

RECEIVED

MAY 16 2008

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

1  EXPEDITE

2  No Hearing is Set

3 The Honorable Judge Gary Tabor

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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,

15 Respondent.

NO. 04-2-02427-4

**TENTH QUARTERLY  
REPORT OF RECEIVER**

16 Mike Kreidler, Insurance Commissioner of the State of Washington and Statutory  
17 Receiver of Cascade National Insurance Company in Liquidation ("Cascade" or "CNIC"),  
18 James T. Odiome, Deputy Insurance Commissioner and Court-appointed Receiver of Cascade,  
19 and Marshall McGinnis, court-appointed Deputy Receiver of Cascade (collectively the  
20 "Receiver"), by and through their attorneys, Robert M. McKenna, Attorney General, Christina  
21 Gerstung Beusch, Assistant Attorney General, hereby submit the Tenth Quarterly Report of  
22 Receiver pursuant to RCW 48.31.040(5), and state as follows:

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

26 2. *Accounting to the Court.* In accordance with the Order of Liquidation, the  
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, and D are Cascade's  
5 April 30, 2008 Balance Sheet, Statement of Receipts and Disbursements, Supplemental Claims  
6 Information, and Financial Statement Notes, respectively. 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 \$33,091,417 are estimated primarily based on the 10/31/05 loss  
15 reserves for automobile claims transferred to the Guaranty Associations and updated paid  
16 losses and loss reserves for Workers Compensation claims as of March 31, 2007. Liabilities  
17 will be updated as the Guaranty Associations continue their ongoing evaluation of loss  
18 reserves.

19 As of April 30, 2008, known assets totaled \$24,280,311 with 50% in cash and short-  
20 term investments. The estate's cash and short-term investment decreased significantly as a  
21 result of early access distributions to the insurance guaranty associations totaling \$6 million.  
22 Known liabilities totaled \$36,816,956, resulting in a deficiency of assets over liabilities of  
23 \$12,536,644. For the ten quarters ending April 30, 2008, exclusive of the early access  
24 distribution of \$6 million, cash receipts exceeded cash disbursements by \$1,308,699. Cash  
25 receipts were primarily from asset recovery efforts, collection of loss recoverables from  
26 reinsurers, refund of state premium taxes and recovery of salvage and subrogation on paid loss

1 claims. Operating expenses continue to be well within amounts budgeted by the Receiver.  
2 Based on electronic claims data received from the guaranty associations as of  
3 March 31, 2008, a total of \$10,279,941 of loss claims and allocated loss adjustment expenses  
4 have been paid. See the Supplemental Claims Information, Exhibit C for details.

5 4. *Proof of Claims.* In accordance with paragraph 3.5 of the Plan of Liquidation,  
6 the Receiver issued Proof of Claim forms to all policyholders and other potential claimants.  
7 All claimants had until March 4, 2006, to file a timely Proof of Claim form. Claims continue  
8 to be reviewed. Some have been denied. The Receiver is seeking additional information from  
9 some claimants. The Receiver anticipates that there may be some claims that will be rejected  
10 in whole or part, which will be disputed by the claimant and will require a hearing for ultimate  
11 resolution.

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

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

23 The Office of the Insurance Commissioner (“OIC”) initiated a license revocation action  
24 against K.I. Tobey for failure to pay and mishandling of trust funds, and K.I. Tobey has  
25 voluntarily accepted revocation. Settlement negotiations between OIC and K.I. Tobey failed,  
26 and K.I. Tobey filed for bankruptcy in Atlanta, Georgia. A trustee was subsequently appointed

1 by the bankruptcy court. The Receiver is pursuing the claim in the bankruptcy court, but the  
2 likelihood of recovery is unknown.

