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1 EXPEDITE
2 No Hearing is Set
3 The Honorable Judge Gary Tabor
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FILED
MAY 15 2006
SUPERIOR COURT
BETTY J. GOULD
THURSTON COUNTY CLERK

7 **STATE OF WASHINGTON**
8 **THURSTON COUNTY SUPERIOR COURT**

9 MIKE KREIDLER,
10 INSURANCE COMMISSIONER,
11
12 Petitioner,
13
14 v.
15 CASCADE NATIONAL INSURANCE
16 COMPANY,
17
18 Respondent.

NO. 04-2-02427-4

SECOND 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 Second 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 **Exhibits A and B** are Cascade's
10 April 30, 2006 Balance Sheet, and Statement of Receipts and Disbursements, respectively.
11 The financial figures are derived from calculations made in accordance with the Receiver's
12 Handbook for Insurance Company Insolvencies published by the National Association of
13 Insurance Commissioners ("NAIC").

14 The enclosed financial statements have been prepared from available information.
15 Certain assets and liabilities are estimates. Assets with uncertain realizable value have not
16 been included. Additional assets resulting from legal and/or collection efforts may be recorded
17 in the future when realized. The review of incoming claims is an ongoing process. The
18 estate's largest creditors are various insurance Guaranty Associations. Current known Class 2
19 (Loss Claims) liabilities of \$37.3 million are estimated based on the 10/31/05 loss reserves
20 transferred to the Guaranty Associations, with the addition of \$793,000 return premiums added
21 this quarter. Liabilities will be updated as the Guaranty Associations continue their ongoing
22 evaluation of loss reserves.
23

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1 As of April 30, 2006, known assets totaled \$23.3 million with 73% in cash and short-
2 term investments. Cash position improved from continuing collection efforts and additional
3 cash transferred from preliquidation bank accounts. Known liabilities totaled \$40.3 million,
4 resulting in a deficiency of assets over liabilities of \$16.9 million. For the six months ending
5 April 30, 2006, cash receipts exceeded cash disbursements by approximately \$991,500. Cash
6 receipts were primarily from collection of loss recoverables from reinsurers. Operating
7 expenses continue to be well within amounts budgeted by the Receiver

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

17 5. *Initial Asset Disbursement to Guaranty Associations.* Pursuant to RCW
18 48.31.185(5) the Receiver filed a petition with the Court seeking approval to disburse
19 \$6 million of assets to the Guaranty Associations for Washington, Oregon, California, and
20 Alaska on an allocated basis. Prior to disbursement of the funds, a signed agreement in
21 compliance with RCW 48.31.185(2)(d) is to be secured from each Guaranty Association. The
22 Washington, Oregon and Alaska Guaranty Associations have signed an agreement, and their
23 allocation of the assets will be disbursed in May, 2006. The California Guaranty Association
24 has not responded, and the Receiver is sending another request.
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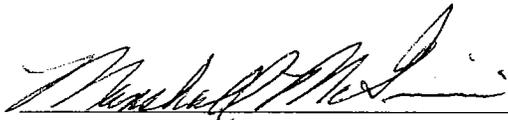
1 6. *Operations.* The Receiver received approval by the Court to cease all
2 operations of its subsidiary, MBR Corporation DBA Allied Pacific Adjusting Group
3 (“Allied”), effective April 14, 2006. In compliance with the Court’s order, the Receiver has
4 closed six offices of Allied and consolidated property and files in the remaining Allied office
5 in Bothell. The Receiver is selling property, consisting mostly of office furniture and computer
6 equipment. All funds received from the sale of Allied assets are being maintained in a separate
7 account. The Receiver anticipates that a petition may have to be filed with the Court for the
8 cancellation of the Bothell lease and certain equipment leases if the leases are not resolved
9 through negotiation. Once all of the property is disposed of and obligations terminated to the
10 extent possible, the Receiver will seek Court approval for proper disbursement of Allied’s
11 assets to its creditors.
12

13 7. *Marshalling Assets.* The Receiver has completed a global reconciliation of
14 accounts current for its former managing general agents, Kenneth I. Tobey, Inc. and the
15 Statewide Insurance Agency, and has billed them for closing amounts totaling over \$1 million.
16 The Receiver anticipates that the managing general agents will dispute the amounts due and
17 that negotiation and/or litigation will be required to resolve the matter.
18

