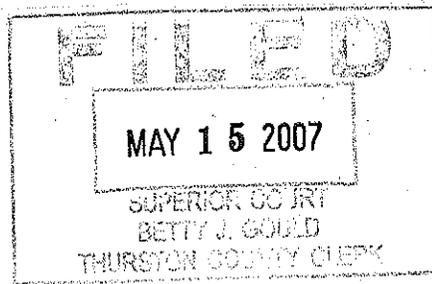


1 EXPEDITE
2 No Hearing is Set
The Honorable Judge Gary Tabor



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

9 MIKE KREIDLER,
INSURANCE COMMISSIONER,

10 Petitioner,

11 v.

12 CASCADE NATIONAL INSURANCE
13 COMPANY,

14 Respondent.

NO. 04-2-02427-4

**SIXTH 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, Robert M. McKenna, Attorney General, Christina
20 Gerstung Beusch, Assistant Attorney General, hereby submit the Sixth 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.
25
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, B and C, and D are Cascade's
10 April 30, 2007 Balance Sheet, Statement of Receipts and Disbursements, Supplemental Claims
11 Information, and Financial Statement Notes, respectively. The financial figures are derived
12 from calculations made in accordance with the Receiver's Handbook for Insurance Company
13 Insolvencies published by 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 \$33,088,250 are estimated primarily based on the 10/31/05 loss
20 reserves for automobile claims transferred to the Guaranty Associations and updated paid
21 losses and loss reserves for Workers Compensation claims. Liabilities will be updated as the
22 Guaranty Associations continue their ongoing evaluation of loss reserves.

23 As of April 30, 2007, known assets totaled \$23,063,104 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 \$35,075,301, resulting in a deficiency of assets over liabilities of
\$12,012,197. For the eighteen months ended April 30, 2007, exclusive of the early access

1 distribution of \$6 million, cash receipts exceeded cash disbursements by approximately
2 \$177,000. 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 as of March 31, 2007, a total of
6 \$7,229,126 of loss claims and loss adjustment expenses have been paid, and 312 of the 630
7 loss claims referred by the Receiver to the Guaranty Associations have been closed. See the
8 Supplemental Claims Information, Exhibit C for details.

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 reviewed. Some have been denied. The Receiver is seeking additional information from
13 some claimants. The Receiver anticipates that there may be some claims that will be rejected
14 in whole or part, which will be disputed by the claimant and will require a hearing for ultimate
15 resolution.

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

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

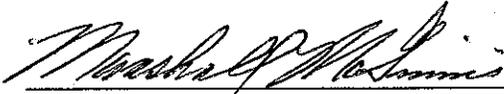
14 The Receiver, through counsel, continues to pursue various legal avenues that could
15 result in recovery of assets to the receivership estate. The Receiver filed a complaint for
16 damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-
17 13068-5-SEA, against various 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

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

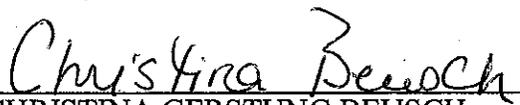
3 After filing suit against the Defendants, the Receiver learned that Certified HR
4 Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered
5 into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No.
6 05-22912-BKC-RBR. In 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 15th day of May, 2007.

17
18 
19 MARSHALL MCGINNIS,
Deputy Receiver

20 Presented by:
21 ROB MCKENNA
Attorney General

22
23 
24 CHRISTINA GERSTUNG BEUSCH
WSBA # 18226
Assistant Attorney General
25 Attorneys for the Insurance Commissioner
26

Cascade National Insurance Company in Liquidation
Balance Sheet
As of April 30, 2007

		4/30/2007
ASSETS		
Operating cash		101,080
ST investments		10,664,560
Cash & ST Investments	(1)	10,765,639
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)	23,063,104
LIABILITIES		
Secured Claims		-
Class 1	(4)	1,785,288
Class 2	(5)	33,088,250
Class 3		-
Class 4		-
Class 5		55,284
Class 6		138,863
Class 7		7,616
Class 8		-
Class 9		-
TOTAL LIABILITIES		35,075,301
Excess (Deficiency) of Assets Over Liabilities		(12,012,197)
TOTAL		23,063,104

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 \$449,000 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 auto 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 auto liabilities. The receivership, with the help of a consulting actuary, updated its Class 2 liabilities on workers' compensation policies using paid losses and loss reserves data from the California Guaranty Association as of 3/31/07. Additionally, the Class 2 liabilities 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
Period Ending April 30, 2007