3 In an effort to marshal the assets of Cascade, the Receiver has initiated an adversarial  
4 claim for wrongfully withheld premiums against Statewide National Insurance Company and  
5 Marcel Matar. This adversarial claim has been filed with the receivership court. Statewide has  
6 been served, and its attorneys have filed notices of appearance. Despite Mr. Matar having  
7 avoided service, Statewide's attorneys have filed notices of appearance on behalf of Mr. Matar,  
8 as well. An Answer was filed, after the Receiver filed a motion for default. Mr. Matar is  
9 claiming lack of funds. The Receiver will be pursuing voluntary cooperation and judicial  
10 process, if necessary, to determine the financial status of Mr. Matar and his business in order to  
11 establish whether there are resources available to repay Cascade.

12 The Receiver is also pursuing amounts owed by Mainstay, one of Cascade's workers'  
13 compensation accounts in California, which include payment for premium, paid claims, and  
14 reserves. Cascade has requested payment and information required under the policy with  
15 Mainstay for Cascade to conduct a premium audit. Mainstay has not provided payment, but  
16 has provided some audit information. Currently, Mainstay and Cascade are communicating  
17 about these issues.

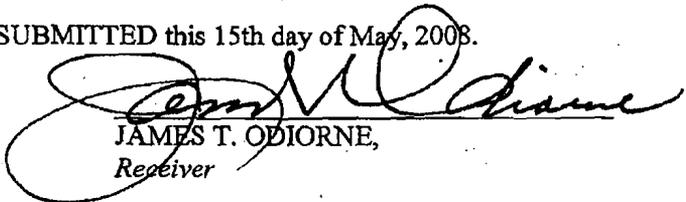
18 The Receiver, through counsel, continues to pursue various legal avenues that could  
19 result in recovery of assets to the receivership estate. The Receiver filed a complaint for  
20 damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-  
21 13068-5-SEA, against various defendants, including Danny Pixler, Anthony Huff, American  
22 Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management,  
23 LLC. The complaint alleges that defendants failed to comply with the contract payment terms  
24 and failed to fund reserves while Cascade's obligation to provide workers' compensation  
25 coverage under the policies continued. Cascade's demands for compliance and payment went  
26 unanswered. The lawsuit also alleges that Cascade was victimized in a deceptive purchase

1 | scheme. The lawsuit seeks damages in excess of \$19 million that arose from deceptive  
2 | practices, breaches and wrongful acts. This matter has been removed to the U.S. District Court  
3 | for the Western District of Washington, No. C06-697 RSL. The Defendants have argued  
4 | various motions and the case is in the discovery phase. The first round of depositions has  
5 | occurred.

6 | After filing suit against the Defendants, the Receiver learned that Certified HR  
7 | Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered  
8 | into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No.  
9 | 05-22912-BKC-RBR. The Receiver ultimately entered into an agreement with the bankruptcy  
10 | trustee and obtained a Court order establishing that none of Cascade's claims against the  
11 | Defendants in the Washington litigation were affected by the Florida bankruptcy action, and  
12 | preserving the possibility of recovery against the Certified HR Services. The Receiver has  
13 | subsequently filed a \$2 million dollar claim against the subsidiary. The Receiver cannot  
14 | anticipate when or if there will be any payment on the claim.

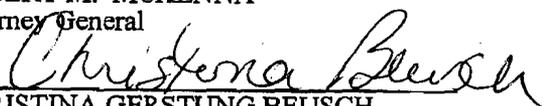
15 | The Receiver had filed a civil action in King County Superior Court, No. 06-2-34413-  
16 | 8-SEA, to recover damages for officer/director actions that harmed Cascade. A favorable  
17 | settlement has been reached and the action has been dismissed.

18 | RESPECTFULLY SUBMITTED this 15th day of May, 2008.

