

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

**FOURTH 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, Christina  
20 Gerstung Beusch, Assistant Attorney General, hereby submit the Fourth Quarterly Report of  
21 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
- November 15

8           3.     *Financial Report.* Attached hereto as **Exhibits A, B and C** are Cascade's  
9 October 31, 2006 Balance Sheet, Statement of Receipts and Disbursements, and Supplemental  
10 Claims Information, respectively. The financial figures are derived from calculations made in  
11 accordance with the Receiver's Handbook for Insurance Company Insolvencies published by  
12 the National Association of Insurance Commissioners ("NAIC").

13           The enclosed financial statements have been prepared from available information.  
14 Certain assets and liabilities are estimates. Assets with uncertain realizable value have not  
15 been included. Additional assets resulting from legal and/or collection efforts may be recorded  
16 in the future when realized. The review of incoming claims is an ongoing process. The  
17 estate's largest creditors are various insurance Guaranty Associations. Current known Class 2  
18 (Loss Claims) liabilities of \$37,278,901 are estimated based on the 10/31/05 loss reserves  
19 transferred to the Guaranty Associations. Liabilities will be updated as the Guaranty  
20 Associations continue their ongoing evaluation of loss reserves.

21           As of October 31, 2006, known assets total \$23,244,834 with 47% in cash and short-  
22 term investments. Known liabilities total \$39,776,645, resulting in a deficiency of assets over  
23 liabilities of \$16,531,810. For the 12 months ending October 31, 2006, exclusive of the early  
24 access distribution of \$6 million, cash receipts exceeded cash disbursements by \$630,442.  
25 Cash receipts were primarily from collection of loss recoverables from reinsurers, refund of  
26 state premium taxes, and recovery of salvage and subrogation on paid loss claims. Operating

1 expenses continue to be well within amounts budgeted by the Receiver. Based on electronic  
2 claims data received from the Guaranty Associations for Washington, Oregon, California, and  
3 Alaska, a total of \$4,173,230 in loss claims and loss adjustment expenses have been paid as of  
4 September 30, 2006, and 231 of the 628 loss claims referred by the Receiver to the Guaranty  
5 Associations have been closed. See **Exhibit C**, Supplemental Claims Information, for details.

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

12 5. *Operations.* The Receiver received approval by the Court to cease all  
13 operations of its subsidiary, MBR Corporation DBA Allied Pacific Adjusting Group  
14 (“Allied”), effective April 14, 2006. In compliance with the Court’s order, the Receiver closed  
15 the seven offices of Allied. The Allied staff was reduced to one full-time equivalent employee,  
16 and that employee will be leaving shortly. All Allied assets have been disposed of or sold. All  
17 funds received from the sale of Allied assets are being maintained in a separate account. Proof  
18 of claim forms were mailed to all known creditors on July 7, 2006, with a claims bar date of  
19 September 11, 2006. The Receiver filed a petition seeking the Court’s approval to disburse  
20 funds to Allied’s creditors and dissolve the corporation, and a hearing is noted for December 8,  
21 2006.

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 Insurance Agency, and has billed them for closing amounts totaling over \$1 million. Both  
25 general agents dispute the global reconciliations presented by the Receiver. The Office of the  
26 Insurance Commissioner (“OIC”) initiated a license revocation action against K.I. Tobey for

1 failure to pay and mishandling of trust funds, and K.I. Tobey has voluntarily accepted  
2 revocation. Settlement negotiations between OIC and K.I. Tobey failed, and K.I. Tobey has  
3 purportedly filed for bankruptcy. The Receiver will be exploring options for pursuing the  
4 claim. Statewide Insurance Agency has been asked, but has failed, to provide documentation  
5 to support its objections to the amounts due. The Receiver is reviewing options, such as civil  
6 litigation and requesting action from appropriate regulators.

