

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

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AUG 16 2007

INSURANCE COMMISSIONER
COMPANY SUPERVISION

7 STATE OF WASHINGTON
8 THURSTON COUNTY SUPERIOR COURT

9 MIKE KREIDLER,
10 INSURANCE COMMISSIONER,
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Petitioner,

NO. 04-2-02427-4

CERTIFICATE OF SERVICE

v.

CASCADE NATIONAL INSURANCE
COMPANY,
Respondent.

This will hereby certify that on the 15th day of August, 2007, I mailed a true and correct copy of the Insurance Commissioner's Seventh 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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*Former President of Cascade
Majority Shareholder*

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Attorneys for Harold Anderson
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25 Creditor of Allied*
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Jim Odiorne, Receiver
for Cascade National Insurance Company
Office of Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

14 DATED this 15th day of August, 2007.

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17 NICOLE TEETER
Legal Assistant to

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,

11 Petitioner,

12 v.

13 CASCADE NATIONAL INSURANCE
14 COMPANY,

15 Respondent.

NO. 04-2-02427-4

SEVENTH QUARTERLY
REPORT OF RECEIVER

16 Mike Kreidler, Insurance Commissioner of the State of Washington and Statutory
17 Receiver of Cascade National Insurance Company in Liquidation ("Cascade" or "CNIC"),
18 James T. Odiorne, Deputy Insurance Commissioner and Court-appointed Receiver of Cascade,
19 and Marshall McGinnis, court-appointed Deputy Receiver of Cascade (collectively the
20 "Receiver"), by and through their attorneys, Robert M. McKenna, Attorney General, Christina
21 Gerstung Beusch, Assistant Attorney General, hereby submit the Seventh Quarterly Report of
22 Receiver pursuant to RCW 48.31.040(5), and state as follows:

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, B and C, and D are Cascade's
10 July 31, 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 \$33,055,413 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 July 30, 2007, known assets totaled \$22,956,200 with 46% in cash and short-term
24 investments. The estate's cash and short-term investment decreased dramatically as a result of
25 early access distributions to the insurance guaranty associations totaling \$6 million. Known
26 liabilities totaled \$34,798,878, resulting in a deficiency of assets over liabilities of
(\$11,842,678). For the seven quarters ending July 31, 2007, exclusive of the early access

1 distribution of \$6 million, cash disbursements exceeded cash receipts by \$62,928. Cash
2 receipts were primarily from collection of loss recoverables from reinsurers, refund of state
3 premium taxes and recovery of salvage and subrogation on paid loss claims. Operating
4 expenses continue to be well within amounts budgeted by the Receiver. Based on electronic
5 claims data received from the guaranty associations as of June 31, 2007, a total of \$8,155,182
6 million of loss claims and allocated loss adjustment expenses have been paid. See the
7 Supplemental Claims Information, Exhibit C for details.

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

15 5. *Operations.* The Receiver received approval by the Court to cease all
16 operations of its subsidiary, MBR Corporation DBA Allied Pacific Adjusting Group
17 (“Allied”), effective April 14, 2006. All Allied assets were disposed of or sold, with all funds
18 received from the sale maintained in a separate account. The funds were subsequently
19 disbursed and documents to dissolve the corporation were filed with all appropriate
20 jurisdictions. All activities required to cease all operations of Allied have now been completed.

21 6. *Marshalling Assets.* The Receiver completed a global reconciliation of
22 accounts current for its former general agents, Kenneth I. Tobey, Inc. and the Statewide
23 Insurance Agency, and has billed them for closing amounts totaling over \$1 million. Both
24 general agents dispute the global reconciliations presented by the Receiver.

25 The Office of the Insurance Commissioner (“OIC”) initiated a license revocation action
26 against K.I. Tobey for failure to pay and mishandling of trust funds, and K.I. Tobey has

1 voluntarily accepted revocation. Settlement negotiations between OIC and K.I. Tobey failed,
2 and K.I. Tobey filed for Chapter 11 bankruptcy in Atlanta, Georgia. A trustee was
3 subsequently appointed by the bankruptcy court. The Receiver is pursuing the claim in the
4 bankruptcy court, but the likelihood of recovery is unknown.

5 In an effort to marshal the assets of Cascade, the Receiver has initiated an adversarial
6 claim for wrongfully withheld premiums against Statewide National Insurance Company and
7 Marcel Matar. This adversarial claim has been filed with the receivership court. Statewide has
8 been served, and its attorneys have filed notices of appearance. Despite Mr. Matar having
9 avoided service, Statewide's attorneys have filed notices of appearance on behalf of Mr. Matar,
10 as well. Attempts to personally serve Mr. Matar continue.

11 The Receiver is also pursuing amounts owed by Mainstay, one of Cascade's workers'
12 compensation accounts in California, which include payment for premium, paid claims, and
13 reserves. Cascade has requested payment and information required under the policy with
14 Mainstay for Cascade to conduct a premium audit. Mainstay has not provided payment or the
15 audit information. If Mainstay does not comply with its obligations under the policy contract
16 between it and Cascade, the Receiver likely will have to pursue a remedy in this receivership
17 court.

