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NOV 18 2008

INSURANCE COMMISSIONER
COMPANY SUPERVISION

1 EXPEDITE
2 No Hearing is Set
The Honorable Judge Gary Tabor

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7 STATE OF WASHINGTON
THURSTON COUNTY SUPERIOR COURT

8 MIKE KREIDLER,
9 INSURANCE COMMISSIONER,
10
11 Petitioner,

NO. 04-2-02427-4

11 v.

TWELFTH QUARTERLY
REPORT OF RECEIVER

12 CASCADE NATIONAL INSURANCE
13 COMPANY,

14 Respondent.

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 Christina Gerstung Beusch, Assistant Attorney General, hereby submit the Twelfth Quarterly
21 Report 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

COPY

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 October 31, 2008 Balance Sheet, and Statement of Receipts and Disbursements, and its
6 Supplemental Claims Information as of September 30, 2008. 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 \$34,054,559 are estimated primarily based on the October 31, 2005
15 loss reserves for automobile claims transferred to the Guaranty Associations and updated paid
16 losses and loss reserves for Workers Compensation claims as of June 30, 2008. Since the
17 Guaranty Associations are now handling the automobile claims, the usual and traditional
18 actuarial methodology for estimating loss reserves is not applicable. The Receiver has begun a
19 detailed review of each individual automobile claim for the purpose of developing a more
20 current estimate of ultimate losses on these claims.

21 As of October 31, 2008, known assets totaled \$23,845,935 with 49% in cash and short-
22 term investments. The estate's cash and short-term investment decreased significantly as a
23 result of early access distributions to the insurance guaranty associations totaling \$6 million.
24 Known liabilities totaled \$37,089,594 resulting in a deficiency of assets over liabilities of
25 approximately \$13,243,659. For the twelve quarters ending October 31, 2008, exclusive of the
26 early access distribution of \$6 million, cash receipts exceeded cash disbursements by

1 \$563,621. Cash receipts were primarily from asset recovery efforts, collection of loss
2 recoverables from reinsurers, refund of state premium taxes and recovery of salvage and
3 subrogation on paid loss claims. Operating expenses continue to be well within amounts
4 budgeted by the Receiver. Based on electronic claims data received from the guaranty
5 associations as of September 30, 2008, a total of \$11,755,344 of loss claims and allocated loss
6 adjustment expenses have been paid. See the Supplemental Claims Information, Exhibit C for
7 details.

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

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

22 6. *Marshalling Assets.* The Receiver completed a global reconciliation of
23 accounts current for its former general agents, Kenneth I. Tobey, Inc. and the Statewide
24 General Insurance Agency, and has billed them for closing amounts totaling over \$1 million.
25 Both general agents dispute the global reconciliations presented by the Receiver.
26

1 The Office of the Insurance Commissioner (“OIC”) initiated a license revocation action
2 against K.I. Tobey for failure to pay and mishandling of trust funds, and K.I. Tobey has
3 voluntarily accepted revocation. Settlement negotiations between OIC and K.I. Tobey failed,
4 and K.I. Tobey filed for bankruptcy in Atlanta, Georgia. A trustee was subsequently appointed
5 by the bankruptcy court. The Receiver is pursuing the claim in the bankruptcy court, but the
6 likelihood of recovery is unknown.

7 In an effort to marshal the assets of Cascade, the Receiver has initiated an adversarial
8 claim for wrongfully withheld premiums against Statewide General Insurance Agency and
9 Marcel Matar. This adversarial claim has been filed with the receivership court. Statewide has
10 been served, and its attorneys have filed notices of appearance. Despite Mr. Matar having
11 avoided service, Statewide’s attorneys have filed notices of appearance on behalf of Mr. Matar,
12 as well. An Answer was filed, after the Receiver filed a motion for default. Mr. Matar is
13 claiming lack of funds. The Receiver will be pursuing voluntary cooperation and judicial
14 process, if necessary, to determine the financial status of Mr. Matar and his business in order to
15 establish whether there are resources available to repay Cascade. Both counsel for the
16 Receiver and counsel for Mr. Matar have requested a scheduling conference with the
17 receivership court for early December.

18 The Receiver is also pursuing amounts owed by Mainstay, one of Cascade’s workers’
19 compensation accounts in California, which include payment for premium, paid claims, and
20 reserves. Cascade has requested payment and information required under the policy with
21 Mainstay for Cascade to conduct a premium audit. Mainstay has not provided payment, but
22 has provided some audit information. Currently, Mainstay and Cascade are communicating
23 about these issues.

