☐EXPEDITE
☑ No Hearing is Set
The Honorable Erik D. Price

FILED
MAY 16 2016
Superior Court
Linda Myhre Enlow
Thurston County Clerk

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THURSTON
SUPERIOR COURT

STATE OF WASHINGTON
THURSTON COUNTY SUPERIOR COURT

MIKE KREIDLER, INSURANCE COMMISSIONER, Petitioner, v. CASCADE NATIONAL INSURANCE COMPANY, Respondent.	NO. 04-2-02427-4 **THIRTY-SECOND REPORT OF RECEIVER**

Mike Kreidler, Insurance Commissioner of the State of Washington and Statutory Receiver of Cascade National Insurance Company in Liquidation ("Cascade" or "CNIC"), James T. Odiorne, Chief Deputy Insurance Commissioner and Court-appointed Receiver of Cascade, and Marshall McGinnis, court-appointed Deputy Receiver of Cascade (collectively the "Receiver"), by and through their attorneys, Robert W. Ferguson, Attorney General, and Marta DeLeon, Assistant Attorney General, hereby submit the Thirty-Second Report of Receiver pursuant to RCW 48.31.040(5), and state as follows:

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

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2. *Accounting to the Court.* In accordance with the Court's July 22, 2011 Order Granting Motion For Semiannual Reporting By The Receiver, the Receiver shall file a report with the Court twice per year, on or about May 15th and November 15th.

3. *Financial Report.* Attached hereto as Exhibits A, B, and C are Cascade's April 30, 2016 Balance Sheet, and Statement of Receipts and Disbursements, and its Supplemental Claims Information as of March 31, 2016. The financial figures are derived from calculations made in accordance with the Receiver's Handbook for Insurance Company Insolvencies published by the National Association of Insurance Commissioners ("NAIC").

The enclosed financial statements have been prepared from available information. Certain assets and liabilities are estimates. Assets with uncertain realizable value have not been included. Additional assets resulting from legal and/or collection efforts may be recorded in the future when realized. The review of incoming claims is an ongoing process. The estate's largest creditors are various Insurance Guaranty Associations. Current known Class 2 (Loss Claims) liabilities of $28,765,411 are calculated based upon the Receiver's best estimate of outstanding loss and loss adjustment expense reserves for automobile claims as of March 31, 2014, and estimated Workers Compensation claims based on the most current actuarial study performed using claims data as of September 30, 2015. Since the Guaranty Associations are now handling the automobile claims, the usual and traditional actuarial methodology for estimating loss reserves is not applicable. Periodically, the Receiver reviews automobile loss experience and adjusts Class 2 automobile claims liabilities to reflect the Receiver's best estimate of those liabilities going forward. A current review was completed to adjust such liabilities as of March 31, 2014. Note that this adjustment includes a corresponding reduction in applicable reinsurance recoverable, a Balance Sheet asset. In this review process, the Receiver also categorized estimated Insurance Guaranty Association unallocated loss adjustment expenses as Class 1 Liabilities.

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As of April 30, 2016, known assets totaled $16,910,030 with 58% in cash and short-term investments. The estate's cash and short-term investment decreased significantly as a result of early access distributions to the Insurance Guaranty Associations totaling $6 million. All of Cascade's Alaska automobile claims have been closed. In accordance with Alaska statutes, Cascade's restricted deposit held by the state was transferred to the Alaska Guaranty Association, increasing the amount advanced to it by $312,749. The Receiver has requested the finalization of the association's previously submitted proof of claim against the estate and is awaiting their response. Known liabilities totaled $32,666,537 resulting in a deficiency of assets over liabilities of $15,756,507. For the period ending April 30, 2016, exclusive of the early access distribution of $6 million, cash disbursements exceeded cash receipts by $3,466,359. Cash receipts were primarily from asset recovery efforts, collection of loss recoverable from reinsurers, refund of state premium taxes and recovery of salvage and subrogation on paid loss claims. Operating expenses continue to be well within amounts budgeted by the Receiver. Based on electronic claims data received from the guaranty associations as of March 31, 2016, a total of $17,026,384 of loss claims and allocated loss adjustment expenses have been paid. *See* the Supplemental Claims Information, Exhibit C for details.