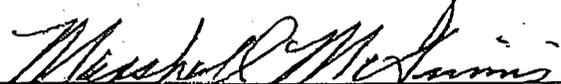
18 The Receiver, through counsel, continues to pursue various legal avenues that could
19 result in recovery of assets to the receivership estate. The Receiver filed a complaint for
20 damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-
21 13068-5-SEA, against various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

1 scheme. The lawsuit seeks damages in excess of \$19 million that arose from deceptive
2 practices, breaches and wrongful acts. This matter has been removed to the U.S. District Court
3 for the Western District of Washington, No. C06-697 RSL. The Defendants have argued
4 various motions and the case is in the discovery phase. The trial date tentatively has been
5 scheduled for September 2008.

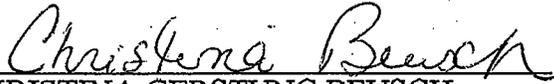
6 After filing suit against the Defendants, the Receiver learned that Certified HR
7 Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered
8 into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No.
9 05-22912-BKC-RBR. The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

15 The Receiver has also filed a civil action in King County Superior Court, No. 06-2-
16 34413-8-SEA, to recover damages for officer/director actions that harmed Cascade.

17 RESPECTFULLY SUBMITTED this 15th day of August, 2007.

18 
19 MARSHALL MCGINNIS,
20 *Deputy Receiver*

21 Presented by:
22 ROB MCKENNA
23 Attorney General

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

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

		7/31/2007	
ASSETS			
Operating cash		61,064	
ST investments		10,597,671	
Cash & ST Investments	(1)		10,658,736
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)		22,956,200
 LIABILITIES			
Secured Claims		-	
Class 1	(4)	1,535,542	
Class 2	(5)	33,055,413	
Class 3		-	
Class 4		-	
Class 5		55,284	
Class 6		138,863	
Class 7		13,777	
Class 8		-	
Class 9		-	
TOTAL LIABILITIES			34,798,878
Excess (Deficiency) of Assets Over Liabilities			(11,842,678)
TOTAL			22,956,200

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 \$429,500 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 reimbursable 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 July 31, 2007

	<u>9 Months</u> <u>Ending 7/31/07</u>	<u>Since Date of</u> <u>Liquidation</u> <u>Order</u>
RECEIPTS		
Reinsurance recoveries	-	974,217
Agents balances	51,324	142,718
Salvage & subrogation recoveries	13,605	246,058
Recovery of taxes previously paid	-	283,221
Other receipts	4,926	260,132
Receipts Before Investment Activities	<u>69,855</u>	<u>1,906,345</u>
Investment receipts	396,743	997,901
Proceeds from sales & maturity	310,000	613,000
Receipts from Investment Activities	<u>706,743</u>	<u>1,610,901</u>
TOTAL CASH RECEIPTS	<u>776,599</u>	<u>3,517,246</u>
DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	62,805	503,532
Legal fees	237,754	462,044
Audit fees	-	-
Consulting fees	57,237	167,298
Salaries	295,181	810,645
Employee benefits	20,981	39,959
Payroll & other taxes	17,601	51,361
Rent & related expenses	30,600	75,803
Equipment expenses	10,161	68,942
Office expenses	19,764	70,392
Other disbursements	8,426	24,247
Disbursements	<u>760,510</u>	<u>2,274,222</u>
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	<u>760,510</u>	<u>8,274,222</u>
Investment Expenses	2,715	5,330
Purchase of Investments	706,744	1,300,622
Disbursements for Investment Activities	<u>709,459</u>	<u>1,305,952</u>
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS	<u>1,469,968</u>	<u>9,580,174</u>
Net Cash Receipts over Disbursements	<u>(693,370)</u>	<u>(6,062,928)</u>
Cash at beginning of period	364,434	773,413
Net Cash Receipts over Disbursements	(693,370)	(6,062,928)
Cash transferred from ST investment to fund distributions	390,000	5,350,579
Cash at end of period	<u>61,064</u>	<u>61,064</u>

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 June 30, 2007**

	Auto	Workers Compensation	Total
Alaska	622,894	-	622,894
California	481,096	5,262,544	5,743,640
Oregon	902,778	-	902,778
Washington	885,870	-	885,870
	<u>2,892,638</u>	<u>5,262,544</u>	<u>8,155,182</u>

Notes:

- The above amounts do not include reserves established by the insurance guaranty associations for outstanding claims.

Cascade National Insurance Company in Liquidation
Supplemental Claims Information
Claim Counts by Loss Event
As of June 30, 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	5	-		6	5
California	185	144	218	71	403	215
Oregon	56	44	-		56	44
Washington	168	77	-		168	77
	<u>415</u>	<u>270</u>	<u>218</u>	<u>71</u>	<u>633</u>	<u>341</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 July 30, 2007, known assets totaled \$23 million with 46% 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 \$34.8 million, resulting in a deficiency of assets over liabilities of \$11.8 million. For the seven quarters ending July 31, 2007, exclusive of the early access distribution of \$6 million, cash disbursements exceeded cash receipts by approximately \$62.9 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 as of June 31, 2007, a total of \$8.2 million of loss claims and allocated loss adjustment expenses have been paid. See the Supplemental Claims Information exhibit for details.