19 |   
20 | JAMES T. ODIORNE,  
21 | Receiver

21 | Presented by:

22 | ROBERT M. MCKENNA  
23 | Attorney General

24 |   
25 | CHRISTINA GERSTUNG BEUSCH  
26 | WSBA # 18226  
Assistant Attorney General  
Attorneys for the Insurance Commissioner

**Cascade National Insurance Company in Liquidation  
Balance Sheet  
As of April 30, 2008**

		<b>4/30/2008</b>	
<b>ASSETS</b>			
Operating cash		423,621	
ST investments		11,715,067	
Cash & ST Investments	(1)		12,138,688
Advances to Guaranty Associations		6,000,000	
Reinsurance recoverable (net)	(2)	6,124,241	
Rental deposit		17,382	
Total Other Assets			12,141,623
<b>TOTAL ASSETS</b>	(3)		<b>24,280,311</b>
 <b>LIABILITIES</b>			
Secured Claims		-	
Class 1	(4)	3,516,123	
Class 2	(5)	33,091,417	
Class 3		-	
Class 4		-	
Class 5		55,284	
Class 6		138,863	
Class 7		15,269	
Class 8		-	
Class 9		-	
<b>TOTAL LIABILITIES</b>			<b>36,816,956</b>
<b>Excess (Deficiency) of Assets Over Liabilities</b>			<b>(12,536,644)</b>
<b>TOTAL</b>			<b>24,280,311</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 \$433,657 of restricted state deposits.
- (2) Reinsurance recoverable includes \$6.1 million of ceded loss, loss adjustment expense 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 four-year operating expense budget for the receivership.
- (5) The receivership is in the process of analyzing auto claims information from the guaranty associations on paid losses or loss reserves. Therefore, loss reserves including reserves for incurred but not reported claims as of 10/31/05 immediately prior to the liquidation date are used as the basis for estimating Class 2 auto liabilities. The receivership, with the help of a consulting actuary, updated its Class 2 liabilities on workers' compensation policies using paid losses and loss reserves data from the California Guaranty Association as of 3/31/07. Additionally, the Class 2 liabilities exclude \$2.7 million of reserves for reimburseable 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 April 30, 2008**

	<u>6 Months</u> <u>Ending 4/30/08</u>	<u>Since Date of</u> <u>Liquidation</u> <u>Order</u>
<b>RECEIPTS</b>		
Reinsurance recoveries	671,939	1,705,969
Agents balances	-	340,687
Salvage & subrogation recoveries	24,165	289,364
Recovery of taxes previously paid	-	283,221
Asset Recovery	1,500,000	1,500,000
Other receipts	2,610	262,806
Receipts Before Investment Activities	<u>2,198,714</u>	<u>4,382,047</u>
Investment receipts	203,949	1,328,887
Proceeds from sales & maturity	-	613,000
Receipts from Investment Activities	<u>203,949</u>	<u>1,941,887</u>
<b>TOTAL CASH RECEIPTS</b>	<b><u>2,402,663</u></b>	<b><u>6,323,934</u></b>
<b>DISBURSEMENTS &amp; DISTRIBUTIONS</b>		
Claims processing expenses	2,955	506,948
Legal fees	431,034	1,081,573
Audit fees	-	-
Consulting fees	69,588	242,491
Salaries	226,645	1,108,679
Employee benefits	16,439	58,335
Payroll & other taxes	12,574	69,041
Rent & related expenses	19,332	104,477
Equipment expenses	28,596	98,712
Office expenses	13,264	87,841
Other disbursements	4,770	32,204
Disbursements	<u>825,198</u>	<u>3,390,301</u>
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	<u>825,198</u>	<u>9,390,301</u>
Investment Expenses	1,586	6,916
Purchase of Investments	190,359	1,618,018
Disbursements for Investment Activities	<u>191,945</u>	<u>1,624,933</u>
<b>TOTAL CASH DISBURSEMENTS &amp; DISTRIBUTIONS</b>	<b><u>1,017,143</u></b>	<b><u>11,015,234</u></b>
<b>Net Cash Disbursements over Receipts</b>	<b><u>1,385,520</u></b>	<b><u>(4,691,301)</u></b>
Cash at beginning of period	49,201	773,413
Net Cash Disbursements over Receipts	1,385,520	(4,889,270)
Cash transferred from ST investment to fund distributions	(1,011,100)	4,539,479
Cash at end of period	<u>423,621</u>	<u>423,621</u>