24 The Receiver, through counsel, continues to pursue various legal avenues that could
25 result in recovery of assets to the receivership estate. The Receiver filed a complaint for
26 damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-

1 13068-5-SEA, against various defendants, including Danny Pixler, Anthony Huff, American
2 Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management,
3 LLC. The complaint alleges that defendants failed to comply with the contract payment terms
4 and failed to fund reserves while Cascade's obligation to provide workers' compensation
5 coverage under the policies continued. Cascade's demands for compliance and payment went
6 unanswered. The lawsuit also alleges that Cascade was victimized in a deceptive purchase
7 scheme. The lawsuit seeks damages in excess of \$19 million that arose from deceptive
8 practices, breaches and wrongful acts. This matter has been removed to the U.S. District Court
9 for the Western District of Washington, No. C06-697 RSL. The Defendants have argued
10 various motions and the case is in the discovery phase. The first round of depositions has
11 occurred and the second round of depositions will be scheduled. A mediation meeting was
12 held in Seattle on August 12, 2008 but was unsuccessful. The trial date has been rescheduled
13 from September 2008 to March 2009.

14 After filing suit against the Defendants, the Receiver learned that Certified HR
15 Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered
16 into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No.
17 05-22912-BKC-RBR. The Receiver ultimately entered into an agreement with the bankruptcy
18 trustee and obtained a Court order establishing that none of Cascade's claims against the
19 Defendants in the Washington litigation were affected by the Florida bankruptcy action, and
20 preserving the possibility of recovery against the Certified HR Services. The Receiver has
21 subsequently filed a \$2 million dollar claim against the subsidiary. The Receiver cannot
22 anticipate when or if there will be any payment on the claim.

23 The Receiver had filed a civil action in King County Superior Court, No. 06-2-34413-
24 8-SEA, to recover damages for officer/director actions that harmed Cascade. A favorable
25 settlement has been reached and the action has been dismissed.

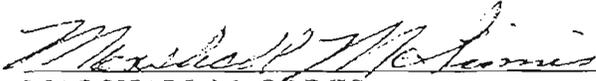
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4 RESPECTFULLY SUBMITTED this 17th day of November, 2008.

5 
6 MARSHALL MCGINNIS
7 Deputy Receiver

8 Presented by:

9 ROBERT M. MCKENNA
10 Attorney General

11 
12 CHRISTINA GERSTUNG BEUSCH
13 WSBA # 18226
14 Assistant Attorney General
15 Attorneys for the Insurance Commissioner

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**Cascade National Insurance Company in Liquidation
Balance Sheet
As of October 31, 2008**

		10/31/2008	
ASSETS			
Operating cash		283,698	
ST investments		11,427,800	
Cash & ST Investments	(1)		11,711,498
Advances to Guaranty Associations		6,000,000	
Reinsurance recoverable (net)	(2)	6,124,241	
Rental deposit		10,196	
Total Other Assets			12,134,437
TOTAL ASSETS	(3)		23,845,935
 LIABILITIES			
Secured Claims		-	
Class 1	(4)	2,825,620	
Class 2	(5)	34,054,559	
Class 3		-	
Class 4		-	
Class 5		55,284	
Class 6		138,863	
Class 7		15,269	
Class 8		-	
Class 9		-	
TOTAL LIABILITIES			37,089,594
Excess (Deficiency) of Assets Over Liabilities			(13,243,659)
TOTAL			23,845,935

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 \$435,088 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) Auto loss reserves have not been updated since all open auto claims as of October 31, 2005 were transferred to the Guaranty Associations for settlement. The usual and traditional actuarial methodology for estimating auto loss reserves is not applicable since they are now being handled by the Guaranty Associations. The receiver has begun a detailed review of each individual auto claim for the purpose of developing a more current estimate of ultimate losses on these auto claims. For workers' compensation policies, the receivership, with the help of a consulting actuary, updated its Class 2 workers' compensation liabilities using paid losses and loss reserves data from the California Guaranty Association as of 6/30/08. 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 October 31, 2008