4. *Proof of Claims.* In accordance with paragraph 3.5 of the Plan of Liquidation, the Receiver issued Proof of Claim forms to all policyholders and other potential claimants. All claimants had until March 4, 2006, to file a timely Proof of Claim form. Claims continue to be reviewed. Some have been denied. The Receiver is seeking additional information from some claimants. The Receiver anticipates that there may be some claims that will be rejected in whole or part, which will be disputed by the claimant and will require a hearing for ultimate resolution. The Receiver denied Mainstay Business Solutions' Proof of Claim No. 1284, and on July 22, 2011, the Court entered an Order confirming the Receiver's Final Determination

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denying the Claim of Mainstay Business Solutions. The Receiver also denied Statewide General Insurance Agency, Inc.'s Proof of Claim Nos. 3594-3599, and on January 6, 2012, the Court entered an Order confirming the Receiver's Final Determination denying Statewide's Claims. The Receiver denied Columbia State Bank's Proof of Claim No. 1203, and on February 3, 2012, the Court entered an Order confirming the Receiver's Final Determination denying Columbia's Claim. Finally, the Receiver denied Proof of Claim No. 4354 from James S. Feltman, Chapter 11 Trustee for the Estate of Certified HR Services Company et al., and on November 2, 2012, the Court entered an Order confirming the Receiver's Final Determination denying Feltman's Claim. That confirmation was appealed to the Washington State Court of Appeals for Division II and was subsequently transferred to Division I. Oral argument was held on January 9, 2014 and on March 10, 2014, the Court of Appeals issued a written opinion affirming the ruling of the lower court. Marcel Matar and Statewide General Insurance Agency filed Proof of Claim No. 2838 on September 12, 2014, which has been determined to be a late filed claim. The Receiver has issued a final determination denying that claim. At the hearing on December 18, 2015, the Court issued an order confirming that denial.

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

6. *Marshalling Assets.* The Receiver completed a global reconciliation of accounts current for its former general agents, Kenneth I. Tobey, Inc. and the Statewide

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General Insurance Agency Inc., and has billed them for closing amounts totaling over $1 million. Both general agents dispute the global reconciliations presented by the Receiver.

The Office of the Insurance Commissioner (OIC) initiated a license revocation action against K.I. Tobey for failure to pay and mishandling of trust funds, and K.I. Tobey has voluntarily accepted revocation. Settlement negotiations between the OIC and K.I. Tobey failed, and K.I. Tobey filed for bankruptcy in Atlanta, Georgia. A trustee was subsequently appointed by the bankruptcy court. The Receiver pursued the claim in the bankruptcy court. On October 23, 2009, the case was converted from Chapter 11 to Chapter 7. No recovery is anticipated.

In 2007, the Receiver initiated an adversarial claim for $941,879.55 in wrongfully withheld premiums against Statewide General Insurance Agency Inc.(Statewide) and Marcel Matar, personal guarantor of amounts owed. Statewide was served, and its attorneys filed notices of appearance. In 2008, an Answer was filed claiming lack of personal service against Mr. Matar. The Receiver's counsel requested information regarding the financial status of Mr. Matar and his business in order to determine whether resources exist to repay Cascade. The information provided was limited and insufficient to determine the financial status of Mr. Matar. Mr. Matar was personally served in Pasadena, California on January 28, 2010. Mr. Matar and Statewide have had several different attorneys appear and withdraw. On November 9, 2012, the Receiver filed a Motion for Summary Judgment. On March 13, 2013, the Court granted the Receiver's motion for summary judgment. Mr. Matar's Motion for Reconsideration was denied. The Judgment for $941,879.55 was entered on April 26, 2013. Mr. Matar and Statewide filed a notice of appeal. Oral argument was held May 19, 2014. On July 22, 2014, the Court of Appeals affirmed the decision of the lower court granting summary judgment. In the meantime, on July 7, 2014, the Receiver filed a complaint in Superior Court of California, County of Los Angeles, against Mr. Matar and Mrs. Matar to set aside fraudulent

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transfer of personal property and similar relief. Mediation was held on December 1, 2014, but that mediation was unsuccessful. A Mandatory Settlement Conference was held on September 25, 2015 and a settlement agreement between all parties was reached.