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**Cascade National Insurance Company in Liquidation  
Supplemental Claims Information  
Claims and Adjusting Expenses Paid by Insurance Guaranty Funds  
As of March 31, 2008**

	<b>Auto</b>	<b>Workers Compensation</b>	<b>Total</b>
Alaska	701,153	-	701,153
California	569,320	6,760,015	7,329,335
Oregon	954,574	-	954,574
Washington	1,294,880	-	1,294,880
	<u>3,519,926</u>	<u>6,760,015</u>	<u>10,279,941</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 March 31, 2008**

	<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	5	-	-	6	5
California	186	165	357	229	543	394
Oregon	56	47	-	-	56	47
Washington	170	128	-	-	170	128
	<u>418</u>	<u>345</u>	<u>357</u>	<u>229</u>	<u>775</u>	<u>574</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. It is not possible to estimate the number or amount of these subrogation claims against the estate at this time.

## Financial Statement Notes

The enclosed financial statements have been prepared from available information. Certain assets and liabilities are estimates. Assets with uncertain realizable value have been excluded. 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 the various state insurance guaranty associations. Current known Class 2 (primarily loss claims) liabilities of \$33,091,417 is a combination of estimates. For auto policies, the liabilities are based on the 10/31/05 loss reserves transferred to the guaranty associations. For workers' compensation policies, the liabilities are based on an independent actuarial study performed using loss claims statistics as of 3/31/07. These liabilities are updated as the guaranty associations and the estate continue with their ongoing evaluation of loss reserves.

As of April 30 2008, known assets totaled \$24,280,311 with 50% in cash and short-term investments. The estate's cash and short-term investment decreased dramatically since the date of liquidation order as a result of early access distributions to the insurance guaranty associations totaling \$6 million. Known liabilities totaled \$36,816,956, resulting in a deficiency of assets over liabilities of \$12,536,644. For the ten quarters ending April 30, 2008, exclusive of the early access distribution of \$6 million, cash receipts exceeded cash disbursements by \$1,308,699. Cash receipts were primarily from asset recovery efforts, collection of loss recoverables 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, 2008, a total of \$10,279,941 of loss claims and allocated loss adjustment expenses have been paid. See the Supplemental Claims Information exhibit for details.

**EXHIBIT**

D

1  EXPEDITE

2  No Hearing is Set

3 The Honorable Judge Gary Tabor

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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,

15 Respondent.

NO. 04-2-02427-4

CERTIFICATE OF SERVICE

16 This will hereby certify that on the 15<sup>th</sup> day of May, 2008, I mailed a true and correct  
17 copy of the Insurance Commissioner's Tenth Quarterly Report of Receiver in this matter via  
18 the U.S. Mail, first-class postage prepaid, in sealed envelopes, from Olympia, WA, to the  
19 following interested parties:

20 Elizabeth J. Anderson, Sr. VP  
21 **Columbia Bank**  
22 Special Credits Department  
23 1301 "A" Street  
24 Tacoma, WA 98401

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*Attorney for Columbia Bank*

25 Harold Anderson  
26 P.O. Box 3526  
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*Former President of Cascade  
Majority Shareholder*

Gudeman & Weiss  
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*Shareholder of Legend Holdings*

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Business Transmition Network  
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8 Alaska Division of Insurance  
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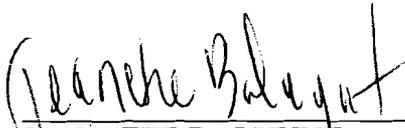
California Department of Insurance  
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OR Dept. of Consumer & Business Svcs.  
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Marshall McGinnis, Deputy Receiver  
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Jim Odiorne, Receiver  
*for Cascade National Insurance Company*  
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14 DATED this 15<sup>th</sup> day of May, 2008.

15  
16   
17 JEANETTE BALUYUT  
18 Legal Assistant  
19  
20  
21  
22  
23  
24  
25  
26