	6 Months Ending 4/30/07	Since Date of Liquidation Order
RECEIPTS		
Reinsurance recoveries	-	974,217
Agents balances	51,324	142,718
Salvage & subrogation recoveries	6,500	238,952
Recovery of taxes previously paid	-	283,221
Other receipts	1,302	256,508
Receipts Before Investment Activities	59,125	1,895,615
Investment receipts	263,631	864,789
Proceeds from sales & maturity	310,000	613,000
Receipts from Investment Activities	573,631	1,477,789
TOTAL CASH RECEIPTS	632,757	3,373,404
DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	63,537	504,263
Legal fees	90,462	325,930
Audit fees	-	-
Consulting fees	49,228	146,939
Salaries	224,756	742,710
Employee benefits	20,087	39,064
Payroll & other taxes	12,146	45,906
Rent & related expenses	21,420	66,623
Equipment expenses	8,567	66,031
Office expenses	13,404	64,032
Other disbursements	7,159	22,979
Disbursements	510,764	2,024,476
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	510,764	8,024,476
Investment Expenses	1,715	4,330
Purchase of Investments	573,632	1,167,510
Disbursements for Investment Activities	575,347	1,171,840
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS	1,086,111	9,196,316
Net Cash Receipts over Disbursements	(453,354)	(5,822,912)
Cash at beginning of period	364,434	773,413
Net Cash Receipts over Disbursements	(453,354)	(5,822,912)
Cash transferred from ST investment to fund distributions	190,000	5,150,579
Cash at end of period	101,080	101,080

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.

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

	Auto	Workers Compensation	Total
Alaska	618,701	-	618,701
California	425,387	4,723,024	5,148,411
Oregon	809,416	-	809,416
Washington	652,597	-	652,597
	2,506,102	4,723,024	7,229,126

Notes:

- 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 March 31, 2007**

	Auto		Workers Compensation		Total	
	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	141	217	48	400	189
Oregon	57	42	-		57	42
Washington	167	77	-		167	77
	<u>413</u>	<u>264</u>	<u>217</u>	<u>48</u>	<u>630</u>	<u>312</u>

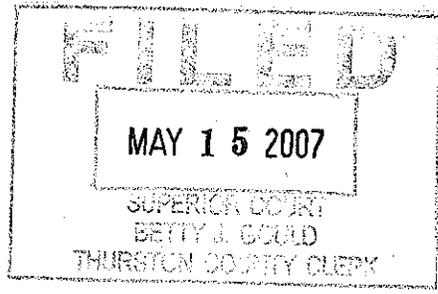
Financial Statement Notes

The enclosed financial statements have been prepared from available information. Certain assets and liabilities are estimates. Assets with uncertain realizable value have been excluded. Additional assets resulting from legal and/or collection efforts may be recorded in the future when realized. The review of incoming claims is an ongoing process. The estate's largest creditors are various insurance guaranty associations. Current known Class 2 (loss claims) liabilities of \$33.1 million is a combination of estimates. For auto policies, the liabilities are based on the 10/31/05 loss reserves transferred to the guaranty associations. For workers' compensation policies, the liabilities are based on an independent actuarial study performed using loss claims statistics as of 3/31/07. These liabilities are updated as the guaranty associations and the estate continue with their ongoing evaluation of loss reserves.

As of April 30, 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 \$35.1 million, resulting in a deficiency of assets over liabilities of \$12 million. For the eighteen months ended April 30, 2007, exclusive of the early access distribution of \$6 million, cash receipts exceeded cash disbursements by approximately \$177 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 as of March 31, 2007, a total of \$7.2 million of loss claims and allocated loss adjustment expenses have been paid. See the Supplemental Claims Information exhibit for details.

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EXPEDITE
 No Hearing is Set
The Honorable Judge Gary Tabor



STATE OF WASHINGTON
THURSTON COUNTY SUPERIOR COURT

MIKE KREIDLER,
INSURANCE COMMISSIONER,

Petitioner,

v.

CASCADE NATIONAL INSURANCE
COMPANY,

Respondent.

NO. 04-2-02427-4

CERTIFICATE OF SERVICE

This will hereby certify that on the 15th day of May, 2007, I mailed a true and correct copy of the Insurance Commissioner's Sixth Quarterly Report of Receiver in this matter via the U.S. Mail, first-class postage prepaid, in sealed envelopes, from Olympia, WA, to the following interested parties:

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Majority Shareholder*

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Attorney for Harold Anderson

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c/o Western Guaranty Fund Services
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8 Alaska Division of Insurance
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OR Dept. of Consumer & Business Svcs.
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Jim Odiorne, Receiver
for Cascade National Insurance Company
Office of Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

11
12 DATED this 15th day of May, 2007.

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15 _____
NICOLE TEETER
Legal Assistant to