7 The Receiver, through counsel, continues to pursue various legal avenues that could  
8 result in recovery of assets to the receivership estate. The Receiver filed a complaint for  
9 damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-  
10 13068-5-SEA, against various defendants, including Danny Pixler, Anthony Huff, American  
11 Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management,  
12 LLC. The complaint alleges that defendants failed to comply with the contract payment terms  
13 and failed to fund reserves while Cascade's obligation to provide workers' compensation  
14 coverage under the policies continued. Cascade's demands for compliance and payment went  
15 unanswered. The lawsuit also alleges that Cascade was victimized in a deceptive purchase  
16 scheme. The lawsuit seeks damages in excess of \$10 million that arose from deceptive  
17 practices, breaches and wrongful acts. This matter has been removed to the U.S. District Court  
18 for the Western District of Washington, No. C06-697 RSL. The Defendants have filed a  
19 motion to dismiss which is being argued on November 20, 2006.

20 After filing suit against the Defendants, the Receiver learned that Certified HR  
21 Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered  
22 into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No.  
23 05-22912-BKC-RBR. In order to ensure that the Florida action had no adverse affect on  
24 Cascade's claims, the Receiver took action in the bankruptcy matter to protect Cascade's  
25 claims. The Receiver ultimately entered into an agreement with the bankruptcy trustee and  
26 obtained a Court order establishing that none of Cascade's claims against the Defendants in the

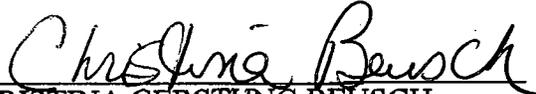
1 Washington litigation were affected by the Florida bankruptcy action, and preserving the  
2 possibility of recovery against the Certified HR Services. The Receiver has subsequently filed  
3 a \$2 million dollar claim against the subsidiary. The Receiver cannot anticipate when or if  
4 there will be any payment on the claim.

5 The Receiver has also filed within the past month a civil action in King County  
6 Superior Court, No. 06-2-34413-8-SEA, to recover damages for officer/director actions that  
7 harmed Cascade.

8 RESPECTFULLY SUBMITTED this 15<sup>th</sup> day of November, 2006

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10   
11 MARSHALL MCGINNIS,  
12 *Deputy Receiver*

13 Presented by:  
14 ROB MCKENNA  
15 Attorney General

16   
17 CHRISTINA GERSTUNG BEUSCH  
18 WSBA # 18226  
19 Assistant Attorney General  
20 *Attorneys for the Insurance Commissioner*

**Cascade National Insurance Company in Liquidation  
Balance Sheet  
As of October 31, 2006**

		<b>10/31/2006</b>
<b>ASSETS</b>		
Operating cash		364,434
ST investments		10,582,936
Cash & ST Investments	(1)	10,947,369
Advances to Guaranty Associations		6,000,000
Reinsurance recoverable (net)	(2)	6,291,183
Rental deposit		6,282
Total Other Assets		12,297,465
<b>TOTAL ASSETS</b>	<b>(3)</b>	<b>23,244,834</b>
 <b>LIABILITIES</b>		
Secured Claims		-
Class 1	(4)	2,296,051
Class 2	(5)	37,278,901
Class 3		-
Class 4		-
Class 5		55,213
Class 6		138,863
Class 7		7,616
Class 8		-
Class 9		-
<b>TOTAL LIABILITIES</b>		<b>39,776,645</b>
<b>Excess (Deficiency) of Assets Over Liabilities</b>		<b>(16,531,810)</b>
<b>TOTAL</b>		<b>23,244,834</b>

**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 \$446,000 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 Year Ending October 31, 2006**

