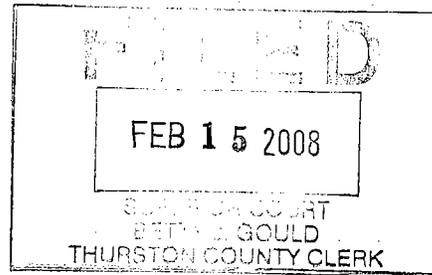


1  EXPEDITE  
2  No Hearing is Set  
The Honorable Judge Gary Tabor



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

8 MIKE KREIDLER,  
9 INSURANCE COMMISSIONER,

10 Petitioner,

11 v.

12 CASCADE NATIONAL INSURANCE  
13 COMPANY,

14 Respondent.

NO. 04-2-02427-4

**NINTH 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, Robert M. McKenna, Attorney General, Christina  
20 Gerstung Beusch, Assistant Attorney General, hereby submit the Ninth 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 2. *Accounting to the Court.* In accordance with the Order of Liquidation, the  
26 Receiver shall file a report with the Court quarterly. In order to ensure that the reports have the

1 most recent financial information, the reports will be filed after the accounts from the prior  
2 month are closed. The estimated filing dates for the reports are: February 15, May 15, August  
3 15, and November 15.

4 3. *Financial Report.* Attached hereto as Exhibits A, B and C, and D are Cascade's  
5 January 31, 2008 Balance Sheet, Statement of Receipts and Disbursements, Supplemental  
6 Claims Information, and Financial Statement Notes, respectively. The financial figures are  
7 derived from calculations made in accordance with the Receiver's Handbook for Insurance  
8 Company Insolvencies published by the National Association of Insurance Commissioners  
9 ("NAIC").

10 The enclosed financial statements have been prepared from available information.  
11 Certain assets and liabilities are estimates. Assets with uncertain realizable value have not  
12 been included. Additional assets resulting from legal and/or collection efforts may be recorded  
13 in the future when realized. The review of incoming claims is an ongoing process. The  
14 estate's largest creditors are various insurance Guaranty Associations. Current known Class 2  
15 (Loss Claims) liabilities of \$33,079,861 are estimated primarily based on the 10/31/05 loss  
16 reserves for automobile claims transferred to the Guaranty Associations and updated paid  
17 losses and loss reserves for Workers Compensation claims as of March 31, 2007. Liabilities  
18 will be updated as the Guaranty Associations continue their ongoing evaluation of loss  
19 reserves.

20 As of January 31, 2008, known assets totaled \$24,046,396 with 50% in cash and short-  
21 term investments. The estate's cash and short-term investment decreased significantly as a  
22 result of early access distributions to the insurance guaranty associations totaling \$6 million.  
23 Known liabilities totaled \$37,214,769, resulting in a deficiency of assets over liabilities of  
24 \$13,168,373. For the nine quarters ending January 31, 2008, exclusive of the early access  
25 distribution of \$6 million, cash receipts exceeded cash disbursements by \$953,259. Cash  
26 receipts were primarily from asset recovery efforts, collection of loss recoverables from

1 reinsurers, refund of state premium taxes and recovery of salvage and subrogation on paid loss  
2 claims. Operating expenses continue to be well within amounts budgeted by the Receiver.  
3 Based on electronic claims data received from the guaranty associations as of  
4 December 31, 2007, a total of \$9,829,118 million of loss claims and allocated loss adjustment  
5 expenses have been paid. See the Supplemental Claims Information, Exhibit C 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. Some have been denied. The Receiver is seeking additional information from  
10 some claimants. The Receiver anticipates that there may be some claims that will be rejected  
11 in whole or part, which will be disputed by the claimant and will require a hearing for ultimate  
12 resolution.

