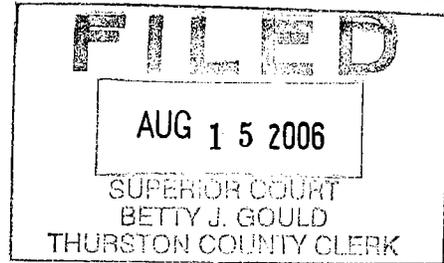


FILE COPY

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

THIRD 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. Odiome, 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, Christina
20 Gerstung Beusch and Marta DeLeon, Assistant Attorneys General, hereby submit the Third
21 Quarterly 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.

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, B and C** are Cascade's
10 July 31, 2006 Balance Sheet, Statement of Receipts and Disbursements, and Supplemental
11 Claims Information, respectively. The financial figures are derived from calculations made in
12 accordance with the Receiver's Handbook for Insurance Company Insolvencies published by
13 the National Association of 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. Liabilities will be updated as the Guaranty
21 Associations continue their ongoing evaluation of loss reserves.

22 As of July 31, 2006, known assets totaled \$23.3 million with 47% in cash and short-
23 term investments. The estate's cash and short-term investment decreased dramatically as a
24 result of early access distributions to the insurance Guaranty Associations totaling \$6 million.
25 Known liabilities totaled \$40 million, resulting in a deficiency of assets over liabilities of \$16.7
26 million. For the nine months ending July 31, 2006, exclusive of the early access distribution of
\$6 million, cash receipts exceeded cash disbursements by approximately \$817,800. Cash

1 receipts were primarily from collection of loss recoverables from reinsurers, refund of state
2 premium taxes, and recovery of salvage and subrogation on paid loss claims. Operating
3 expenses continue to be well within amounts budgeted by the Receiver. Based on electronic
4 claims data received from the Guaranty Associations for Washington, Oregon, California, and
5 Alaska, a total of \$2.6 million in loss claims and loss adjustment expenses have been paid as of
6 June 30, 2006. See Exhibit C, Supplemental Claims Information, for details.

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

13 5. *Initial Asset Disbursement to Guaranty Associations.* Pursuant to RCW
14 48.31.185(5) the Receiver filed a petition with the Court seeking approval to disburse
15 \$6 million of assets to the Guaranty Associations for Washington, Oregon, California, and
16 Alaska on an allocated basis. A signed agreement in compliance with RCW 48.31.185(2)(d)
17 was to be secured from each Guaranty Association. The Washington, Oregon, California, and
18 Alaska Guaranty Associations signed the agreement and Initial Asset Disbursements have been
19 completed for all four Guaranty Associations.

20 6. *Operations.* The Receiver received approval by the Court to cease all
21 operations of its subsidiary, MBR Corporation DBA Allied Pacific Adjusting Group
22 ("Allied"), effective April 14, 2006. In compliance with the Court's order, the Receiver closed
23 six offices of Allied and consolidated property and files in the remaining Allied office in
24 Bothell. The Allied staff has been reduced to one full-time equivalent employee.
25 Approximately 95% of all Allied assets have been disposed of or sold. All funds received
26 from the sale of Allied assets are being maintained in a separate account. The lease for the

1 Allied office in Bothell is being terminated, and the office space will be vacated by September
2 1, 2006. The remaining staff and equipment will be moved to Cascade's Bellevue office by
3 September 1, 2006. Once all of the property is disposed of and obligations terminated to the
4 extent possible, the Receiver will seek Court approval for proper disbursement of Allied's
5 assets to its creditors. Proof of claim forms were mailed to all known creditors on July 7,
6 2006, with a claims bar date of September 11, 2006.

7 7. *Marshalling Assets.* The Receiver completed a global reconciliation of
8 accounts current for its former managing general agents, Kenneth I. Tobey, Inc. and the
9 Statewide Insurance Agency, and has billed them for closing amounts totaling over \$1 million.
10 Both managing general agents dispute the global reconciliations presented by the Receiver.
11 The Office of the Insurance Commissioner ("OIC") has initiated an agent's license revocation
12 action against K.I. Tobey for failure to pay. Settlement negotiations between OIC and K.I.
13 Tobey are currently underway in the hopes of obtaining a settlement agreement. Statewide
14 Insurance Agency has been asked to provide substantial additional documentation to support
15 their objections to the amounts due. The Receiver anticipates that continued negotiation and/or
16 litigation will be required to resolve the matter.

