

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
9 MIKE KREIDLER,
INSURANCE COMMISSIONER,

10 Petitioner,

11 v.

12 CASCADE NATIONAL INSURANCE
13 COMPANY,

14 Respondent.

NO. 04-2-02427-4

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, Rob McKenna, Attorney General, and Christina
20 Gerstung Beusch, Assistant Attorney General, hereby submit the First Quarterly Report of
21 Receiver pursuant to RCW 48.31.040(5), and state as follows:
22

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

1 2. *Accounting to the Court.* In accordance with the Order of Liquidation, the
2 Receiver shall file a report with the Court quarterly. In order to ensure that the reports have the
3 most recent financial information, the reports will be filed after the accounts from the prior
4 month are closed. The estimated filing dates for the reports are:

5 February 15
6 May 15
7 August 15 and
8 November 15

9 3. *Financial Report.* Attached hereto as **Exhibit A** is the January 31, 2006,
10 Statement of Cascade. The financial figures are derived from calculations made in accordance
11 with the Receiver's Handbook for Insurance Company Insolvencies published by the National
12 Association of Insurance Commissioners ("NAIC").

13 The enclosed Statement has been prepared from information available. Certain assets
14 and liabilities are estimates. Assets with uncertain realizable value have not been included.
15 Additional assets resulting from legal and/or collection efforts may be recorded in the future
16 when realized. The review of incoming claims is an ongoing process. The estate's largest
17 creditors are various insurance Guaranty Associations. Current known Class 2 (Loss Claims)
18 liabilities of \$36.5 million is an estimate based on the 10/31/05 loss reserves transferred to the
19 Guaranty Associations. These liabilities will be updated as the Guaranty Associations continue
20 their ongoing evaluation of loss reserves.
21

22 As of January 31, 2006, known assets totaled \$22.4 million with 71% in cash and short-
23 term investments. Known liabilities totaled \$39.9 million, resulting in a deficiency of assets
24 over liabilities of \$17.5 million. For the three months ending January 31, 2006, cash receipts
25 exceeded cash disbursements by approximately \$353.5 thousand. Cash receipts were primarily
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1 from collection of loss recoverables from reinsurers. Operating expenses were well within
2 amounts budgeted by the Receiver.

3 4. *Termination of Coverage.* In accordance with paragraph 4.1 of the Plan of
4 Liquidation, a notice informing all policyholders of the termination of their coverage through
5 Cascade was issued on November 7, 2005. All insurance policies that were in force were
6 cancelled as of December 5, 2005, pursuant to RCW 48.31.125.
7

8 5. *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 have until March 4, 2006, to file a timely Proof of Claim form. Claims are being
11 filed with the Receiver and are being reviewed.

12 6. *Claim Files Transferred to Guaranty Associations.* The Receiver completed the
13 transfer of paper and electronic records of all outstanding loss claim files as of the Liquidation
14 Date of November 4, 2005, to the appropriate state Guaranty Associations. The Receiver has
15 also developed and implemented procedures for transfer of Loss Claims reported after
16 November 4, 2005 to the appropriate state Guaranty Associations.
17

18 7. *Notice to Guaranty Associations of Initial Asset Disbursement.* The Receiver
19 sent a formal notice in compliance with RCW 48.31.185(5) to the Guaranty Associations for
20 Washington, Oregon, California, and Alaska informing them that a petition for approval to
21 disburse assets will be made no later than March 4, 2006, to the Thurston County Superior
22 Court. The petition to the Court will propose an initial total distribution to the Guaranty
23 Associations of at least \$4.0 Million (approximately 25% of the current liquid assets of the
24 estate) up to \$6.0 Million (approximately 37% of the liquid assets of the estate). Determination
25
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1 of the final amount to be distributed is contingent upon current negotiations for a novation of a
2 portion of the outstanding workers compensation claims in California. A successful novation
3 of those claims to a licensed self-insurer would remove approximately 95 claims from the
4 estate and involves the release of approximately \$3.6 Million in cash and a separate Letter of
5 Credit which are held as a security deposit specifically for these claims. The amounts to be
6 distributed to the Guaranty Associations will be determined based upon Cascade's outstanding
7 case base plus ALAE ("Allocated Loss Adjustment Expense") reserves as of October 31, 2005,
8 the final day of claims transaction processing prior to the Liquidation Date of November 4,
9 2005. Upon approval of this petition by the Court, a signed agreement in compliance with
10 RCW 48.31.185(2)(d) will be secured from each Guaranty Association prior to disbursement
11 of the funds.
12

