

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

**FOURTEENTH 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. Odiorne, 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, and
21 Heather L. Polz, Assistant Attorney General, hereby submit the Fourteenth 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 expenses as Class 1 Liabilities. Due to significant adverse development noted in the paid and
2 case reserves of the California Workers Compensation business in the last two quarters, the
3 Receiver commissioned an update to the Workers Compensation independent actuarial study
4 using the latest available claims data as of March 31, 2009. The result of the study reflects
5 continuing deterioration of Cascade's California Workers Compensation business.

6 As of April 30, 2009, known assets totaled \$20,167,040 with 58% in cash and short-
7 term investments. The estate's cash and short-term investment decreased significantly as a
8 result of early access distributions to the insurance guaranty associations totaling \$6 million.
9 Known liabilities totaled \$34,374,022 resulting in a deficiency of assets over liabilities of
10 \$14,206,981. For the fourteen quarters ending April 30, 2009, exclusive of the early access
11 distribution of \$6 million, cash receipts exceeded cash disbursements by \$758,161. Cash
12 receipts were primarily from asset recovery efforts, collection of loss recoverable from
13 reinsurers, refund of state premium taxes and recovery of salvage and subrogation on paid loss
14 claims. Operating expenses continue to be well within amounts budgeted by the Receiver.
15 Based on electronic claims data received from the guaranty associations as of March 31, 2009,
16 a total of \$13,456,303 of loss claims and allocated loss adjustment expenses have been paid.
17 See the Supplemental Claims Information, Exhibit C for details.

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

25 5. *Operations.* The Receiver received approval by the Court to cease all
26 operations of its subsidiary, MBR Corporation DBA Allied Pacific Adjusting Group

1 Cascade. The Receiver's counsel has propounded discovery in order to obtain additional
2 information and that information is currently under review.

3 The Receiver is also pursuing amounts owed by Mainstay, one of Cascade's workers'
4 compensation accounts in California, which include payment for premium, paid claims, and
5 reserves. Cascade has requested payment and information required under the policy with
6 Mainstay for Cascade to conduct a premium audit. Mainstay has not provided payment, but
7 has provided some audit information. Mainstay and Cascade are continuing to communicate
8 about these issues. Since the last report of the Receiver, it appears that some of the issues may
9 be close to being resolved.

10 The Receiver, through counsel, continues to pursue various legal avenues that could
11 result in recovery of assets to the receivership estate. The Receiver filed a complaint for
12 damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-
13 13068-5-SEA, against various defendants, including Danny Pixler, Anthony Huff, American
14 Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management,
15 LLC. The complaint alleges that defendants failed to comply with the contract payment terms
16 and failed to fund reserves while Cascade's obligation to provide workers' compensation
17 coverage under the policies continued. Cascade's demands for compliance and payment went
18 unanswered. The lawsuit also alleges that Cascade was victimized in a deceptive purchase
19 scheme. The lawsuit seeks damages in excess of \$18.7 million that arose from deceptive
20 practices, breaches and wrongful acts. This matter has been removed to the U.S. District Court
21 for the Western District of Washington, No. C06-697 RSL. The Defendants have argued
22 various motions and certain aspects of the discovery phase continue. A mediation meeting was
23 held in Seattle on August 12, 2008 but was unsuccessful. The trial date has been rescheduled
24 from September 2008 to March 2009, and is now continued until October 2009. In the
25 meantime, the Receiver is awaiting the court's decision on his motion for partial summary
26 judgment and the defendants' motion for summary judgment.

**Cascade National Insurance Company in Liquidation
Supplemental Claims Information
Claims and Adjusting Expenses Paid by Insurance Guaranty Funds
As of March 31, 2009**

	Auto	Workers Compensation	Total
Alaska	744,206	-	744,206
California	689,735	8,361,935	9,051,670
Oregon	960,602	-	960,602
Washington	2,699,825	-	2,699,825
	5,094,368	8,361,935	13,456,303

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.

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13 CASCADE NATIONAL INSURANCE
14 COMPANY,

Respondent.

NO. 04-2-02427-4

CERTIFICATE OF SERVICE

15 This will hereby certify that on the 14th day of May, 2009, I mailed a true and correct
16 copy of the **Fourteenth Quarterly Report of Receiver, Exhibits A, B, and C, and**
17 **Certificate of Service** via the U.S. Mail, first-class postage prepaid, in sealed envelopes, from
18 Olympia, Washington, to the following interested parties:

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

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

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CERTIFICATE OF SERVICE

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19 Olympia, WA 98504-0256

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6 *Attorneys for Claimant James T. Feltman*

7 DATED this 14th day of May, 2009.

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9 DARLA AUMILLER
10 Legal Assistant
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