The Receiver is also pursuing amounts owed by Mainstay, one of Cascade's workers' compensation accounts in California, which include payment for premium, paid claims, and reserves. Cascade has requested payment and information required under the policy with Mainstay for Cascade to conduct a premium audit. Mainstay has not provided payment, but an agreement regarding the audit premiums due was reached. Cascade made a formal demand for payment from Mainstay on November 19, 2009. On April 30, 2012, the Receiver filed a Complaint in United States District Court, Eastern District of California, against Mainstay for breach of contract and other remedies. On June 29, 2012, the Court issued a Default Judgment in favor of the Receiver. On September 27, 2012, Mainstay filed a Motion to Vacate Default Judgment. On February 11, 2013 the parties agreed to a Stipulation for Judgment and filed it with the Superior Court of California, County of Sacramento. The signed approval of that judgment has been received from the California court.

The Receiver filed a Complaint for Damages in King County Superior Court against several defendants, including Danny Pixler, Anthony Huff, American Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management, LLC. The case was removed to U.S. District Court for the Western District of Washington, No. C06-697 RSL. On May 21, 2010 the jury returned a $19,310,744 verdict in favor of the Receiver on claims of civil conspiracy, criminal profiteering, unfair trade practices/consumer protection, misrepresentation and fraud. On January 3, 2011, the Court awarded $2,031.925.75 in attorney's fees and $494,496.61 in litigation expenses under the Consumer Protection Act and Criminal Profiteering Act. Defendants Anthony Huff, Sheri Huff, and Midwest Merger Management, LLC filed an appeal to the U.S. Court of Appeals for the Ninth Circuit. Oral

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argument was heard on April 9, 2012. On May 2, 2012, the Court issued an unpublished opinion affirming the District Court's judgment, following a jury trial, in favor of the Receiver.

By way of additional background, the SEC initiated criminal proceedings against defendant Danny Pixler in Florida. Defendant Pixler has entered into a plea agreement in those proceedings, pleading guilty to conspiracy to commit wire fraud, and was sentenced to five years of incarceration. The SEC initiated civil proceedings against Anthony Huff and a bench trial was held beginning February 16, 2010. On September 30, 2010, the judge entered an order in favor of the SEC, finding Huff violated federal securities laws and ordering him to disgorge over $10 million in ill-gotten gains. On January 3, 2012, the U.S. Court of Appeals for the Eleventh Circuit affirmed that order. On October 1, 2012, the United States Attorney's Office for the Southern District of New York announced the filing of a 13-Count Indictment charging Huff with conspiracy to commit bank bribery, bank and insurance fraud, theft of $2.3 million from a publicly traded company, tax evasion and other fraudulent schemes. On December 23, 2014 Huff entered a guilty plea to the charges. Huff was subsequently sentenced to a total term of 12 years imprisonment plus 3 years supervised release and is now incarcerated.

After filing suit against the Defendants, the Receiver learned that Certified HR Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No. 05-22912-BKC-RBR. The Receiver ultimately entered into an agreement with the bankruptcy trustee and obtained a Court order establishing that none of Cascade's claims against the Defendants in the Washington litigation were affected by the Florida bankruptcy action, and preserving the possibility of recovery against the consolidated Certified HR Services/Certified Services bankruptcy estate. The Receiver subsequently filed a $2 million claim against the

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bankruptcy estate. A $100,000 interim distribution was received in April 2011. A second, and final distribution of $200,000 was received on December 26, 2013.

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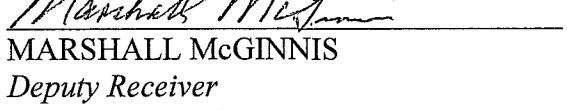
The Receiver filed a civil action in King County Superior Court, No. 06-2-34413-8-SEA, to recover damages for officer/director actions that harmed Cascade. A favorable settlement has been reached and the action has been dismissed.