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

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

24 The Office of the Insurance Commissioner ("OIC") initiated a license revocation action  
25 against K.I. Tobey for failure to pay and mishandling of trust funds, and K.I. Tobey has  
26 voluntarily accepted revocation. Settlement negotiations between OIC and K.I. Tobey failed,

1 and K.I. Tobey filed for bankruptcy in Atlanta, Georgia. A trustee was subsequently appointed  
2 by the bankruptcy court. The Receiver is pursuing the claim in the bankruptcy court, but the  
3 likelihood of recovery is unknown.

4 In an effort to marshal the assets of Cascade, the Receiver has initiated an adversarial  
5 claim for wrongfully withheld premiums against Statewide National Insurance Company and  
6 Marcel Matar. This adversarial claim has been filed with the receivership court. Statewide has  
7 been served, and its attorneys have filed notices of appearance. Despite Mr. Matar having  
8 avoided service, Statewide's attorneys have filed notices of appearance on behalf of Mr. Matar,  
9 as well. Counsel for Statewide and Mr. Matar have been contacted regarding resolution of the  
10 matter. The Receiver is in the process of filing a motion for default.

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, but  
15 has provided some audit information. Currently, Mainstay and Cascade are communicating  
16 about these issues.

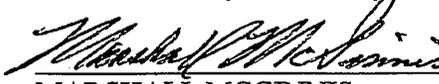
17 The Receiver, through counsel, continues to pursue various legal avenues that could  
18 result in recovery of assets to the receivership estate. The Receiver filed a complaint for  
19 damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-  
20 13068-5-SEA, against 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 \$19 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. The Defendants have argued  
3 various motions and the case is in the discovery phase. The trial date tentatively has been  
4 scheduled for September, 2008.

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

14 The Receiver had filed a civil action in King County Superior Court, No. 06-2-34413-  
15 8-SEA, to recover damages for officer/director actions that harmed Cascade. A favorable  
16 settlement has been reached and the action has been dismissed.

17 RESPECTFULLY SUBMITTED this 15th day of February, 2008.

18   
19 \_\_\_\_\_  
20 MARSHALL MCGINNIS,  
21 Deputy Receiver

21 Presented by:

22 ROB MCKENNA  
23 Attorney General

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

**EXHIBIT A**

**Cascade National Insurance Company in Liquidation**  
**Balance Sheet**  
**As of January 31, 2008**

		1/31/2008	
<b>ASSETS</b>			
Operating cash		77,250	
ST investments		11,838,622	
Cash & ST Investments	(1)	11,915,873	
Advances to Guaranty Associations		6,000,000	
Reinsurance recoverable (net)	(2)	6,124,241	
Rental deposit		6,282	
Total Other Assets		12,130,523	
<b>TOTAL ASSETS</b>	(3)	<b>24,046,396</b>	
 <b>LIABILITIES</b>			
Secured Claims		-	
Class 1	(4)	3,925,492	
Class 2	(5)	33,079,861	
Class 3		-	
Class 4		-	
Class 5		55,284	
Class 6		138,863	
Class 7		15,269	
Class 8		-	
Class 9		-	
<b>TOTAL LIABILITIES</b>		<b>37,214,769</b>	
<b>Excess (Deficiency) of Assets Over Liabilities</b>			<b>(13,168,373)</b>
<b>TOTAL</b>			<b>24,046,396</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 \$432,100 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) The receiver has prepared the estate's 3rd and 4th year operating budget. The Class 1 Liability represents the remainder of the four-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.