13
14 8. *Operations.* Cascade had been co-located with the Kenneth I. Tobey ("KIT")
15 general insurance agency in offices in Bellevue, WA, and their Information Technology ("IT")
16 networks and operating systems were highly integrated. The Receiver has separated Cascade
17 from KIT's IT system and moved Cascade's physical location to a smaller and less expensive
18 office facility, thereby reducing monthly rent by over one-thousand dollars (\$1,000). The
19 Receiver has also initiated consolidation of cash assets, which was held in various financial
20 institutions. In addition, the Receiver has established a new accounting ledger system in
21 accordance with the NAIC Receiver's Handbook
22

23 9. *Marshalling Assets.* The Receiver, through counsel, has initiated research and
24 document preparation to pursue various legal actions that could result in recovery of assets to
25 the receivership estate. The Receiver has also been actively pursuing a sale of Cascade's
26

1 wholly-owned subsidiary, MBR Corporation DBA Allied Pacific Adjusting Group "Allied
2 Pacific").

3
4 RESPECTFULLY SUBMITTED this _____ day of February,

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7 _____
8 MARSHALL McGINNIS,
9 Deputy Receiver

10 Presented by:
11 ROB MCKENNA
12 Attorney General

13 _____
14 CHRISTINA GERSTUNG BEUSCH
15 WSBA # 18226
16 Assistant Attorney General
17 Attorneys for Office of the Insurance Commissioner
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Cascade National Insurance Company in Liquidation
Balance Sheet
Fiscal Quarter Ending January 31, 2006

		1/31/2006
ASSETS		
Operating cash		568,758
ST investments		15,397,651
Cash & ST Investments	(1)	15,966,409
Advances to Guaranty Associations		-
Reinsurance recoverable (net)	(2)	6,423,533
Rental deposit		6,282
Total Other Assets		6,429,815
TOTAL ASSETS	(3)	22,396,224
LIABILITIES		
Secured Claims		-
Class 1	(4)	3,363,865
Class 2	(5)	36,458,309
Class 3		-
Class 4		-
Class 5		43,991
Class 6		6,807
Class 7		-
Class 8		-
Class 9		-
TOTAL LIABILITIES		39,872,972
Excess (Deficiency of Assets Over Liabilities)		(17,476,748)
TOTAL		22,396,224

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 \$443,566 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 the 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) This represents the remainder of the two-year operating expense budget for the receivership.
- (5) The receivership has not received sufficient information from the guaranty associations on paid losses or loss reserves at this time. 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 liabilities. Additionally, Class 2 liabilities also 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
Fiscal Quarter Ending January 31, 2006**

	3 months ending 1/31/06	
RECEIPTS		
Reinsurance recoveries	620,292	
Agents balances	76,778	
Salvage & subrogation recoveries	88,498	
Recovery of taxes previously paid	12,792	
Other receipts	927	
Receipts Before Investment Activities	799,286	
Investment receipts	145,015	
Proceeds from sales & maturity	-	
Receipts from Investment Activities	145,015	
TOTAL CASH RECEIPTS		944,302
 DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	112,171	
Legal fees	38,636	
Audit fees	-	
Consulting fees	35,166	
Salaries	145,809	
Employee benefits	6,252	
Payroll & other taxes	8,334	
Rent & related expenses	22,003	
Equipment expenses	37,561	
Office expenses	28,735	
Other disbursements	10,029	
Disbursements	444,697	
Early Access Distributions	-	
Disbursements Before Investment Activities	444,697	
Investment Expenses	1,114	
Purchase of Investments	145,015	
Disbursements for Investment Activities	146,130	
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS		590,826
Net Increase (Decrease) in Cash		353,475
Cash at beginning of period		215,283
Cash at end of period		568,758

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