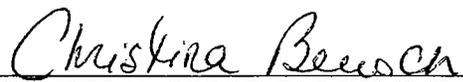
19 The Receiver, through counsel, has initiated research and document preparation to
20 pursue various legal actions that could result in recovery of assets to the receivership estate.
21 The Receiver has filed a complaint for damages in the Superior Court of the State of
22 Washington for King County, Cause No. 06-2-13068-5-SEA, against various defendants,
23 including Danny Pixler, Anthony Huff, American Staff Resources of California, Inc., Certified
24 Services, Inc., and Midwest Merger Management, LLC. The complaint alleges that defendants
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1 failed to comply with the contract payment terms and failed to fund reserves while Cascade's
2 obligation to provide workers' compensation coverage under the policies continued. Cascade's
3 demands for compliance and payment went unanswered. The lawsuit also alleges that Cascade
4 was victimized in a deceptive purchase scheme. The lawsuit seeks damages in excess of \$10
5 million that arose from deceptive practices, breaches and wrongful acts. Other legal actions
6 are currently under consideration.
7

8 RESPECTFULLY SUBMITTED this 15th day of May,
9

10 
11 _____
12 MARSHALL MCGINNIS,
13 Deputy Receiver

14 Presented by:
15 ROB MCKENNA
16 Attorney General

17 
18 _____
19 CHRISTINA GERSTUNG BEUSCH
20 WSBA # 18226
21 Assistant Attorney General
22 Attorneys for Office of the Insurance Commissioner
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Cascade National Insurance Company in Liquidation
Balance Sheet
Fiscal Quarter Ending April 30, 2006

		4/30/2006	
ASSETS			
Operating cash		1,764,946	
ST investments		15,249,879	
Cash & ST Investments	(1)		17,014,825
Advances to Guaranty Associations		-	
Reinsurance recoverable (net)	(2)	6,301,385	
Rental deposit		6,282	
Total Other Assets			6,307,667
TOTAL ASSETS	(3)		23,322,492
LIABILITIES			
Secured Claims		-	
Class 1	(4)	2,955,686	
Class 2	(5)	37,260,720	
Class 3		-	
Class 4		-	
Class 5		45,391	
Class 6		6,807	
Class 7		-	
Class 8		-	
Class 9		-	
TOTAL LIABILITIES			40,268,604
Excess (Deficiency) of Assets Over Liabilities			(16,946,111)
TOTAL			23,322,492

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 \$444,171 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) This represents the remainder of the two-year operating expense budget for the receivership.
- (5) The receivership has not received sufficient and accurate 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 April 30, 2006

RECEIPTS	6 months ending 4/30/06	
Reinsurance recoveries	964,015	
Agents balances	78,586	
Salvage & subrogation recoveries	256,011	
Recovery of taxes previously paid	68,128	
Other receipts	177,315	
Receipts Before Investment Activities		1,544,055
Investment receipts	300,413	
Proceeds from sales & maturity	303,000	
Receipts from Investment Activities		603,413
TOTAL CASH RECEIPTS		2,147,468
DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	297,827	
Legal fees	68,166	
Audit fees	-	
Consulting fees	57,524	
Salaries	275,560	
Employee benefits	10,808	
Payroll & other taxes	19,405	
Rent & related expenses	27,803	
Equipment expenses	44,345	
Office expenses	39,623	
Other disbursements	13,017	
Disbursements		854,078
Early Access Distributions	-	
Disbursements Before Investment Activities		854,078
Investment Expenses	1,614	
Purchase of Investments	300,242	
Disbursements for Investment Activities		301,857
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS		1,155,934
Net Cash Receipts over Disbursements		991,534
Cash at beginning of period		773,413 *
Cash at end of period		1,764,946

Note: The information contained in this report is prepared by the receiver from information available to or known 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.

* Cash at beginning of period increased due to additional cash transferred from pre-liquidation bank accounts

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The Honorable Judge Gary Tabor

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STATE OF WASHINGTON
THURSTON COUNTY SUPERIOR COURT

MIKE KREIDLER,
INSURANCE COMMISSIONER,

NO. 04-2-02427-4

Petitioner,

CERTIFICATE OF SERVICE OF

v.

SECOND QUARTERLY REPORT OF RECEIVER

CASCADE NATIONAL INSURANCE
COMPANY,

Respondent.

This will hereby certify that on the 15th day of May, 2006, I mailed a true and correct copy of: the *SECOND QUARTERLY REPORT OF RECEIVER*, which was entered and signed in the above court on May 15, 2006, via the US Mail, postage prepaid, in sealed envelopes, at Olympia, WA, to the following interested parties:

ELIZABETH J. ANDERSON, SR. V.P.
COLUMBIA BANK
SPECIAL CREDITS DEPARTMENT
1301 "A" STREET
TACOMA, WA 98401

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Former President of Cascade

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Attorney for Mainstay Business Solutions

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Former outside Director of Cascade National

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Attorneys for Bank of America (Creditor of MBR Corp)

////

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