Draper, Sr. VP  
20 **Columbia Bank**  
21 Special Credits Department  
Per agreement via electronic mail to: [rdraper@columbiabank.com](mailto:rdraper@columbiabank.com)

22 Harold Anderson  
23 P.O. Box 3526  
Bend, OR 97707  
**Former President of Cascade Majority Shareholder**

24 Donald Anderson and Terrence Donahue  
25 Eisenhower & Carlson PLLC  
Per agreement via electronic mail to [danderson@eisenhowerlaw.com](mailto:danderson@eisenhowerlaw.com)  
26 **Attorneys for Columbia Bank**

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*Former Outside Director of Cascade*

13 Eric Mendoza  
14 Bank of America NA  
15 CA9-702-03-03, POB 479  
16 Pasadena, CA 91102-6102  
*Creditor of MBR Corp (Allied...)*

17 Larry Morrison, President  
18 Business Transition Network, Inc.  
19 Per agreement, via electronic mail to [larry.morrison@comcast.net](mailto:larry.morrison@comcast.net)  
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Marshall McGinnis, Deputy Receiver

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3 Jim Odiorne, Receiver  
Office of Insurance Commissioner  
4 Per agreement, via electronic mail to [jimo@oic.wa.gov](mailto:jimo@oic.wa.gov)  
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6 Gordon Thomas Honeywell  
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13 10700 SW Beaverton Hwy, Suite 426  
Beaverton, OR 97005

14 WA Insurance Guaranty Association  
15 c/o Western Guaranty Fund Services  
1720 S. Bellaire, Suite 408  
16 Denver, CO 80222

17 Alaska Division of Insurance  
Linda S. Hall, Director of Juneau Office  
18 State Office Building, 9<sup>th</sup> Floor  
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20 California Department of Insurance  
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21 300 South Spring Street, South Tower  
Los Angeles, CA 90013

22 OR Dept. of Consumer and Business Svcs.  
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7 *Statewide General Insurance Agency, Inc.*

8 John Mellen  
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21 DATED this 15<sup>th</sup> day of February, 2011.

22 

23 \_\_\_\_\_  
24 CANDACE VERVAIR

25 Legal Assistant  
26