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

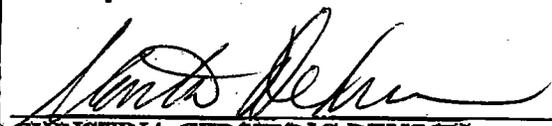
1 practices, breaches and wrongful acts. This matter has been removed to the U.S. District Court
2 for the Western District of Washington, No. C06-697 RSL. After filing suit against the
3 Defendants, the Receiver learned that Certified HR Services, a subsidiary of Defendant
4 Certified Services, Inc. ("Certified Services"), had entered into bankruptcy proceeding in the
5 U.S. District Court, Southern District of Florida, Case No. 05-22912-BKC-RBR. In order to
6 ensure that the Florida action had no adverse affect on Cascades claims, the Receiver took
7 action in the bankruptcy matter to protect Cascade's claims. The Receiver ultimately entered
8 into an agreement with the bankruptcy trustee and obtained a Court order establishing that
9 none of Cascade's claims against the Defendants in the Washington litigation were affected by
10 the Florida bankruptcy action, and preserving the possibility of recovery against the Certified
11 HR Services. The Receiver has subsequently filed a \$2 million dollar claim against the
12 subsidiary.

13 Other legal actions are currently under consideration.

14 RESPECTFULLY SUBMITTED this 15th day of August, 2006

15
16 
17 MARSHALL MCGINNIS,
18 Deputy Receiver

19 Presented by:
20 ROB MCKENNA
21 Attorney General

22 
23 CHRISTINA GERSTUNG BEUSCH
24 WSBA # 18226
25 MARTA DELEON
26 WSBA# 35779
Assistant Attorneys General
Attorneys for Office of the Insurance Commissioner

Cascade National Insurance Company in Liquidation
Balance Sheet
Fiscal Quarter Ending July 31, 2006

		7/31/2006	
ASSETS			
Operating cash		98,836	
ST investments		10,902,611	
Cash & ST Investments	(1)	11,001,447	
Advances to Guaranty Associations		6,000,000	
Reinsurance recoverable (net)	(2)	6,291,183	
Rental deposit		6,282	
Total Other Assets		12,297,465	
TOTAL ASSETS	(3)	23,298,912	
 LIABILITIES			
Secured Claims		-	
Class 1	(4)	2,568,581	
Class 2	(5)	37,278,901	
Class 3		-	
Class 4		-	
Class 5		55,213	
Class 6		138,863	
Class 7		5,438	
Class 8		-	
Class 9		-	
TOTAL LIABILITIES		40,046,996	
Excess (Deficiency) of Assets Over Liabilities		(16,748,084)	
TOTAL		23,298,912	

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 \$420,000 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 is in the process of analyzing 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 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 July 31, 2006

	9 months ending 7/31/06	
RECEIPTS		
Reinsurance recoveries	974,217	
Agents balances	78,612	
Salvage & subrogation recoveries	221,226	
Recovery of taxes previously paid	240,618	
Other receipts	243,689	
Receipts Before Investment Activities		1,758,362
Investment receipts	460,833	
Proceeds from sales & maturity	303,000	
Receipts from Investment Activities		763,833
TOTAL CASH RECEIPTS		2,522,195
DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	413,194	
Legal fees	130,533	
Audit fees	-	
Consulting fees	60,404	
Salaries	440,202	
Employee benefits	15,607	
Payroll & other taxes	28,039	
Rent & related expenses	36,503	
Equipment expenses	55,604	
Office expenses	46,285	
Other disbursements	14,812	
Disbursements		1,241,183
Early Access Distributions	6,000,000	
Disbursements Before Investment Activities		7,241,183
Investment Expenses	2,614	
Purchase of Investments	460,575	
Disbursements for Investment Activities		463,189
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS		7,704,372
Net Cash Receipts over Disbursements		(5,182,177)
Cash at beginning of period		773,413
Net Cash Receipts over Disbursements		(5,182,177)
Cash transferred from ST investment to fund distributions		4,507,600
Cash at end of period		98,836

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.

EXHIBIT **B**

**Cascade National Insurance Company in Liquidation
Supplemental Claims Information
Fiscal Quarter Ending July 31, 2006**

Paid Claims:	Auto	Workers Compensation	Total	Comments
Alaska	-	-	-	No claims data available
California	200,839	2,160,087	2,360,926	See note
Oregon	100,135	-	100,135	See note
Washington	161,199	-	161,199	See note
	<u>462,173</u>	<u>2,160,087</u>	<u>2,622,259</u>	

Note:

Based on electronic claims data submitted by various state insurance guaranty funds as of 6/30/06.

EXHIBIT C

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,

NO. 04-2-02427-4

Petitioner,

CERTIFICATE OF SERVICE OF
THIRD QUARTERLY REPORT OF RECEIVER

11 v.

