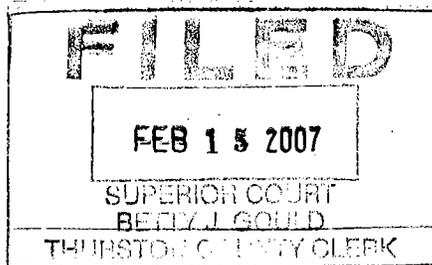


1  EXPEDITE  
2  No Hearing is Set  
The Honorable Judge Gary Tabor



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

8 MIKE KREIDLER,  
9 INSURANCE COMMISSIONER,

NO. 04-2-02427-4

10 Petitioner,

**FIFTH QUARTERLY  
REPORT OF RECEIVER**

11 v.

12 CASCADE NATIONAL INSURANCE  
13 COMPANY,

14 Respondent.

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, Robert M. McKenna, Attorney General, Christina  
20 Gerstung Beusch, Assistant Attorney General, hereby submit the Fifth 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.

COPY

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, and D are  
10 Cascade's January 31, 2007 Balance Sheet, Statement of Receipts and Disbursements,  
11 Supplemental Claims Information, and Financial Statement Notes, respectively. The financial  
12 figures are derived from calculations made in accordance with the Receiver's Handbook for  
13 Insurance Company Insolvencies published by the National Association of Insurance  
14 Commissioners ("NAIC").

15           The enclosed financial statements have been prepared from available information.  
16 Certain assets and liabilities are estimates. Assets with uncertain realizable value have not  
17 been included. Additional assets resulting from legal and/or collection efforts may be recorded  
18 in the future when realized. The review of incoming claims is an ongoing process. The  
19 estate's largest creditors are various insurance Guaranty Associations. Current known Class 2  
20 (Loss Claims) liabilities of \$37,293,376 are estimated primarily based on the 10/31/05 loss  
21 reserves transferred to the Guaranty Associations. Liabilities will be updated as the Guaranty  
22 Associations continue their ongoing evaluation of loss reserves.

23           As of January 31, 2007, known assets totaled \$23,067,484 with 47% in cash and short-  
24 term investments. The estate's cash and short-term investment decreased dramatically as a  
25 result of early access distributions to the insurance guaranty associations totaling \$6 million.  
26 Known liabilities totaled \$39,460,449, resulting in a deficiency of assets over liabilities of  
\$16,392,965. For the fifteen months ended January 31, 2007, exclusive of the early access

1 distribution of \$6 million, cash receipts exceeded cash disbursements by approximately  
2 \$318,900. Cash receipts were primarily from collection of loss recoverables from reinsurers,  
3 refund of state premium taxes and recovery of salvage and subrogation on paid loss claims.  
4 Operating expenses continue to be well within amounts budgeted by the Receiver. Based on  
5 electronic claims data received from the Guaranty Associations of Oregon, Washington and  
6 Alaska as of December 31, 2006 and claims data received from California as of November 30,  
7 2006, a total of \$5,854,054 of loss claims and loss adjustment expenses have been paid, and  
8 276 of the 629 loss claims referred by the Receiver to the Guaranty Associations have been  
9 closed. See the Supplemental Claims Information, Exhibit C for details.

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

17 5. *Operations.* The Receiver received approval by the Court to cease all  
18 operations of its subsidiary, MBR Corporation DBA Allied Pacific Adjusting Group  
19 ("Allied"), effective April 14, 2006. In compliance with the Court's order, the Receiver closed  
20 the seven offices of Allied. All Allied staff have been terminated. All Allied assets were  
21 disposed of or sold, with all funds received from the sale maintained in a separate account.  
22 Proof of claim forms were mailed to all known creditors on July 7, 2006, with a claims bar date  
23 of September 11, 2006. At a hearing held in this court on December 8, 2006, the Receiver's  
24 petition seeking the Court's approval to disburse funds to Allied's creditors and dissolve the  
25 corporation was granted. The funds were subsequently disbursed and documents to dissolve  
26

1 the corporation were filed with all appropriate jurisdictions. The only activities remaining are  
2 the closure of several accounts and the filing of Federal Tax Returns for 2006.