	12 Months Ending 10/31/08	Since Date of Liquidation Order
RECEIPTS		
Reinsurance recoveries	807,219	1,841,249
Agents balances	-	142,718
Salvage & subrogation recoveries	25,889	291,087
Recovery of taxes previously paid	-	283,221
Asset Recovery	1,500,000	1,500,000
Other receipts	3,206	263,402
Receipts Before Investment Activities	2,336,313	4,321,677
Investment receipts	323,476	1,448,414
Proceeds from sales & maturity	-	613,000
Receipts from Investment Activities	323,476	2,061,414
TOTAL CASH RECEIPTS	2,659,790	6,383,091
DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	2,955	506,948
Legal fees	846,389	1,496,929
Audit fees	-	-
Consulting fees	126,065	298,968
Salaries	392,415	1,274,449
Employee benefits	17,523	59,419
Payroll & other taxes	23,239	79,705
Rent & related expenses	38,599	123,744
Equipment expenses	39,108	109,224
Office expenses	18,461	93,038
Other disbursements	10,947	38,381
Disbursements	1,515,701	4,080,804
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	1,515,701	10,080,804
Investment Expenses	2,586	7,916
Purchase of Investments	303,091	1,730,750
Disbursements for Investment Activities	305,678	1,738,666
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS	1,821,379	11,819,470
Net Cash Receipts over Disbursements	838,411	(5,436,379)
Cash at beginning of period	49,201	773,413
Net Cash Receipts over Disbursements	838,411	(5,436,379)
Cash transferred from/(to) ST investment	(603,914)	4,946,665
Cash at end of period	283,698	283,698

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Cascade National Insurance Company in Liquidation
Supplemental Claims Information
Claims and Adjusting Expenses Paid by Insurance Guaranty Funds
As of September 30, 2008

	Auto	Workers Compensation	Total
Alaska	708,576	-	708,576
California	626,858	7,332,784	7,959,642
Oregon	956,211	-	956,211
Washington	2,130,915	-	2,130,915
	4,422,561	7,332,784	11,755,344

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 September 30, 2008**

	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	5	-	-	6	5
California	186	166	364	231	550	397
Oregon	59	55	-	-	59	55
Washington	170	138	-	-	170	138
	421	364	364	231	785	595

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.

1 EXPEDITE
2 No Hearing is Set
The Honorable Judge Gary Tabor

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7 STATE OF WASHINGTON
THURSTON COUNTY SUPERIOR COURT

8 MIKE KREIDLER,
9 INSURANCE COMMISSIONER,
10
11 Petitioner,
12
13 v.
14 CASCADE NATIONAL INSURANCE
COMPANY,
Respondent.

NO. 04-2-02427-4
DECLARATION OF
ELECTRONICALLY TRANSMITTED
DOCUMENT (DCLR)
GR 17

- 15 1. I am the party who received the foregoing facsimile signature page for filing with the
16 accompanying report and certify that it is on bond paper.
17 2. My address is 1125 Washington Street SE, PO Box 40100, Olympia, WA 98504-0100.
18 3. My phone number is (360) 586-3181.
19 4. The facsimile number where I received the faxed signature page is (360) 664-0229.
20 5. I have examined the foregoing document, determined that it consists of 11 pages,
including this Declaration page, and that it is complete and legible.

21 I certify under penalty of perjury under the laws of the State of Washington that the
22 above is true and correct.

23 DATED this 17th day of November, 2008, at Olympia, Washington

24 
25 KRISTEN TOLBERT
26 Legal Assistant

1 EXPEDITE
2 No Hearing is Set
3 The Honorable Judge Gary R. Tabor
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8 STATE OF WASHINGTON
9 THURSTON COUNTY SUPERIOR COURT

9 MIKE KREIDLER,
10 INSURANCE COMMISSIONER,
11
12 Petitioner,

NO. 04-2-02427-4
CERTIFICATE OF SERVICE

12 v.

13 CASCADE NATIONAL INSURANCE
14 COMPANY,
Respondent.

15 This will hereby certify that on the 17th day of November, 2008, I mailed a true and
16 correct copy of the **Twelfth Quarterly Report of Receiver, Exhibits A, B, and C,**
17 **Declaration of Electronically Transmitted Document (DCLR) GR 17, and Certificate of**
18 **Service** via the U.S. Mail, first-class postage prepaid, in sealed envelopes, from Olympia,
19 Washington, to the following interested parties:

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

23 Harold Anderson
24 P.O. Box 3626
25 Sun River, OR 97707
Former President of Cascade Majority Shareholder

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4 Michael Gossler
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Former Outside Director of Cascade

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25 Creditor of MBR Corp (Allied...)*

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24 *For CA Ins. Guarantee Association (CIGA)*
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5 Alaska Division of Insurance
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7 333 Willoughby Avenue
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8 California Department of Insurance
9 John Garamendi, Insurance Commissioner
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11 OR Dept. of Consumer and Business Svcs.
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6 **Attorneys for Claimant James T. Feltman**

7 DATED this 17th day of November, 2008.

8 
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10 KRISTEN TOLBERT,
11 Legal Assistant

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