12 CASCADE NATIONAL INSURANCE
13 COMPANY,

14 Respondent.

15 This will hereby certify that on the 15th day of August, 2006, I mailed a true and
16 correct copy of the Insurance Commissioner's **Third Quarterly Report of Receiver** in this
17 matter via the U.S. Mail, first-class postage prepaid, in sealed envelopes,, from Olympia, WA,
18 to the following interested parties:
19

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

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

- 1 Terrence J. Donahue
Eisenhower & Carlson
2 1201 Pacific Avenue, Suite 1200
Tacoma, WA 98402-4395
3 *Attorney for Columbia Bank*
- 4 Gudeman & Weiss
35055 W. Twelve Mile Rd., Suite 114
5 Farmington Hills, MI 48331-3260
Minority Shareholder of Cascade
- 6 Michael Gossler
7 *Attention: Karen Oliphant*
Montgomery Purdue Blankinship Austin
8 701 Fifth Avenue, Suite 550
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9 *Attorneys for Harold Anderson*
- 10 Michael Hansen, President/CEO
Mainstay Business Solutions
11 1180 Iron Point Road, Suite 210
Folsom, CA 95630-8326
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Special Request for Notice
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20 Seattle, WA 98101-3034
Attorney for Gudeman & Weiss
- 21 Brian H. Krikorian
22 Krikorian Law Offices PLLC
701 Fifth Avenue, Suite 4780
23 Seattle, WA 98125
Attorney for Mainstay
- 24
- 25 ////
- 26 ////

1 William t. Lebo, CPCU, President
2 Lebo Mgmt & Insurance Consulting
3 14722 38th Avenue NE
4 Lake Forest Park., WA 98155
5 *Outside Director of Cascade*

6 Thomas S. Linde
7 Law Offices of Laurin S. Schweet
8 295 80th Avenue SE, Suite 102
9 Mercer Island,, WA 98040n
10 *Attorneys for Bank of America NA,
11 (creditor of MBR Corp [Allied]]*

12 Eric Mendoza
13 Bank of America NA
14 CA9-702-03-03, POB 479
15 Pasadena,, CA 91102-6102
16 *Creditor of MBR Corp (...ALLIED...)*

17 Larry Morrison, President
18 Business Transmition Network
19 1911 156th Avenue SE
20 Bellevue, WA 98007
21 *Outside Director of Cascade*

22 Dan Pixler. President & CEO
23 Certified Services, Inc.
24 American Staff Resources of CA, Inc.
25 5101 NW 21st Avenue, Suite 350
26 Ft. Lauderdale, FL 33309-2708
Minority Shareholder of Cascade

W. Theodore Vander Wel
Attorney at Law
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Bellevue. WA 98004
Attorney for Morrison and Lebo

Marina N. Vitek, Esq.
Roxborough Pomerance NYE LLP
5820 Canoga Avenue, Suite 250
Woodland Hills, CAA 91367
Attorneys for Mainstay Business Solutions

////

////

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- 4 John W. Wolfe
Wolfe Leinback
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- 6 *Attorney for Harold Anderson*
- 7 Alaska Guaranty Association
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- 8 Anchorage,, AK 99508
- 9 C. Guerry Collins, Esq.
Lord Bissell & Brooke,, LLP
- 10 300 S. Grand Avenue, 8th Floor
Los Angeles, CA 90071
- 11 *for CA Ins. Guarantee Association (CIGA)*
- 12 Oregon Ins. Guaranty Association
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- 13 Beaverton, OR 97005
- 14 WA Insurance Guaranty Association
c/o Western Guaranty Fund Services
- 15 1720 S. Bellaire, Suite 408
Denver, CO 80222
- 16 Alaska Division of Insurance
Linda S. Hall, Director of Juneau Office
- 17 State Office Building, 9th Floor
333 Willoughby Avenue
- 18 Juneau, AK 99801
- 19 California Department of Insurance
John Garamendi, Insurance Commissioner
- 20 300 South Spring Street, South Tower
Los Angeles, CA 90013
- 21 Oregon Dept. of Consumer & Business Services
Joel Ario, Ins. Division Administrator
- 22 350 Winter Street NE, Room 440
Salem, OR 97309
- 23 WA Office of Insurance Commissioner
Mike Kreidler, Insurance Commissioner
- 24 P.O. Box 40258
Tumwater, WA 98501
- 25
- 26

1 Marshall McGinnis, Deputy Receiver
for *Cascade National Insurance Company*
2 Office of Insurance Commissioner
P.O. Box 40259
3 Olympia, WA 98504-0255

4 Jim Odiorne, Receiver
for *Cascade National Insurance Company*
5 Office of Insurance Commissioner
P.O. Box 40255
6 Olympia, WA 98504-0255

7 DATED this 15th day of August, 2006.

8
9 
10 JO WILLIAMS, Legal Assistant to
Christina Gerstung Beusch, WSBA #18226
Assistant Attorney General
11 Marta DeLeon, WSBA #35779
Assistant Attorney General
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