3 6. *Marshalling Assets.* The Receiver completed a global reconciliation of  
4 accounts current for its former general agents, Kenneth I. Tobey, Inc. and the Statewide  
5 Insurance Agency, and has billed them for closing amounts totaling over \$1 million. Both  
6 general agents dispute the global reconciliations presented by the Receiver. The Office of the  
7 Insurance Commissioner ("OIC") initiated a license revocation action against K.I. Tobey for  
8 failure to pay and mishandling of trust funds, and K.I. Tobey has voluntarily accepted  
9 revocation. Settlement negotiations between OIC and K.I. Tobey failed, and K.I. Tobey filed  
10 for Chapter 11 bankruptcy in Atlanta, Georgia. The Receiver is pursuing the claim in the  
11 bankruptcy court. Statewide Insurance Agency has been asked, but has failed, to provide  
12 documentation to support its objections to the amounts due. The Receiver may prepare filings  
13 for civil litigation and is requesting action from appropriate regulators.

14 The Receiver, through counsel, continues to pursue various legal avenues that could  
15 result in recovery of assets to the receivership estate. The Receiver filed a complaint for  
16 damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-  
17 13068-5-SEA, against various defendants, including Danny Pixler, Anthony Huff, American  
18 Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management,  
19 LLC. The complaint alleges that defendants failed to comply with the contract payment terms  
20 and failed to fund reserves while Cascade's obligation to provide workers' compensation  
21 coverage under the policies continued. Cascade's demands for compliance and payment went  
22 unanswered. The lawsuit also alleges that Cascade was victimized in a deceptive purchase  
23 scheme. The lawsuit seeks damages in excess of \$19 million that arose from deceptive  
24 practices, breaches and wrongful acts. This matter has been removed to the U.S. District Court  
25 for the Western District of Washington, No. C06-697 RSL. The Defendants have argued  
26

1 various motions and the case is now entering the discovery phase. The trial date tentatively  
2 has been scheduled for September 2008.

3 After filing suit against the Defendants, the Receiver learned that Certified HR  
4 Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered  
5 into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No.  
6 05-22912-BKC-RBR. In order to ensure that the Florida action had no adverse affect on  
7 Cascade's claims, the Receiver took action in the bankruptcy matter to protect Cascade's  
8 claims. The Receiver ultimately entered into an agreement with the bankruptcy trustee and  
9 obtained a Court order establishing that none of Cascade's claims against the Defendants in the  
10 Washington litigation were affected by the Florida bankruptcy action, and preserving the  
11 possibility of recovery against the Certified HR Services. The Receiver has subsequently filed  
12 a \$2 million dollar claim against the subsidiary. The Receiver cannot anticipate when or if  
13 there will be any payment on the claim.

14 The Receiver has also filed a civil action in King County Superior Court, No. 06-2-  
15 34413-8-SEA, to recover damages for officer/director actions that harmed Cascade.

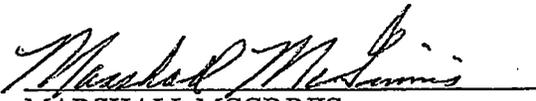
16 RESPECTFULLY SUBMITTED this 15<sup>th</sup> day of February, 2007.

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MARSHALL MCGINNIS,  
Deputy Receiver

21

Presented by:  
ROB MCKENNA  
Attorney General

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24

  
CHRISTINA GERSTUNG BEUSCH  
WSBA # 18226  
Assistant Attorney General  
Attorneys for the Insurance Commissioner

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# Exhibit A

**Cascade National Insurance Company in Liquidation  
Balance Sheet  
As of January 31, 2007**

		1/31/2007	
<b>ASSETS</b>			
Operating cash		42,892	
ST investments		10,727,127	
Cash & ST Investments	(1)		10,770,019
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>	(3)		<b>23,067,484</b>
 <b>LIABILITIES</b>			
Secured Claims		-	
Class 1	(4)	1,965,310	
Class 2	(5)	37,293,376	
Class 3		-	
Class 4		-	
Class 5		55,284	
Class 6		138,863	
Class 7		7,616	
Class 8		-	
Class 9		-	
<b>TOTAL LIABILITIES</b>			<b>39,460,449</b>
<b>Excess (Deficiency) of Assets Over Liabilities</b>			<b>(16,392,965)</b>
<b>TOTAL</b>			<b>23,067,484</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 \$447,000 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.