	<b>12 months ending 10/31/06</b>	
<b>RECEIPTS</b>		
Reinsurance recoveries	974,217	
Agents balances	91,394	
Salvage & subrogation recoveries	232,452	
Recovery of taxes previously paid	283,221	
Other receipts	255,206	
Receipts Before Investment Activities		1,836,490
Investment receipts	601,158	
Proceeds from sales & maturity	303,000	
Receipts from Investment Activities		904,158
<b>TOTAL CASH RECEIPTS</b>		<b>2,740,648</b>
<b>DISBURSEMENTS &amp; DISTRIBUTIONS</b>		
Claims processing expenses	440,726	
Legal fees	235,467	
Audit fees	-	
Consulting fees	97,711	
Salaries	517,954	
Employee benefits	18,977	
Payroll & other taxes	33,761	
Rent & related expenses	45,203	
Equipment expenses	57,464	
Office expenses	50,628	
Other disbursements	15,821	
Disbursements		1,513,712
Early Access Distributions	6,000,000	
Disbursements Before Investment Activities		7,513,712
Investment Expenses	2,614	
Purchase of Investments	593,878	
Disbursements for Investment Activities		596,493
<b>TOTAL CASH DISBURSEMENTS &amp; DISTRIBUTIONS</b>		<b>8,110,205</b>
<b>Net Cash Receipts over Disbursements</b>		<b>(5,369,558)</b>
Cash at beginning of period		773,413
Net Cash Receipts over Disbursements		(5,369,558)
Cash transferred from ST investment to fund distributions		4,960,579
Cash at end of period		364,434

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## Financial Statement Notes

The enclosed financial statements have been prepared from available information. Certain assets and liabilities are estimates. Assets with uncertain realizable value have not been included. Additional assets resulting from legal and/or collection efforts may be recorded in the future when realized. The review of incoming claims is an on-going process. The estate's largest creditors are various insurance guaranty associations. Current known Class 2 (loss claims) liabilities of \$37.3 million is an estimate based on the 10/31/05 loss reserves transferred to the guaranty associations. These liabilities will be updated as the guaranty associations continue with their ongoing evaluation of loss reserves.

As of October 31, 2006, known assets totaled \$23.2 million with 47% in cash and short-term investments. The estate's cash and short-term investment decreased dramatically as a result of early access distributions to the insurance guaranty associations totaling \$6 million. Known liabilities totaled \$39.8 million, resulting in a deficiency of assets over liabilities of \$16.5 million. For the twelve months ended October 31, 2006, exclusive of the early access distribution of \$6 million, cash receipts exceeded cash disbursements by approximately \$630.4 thousand. Cash receipts were primarily from collection of loss recoverables from reinsurers, refund of state premium taxes and recovery of salvage and subrogation on paid loss claims. Operating expenses continue to be well within amounts budgeted by the receiver. Based on electronic claims data received from the insurance guaranty associations of California, Oregon, Washington and Alaska, a total of \$4.2 million of loss claims and loss adjustment expenses have been paid as of September 30, 2006. See the Supplemental Claims Information exhibit for details.

**Cascade National Insurance Company in Liquidation  
 Supplemental Claims Information  
 Claims and Adjusting Expenses Paid by Insurance Guaranty Funds  
 Fiscal Year Ending October 31, 2006**

	Auto	Workers Compensation	Total
Alaska	610,096	-	610,096
California	286,561	2,461,993	2,748,554
Oregon	387,959	-	387,959
Washington	426,621	-	426,621
	1,711,237	2,461,993	4,173,230

**Note:**

Based on electronic claims data submitted by state insurance guaranty funds as of 9/30/06.

**Cascade National Insurance Company in Liquidation  
Supplemental Claims Information  
Claim Counts by Loss Event  
Fiscal Year Ending October 31, 2006**

	<b>Auto</b>		<b>Workers Compensation</b>		<b>Total</b>	
	Transferred to IGF	Closed by IGF	Transferred to IGF	Closed by IGF	Transferred to IGF	Closed by IGF
Alaska	7	4	-		7	4
California	183	122	217	36	400	158
Oregon	57	33	-		57	33
Washington	164	36	-		164	36
	<u>411</u>	<u>195</u>	<u>217</u>	<u>36</u>	<u>628</u>	<u>231</u>

Note:

Based on electronic claims data submitted by state insurance guaranty funds as of 9/30/06.