RESPECTFULLY SUBMITTED this 16th day of May, 2016



MARSHALL McGINNIS
Deputy Receiver

Presented by:

ROBERT W. FERGUSON
Attorney General

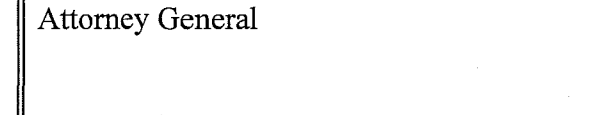


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EXHIBIT A

Cascade National Insurance Company in Liquidation
Balance Sheet
As of April 30, 2016

		4/30/2016	
ASSETS			
Operating cash		44,907	
ST investments		9,773,901	
Cash & ST Investments	(1)		9,818,808
Advances to Guaranty Associations		6,312,749	
Reinsurance recoverable (net)	(2)	776,473	
Deposits/advances		2,000	
Total Other Assets			7,091,222
TOTAL ASSETS	(3)		**16,910,030**
LIABILITIES			
Secured Claims		-	
Class 1	(4)	3,703,592	
Class 2	(5)	28,765,411	
Class 3		-	
Class 4		-	
Class 5		45,993	
Class 6		138,304	
Class 7		13,237	
Class 8		-	
Class 9		-	
TOTAL LIABILITIES			**32,666,537**
Excess (Deficiency) of Assets Over Liabilities			**(15,756,507)**
TOTAL			**16,910,030**

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 $134,237 of restricted state deposits.

(2) Reinsurance recoverable includes $776 thousands of ceded losses, loss adjustment expenses and related reserves 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 receivership operating expense budget and estimated unallocated loss adjustment expenses of the Insurance Guaranty Associations.

(5) Automobile loss reserves are the Receiver's best estimates of outstanding losses and loss adjustment expenses as of March 31,2014. These estimates will continue to be updated from time to time. 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 September 30, 2015.

EXHIBIT B

Cascade National Insurance Company in Liquidation
Statement of Receipts and Disbursements
Period Ending April 30, 2016

	6 Months Ending 4/30/2016	Since Date of Liquidation Order
RECEIPTS		
Reinsurance recoveries	-	2,875,232
Agents balances	-	142,718
Salvage & subrogation recoveries	650	349,326
Recovery of taxes previously paid	-	283,221
Asset Recovery	-	1,500,000
Other receipts	62,302	629,305
Receipts Before Investment Activities	62,952	5,779,801
Investment receipts	5,402	1,508,332
Proceeds from sales & maturity	-	915,000
Receipts from Investment Activities	5,402	2,423,332
TOTAL CASH RECEIPTS	**68,354**	**8,203,133**
DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	-	506,948
Legal fees	45,104	3,850,097
Consulting fees	26,766	982,665
Salaries	121,970	3,303,044
Employee benefits	6,275	136,726
Payroll & other taxes	5,665	179,385
Rent & related expenses	8,685	314,385
Equipment expenses	971	150,050
Office expenses	2,595	203,292
Other disbursements	4,635	230,406
Disbursements	222,666	9,856,998
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	222,666	15,856,998
Investment Expenses	1,327	33,271
Purchase of Investments	5,402	1,779,223
Disbursements for Investment Activities	6,729	1,812,494
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS	**229,395**	**17,669,492**
Net Cash Receipts over/(under) Disbursements	**(161,041)**	**(9,466,359)**
Cash at beginning of period	55,948	773,413
Net Cash Receipts over/(under) Disbursements	(161,041)	(9,466,359)
Cash transferred from/(to) ST investment	150,000	8,737,854
Cash at end of period	44,907	44,907

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EXHIBIT C

Cascade National Insurance Company in Liquidation
Supplemental Claims Information
Claims and Adjusting Expenses Paid by Insurance Guaranty Funds
As of March 31, 2016

	Auto	Workers Compensation	Total
Alaska	754,382		754,382
California	879,568	11,280,221	12,159,789
Oregon	1,010,780		1,010,780
Washington	3,101,433		3,101,433
	5,746,163	11,280,221	17,026,384

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 March 31, 2016

	Auto (1)		Workers Compensation		Total	
	Transferred to IGF	Closed by IGF	Transferred to IGF	Closed by IGF	Transferred to IGF	Closed by IGF
Alaska	6	6	-	-	6	6
California	187	187	366	332	553	519
Oregon	66	66	-	-	66	66
Washington	178	178	-	-	178	178
	437	437	366	332	803	769

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.