# Exhibit B

**Cascade National Insurance Company in Liquidation**  
**Statement of Receipts and Disbursements**  
**Period Ending January 31, 2007**

	<b>3 Months Ending 1/31/07</b>	<b>Since Date of Liquidation Order</b>
<b>RECEIPTS</b>		
Reinsurance recoveries	-	974,217
Agents balances	13,099	104,493
Salvage & subrogation recoveries	6,086	238,539
Recovery of taxes previously paid	-	283,221
Other receipts	15	255,221
Receipts Before Investment Activities	19,200	1,855,690
Investment receipts	134,191	735,349
Proceeds from sales & maturity	-	303,000
Receipts from Investment Activities	134,191	1,038,349
<b>TOTAL CASH RECEIPTS</b>	<b>153,391</b>	<b>2,894,039</b>
<b>DISBURSEMENTS &amp; DISTRIBUTIONS</b>		
Claims processing expenses	63,966	504,692
Legal fees	38,483	273,951
Audit fees	-	-
Consulting fees	17,999	115,710
Salaries	157,445	675,399
Employee benefits	18,248	37,225
Payroll & other taxes	6,233	39,993
Rent & related expenses	12,240	57,443
Equipment expenses	3,572	61,036
Office expenses	7,039	57,667
Other disbursements	5,518	21,338
Disbursements	330,742	1,844,455
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	330,742	7,844,455
Investment Expenses	-	2,614
Purchase of Investments	134,191	728,070
Disbursements for Investment Activities	134,191	730,684
<b>TOTAL CASH DISBURSEMENTS &amp; DISTRIBUTIONS</b>	<b>464,933</b>	<b>8,575,139</b>
<b>Net Cash Receipts over Disbursements</b>	<b>(311,542)</b>	<b>(5,681,100)</b>
Cash at beginning of period	364,434	773,413
Net Cash Receipts over Disbursements	(311,542)	(5,681,100)
Cash transferred from ST investment to fund distributions	(10,000)	4,950,579
Cash at end of period	42,892	42,892

**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 C

**Cascade National Insurance Company in Liquidation  
Supplemental Claims Information  
Claims and Adjusting Expenses Paid by Insurance Guaranty Funds  
As of January 31, 2007**

	<b>Auto</b>	<b>Workers Compensation</b>	<b>Total</b>
Alaska	612,267	-	612,267
California	308,182	3,624,428	3,932,610
Oregon	734,818	-	734,818
Washington	574,359	-	574,359
	<u>2,229,626</u>	<u>3,624,428</u>	<u>5,854,054</u>

**Notes:**

- Except for California, paid claims and adjusting expenses are based on electronic claims data received from state insurance guaranty associations as of 12/31/06. The claims paid for California is as of 11/30/06 because the California Insurance Guaranty Association is going through a system conversion and has not submitted their December data.
- The above amounts do not include reserves established by the insurance guaranty associations for outstanding claims.

**Supplemental Claims Information  
Claim Counts by Loss Event  
As of January 31, 2007**

	<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	6	4	-		6	4
California	183	133	217	45	400	178
Oregon	57	37	-		57	37
Washington	166	57	-		166	57
	<u>412</u>	<u>231</u>	<u>217</u>	<u>45</u>	<u>629</u>	<u>276</u>

**Notes:**

- Except for California, claim counts are based on electronic claims data received from state insurance guaranty associations as of 12/31/06. The claim counts for California is as of 11/30/06 because the California Insurance Guaranty Association is going through a system conversion and has not submitted their December data yet.
- Number of claims transferred to Alaska went down from 7 to 6 due to discovery of a date of loss error in the claims data. The error caused part of the claim to be counted as a separate claim when it is actually part of another claim.

## 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 January 31, 2007, known assets totaled \$23.1 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 \$39.5 million, resulting in a deficiency of assets over liabilities of \$16.4 million. For the fifteen months ended January 31, 2007, exclusive of the early access distribution of \$6 million, cash receipts exceeded cash disbursements by approximately \$318.9 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 guaranty associations of Oregon, Washington and Alaska as of December 31, 2006 and claims data received from California as of November 30, 2006, a total of \$5.9 million of loss claims and loss adjustment expenses have been paid. See the Supplemental Claims Information exhibit for details.