**EXHIBIT B**

**Cascade National Insurance Company in Liquidation  
Statement of Receipts and Disbursements  
Period Ending January 31, 2008**

	<u>3 Months Ending 1/31/08</u>	<u>Since Date of Liquidation Order</u>
<b>RECEIPTS</b>		
Reinsurance recoveries	128,291	1,162,321
Agents balances	-	142,718
Salvage & subrogation recoveries	7,237	272,436
Recovery of taxes previously paid	-	283,221
Asset Recovery	1,500,000	1,500,000
Other receipts	2,555	262,751
Receipts Before Investment Activities	1,638,083	3,623,446
Investment receipts	120,709	1,245,647
Proceeds from sales & maturity	-	613,000
Receipts from Investment Activities	120,709	1,858,647
<b>TOTAL CASH RECEIPTS</b>	<b>1,758,792</b>	<b>5,482,093</b>
<b>DISBURSEMENTS &amp; DISTRIBUTIONS</b>		
Claims processing expenses	2,955	506,948
Legal fees	195,206	845,746
Audit fees	-	-
Consulting fees	30,661	203,564
Salaries	158,255	1,040,289
Employee benefits	(1,325)	40,570
Payroll & other taxes	6,272	62,738
Rent & related expenses	9,666	94,811
Equipment expenses	2,686	72,801
Office expenses	9,129	83,707
Other disbursements	2,324	29,758
Disbursements	415,829	2,980,932
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	415,829	8,980,932
Investment Expenses	1,000	6,330
Purchase of Investments	113,914	1,541,573
Disbursements for Investment Activities	114,914	1,547,902
<b>TOTAL CASH DISBURSEMENTS &amp; DISTRIBUTIONS</b>	<b>530,743</b>	<b>10,528,835</b>
<b>Net Cash Disbursements over Receipts</b>	<b>1,228,049</b>	<b>(5,046,741)</b>
Cash at beginning of period	49,201	773,413
Net Cash Disbursements over Receipts	1,228,049	(5,046,741)
Cash transferred from ST investment to fund distributions	(1,200,000)	4,350,579
Cash at end of period	77,250	77,250

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**EXHIBIT C**

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

	Auto	Workers Compensation	Total
Alaska	685,989	-	685,989
California	546,553	6,436,208	6,982,761
Oregon	945,023	-	945,023
Washington	1,215,344	-	1,215,344
	3,392,909	6,436,208	9,829,118

Notes:

- The above amounts do not include reserves established by the insurance guaranty associations for outstanding claims nor the estate's residual liabilities on these claims.

**Cascade National Insurance Company in Liquidation  
Supplemental Claims Information  
Claim Counts by Loss Event  
As of December 31, 2007**

	<b>Auto (1)</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	5	-	-	6	5
California	186	155	338	191 #	524	346
Oregon	56	47	-	-	56	47
Washington	168	101	-	-	168	101
	<u>416</u>	<u>308</u>	<u>338</u>	<u>191</u>	<u>754</u>	<u>499</u>

Note:

- (1) A substantial number of closed auto claims are claims closed by the insurance guaranty associations without loss payment. These claims may have been settled by the claimants' own insurance carrier. As a result, these insurance carriers may have recovery rights against the estate of Cascade. It is not possible to estimate the number or amount of these subrogation claims against the estate at this time.
- (2) The increase in WC claim count is the result of catch-up reporting of a number of nominal claim payments on closed claims. These claims had not previously been transferred to the California Insurance Guaranty Association because they were closed as of the date of liquidation. Further review of these claim payments is ongoing.

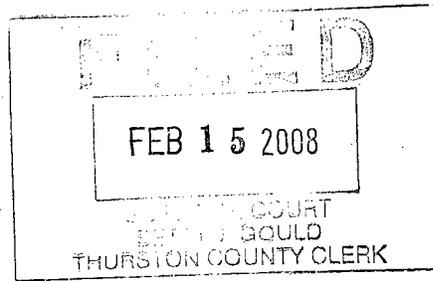
**EXHIBIT D**

## 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 (primarily loss claims) liabilities of \$33,079,861 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 January 31, 2008, known assets totaled \$24,046,396 with 50% in cash and short-term investments. The estate's cash and short-term investment decreased dramatically since the date of liquidation order as a result of early access distributions to the insurance guaranty associations totaling \$6 million. Known liabilities totaled \$37,214,769, resulting in a deficiency of assets over liabilities of \$13,168,373. For the nine quarters ending January 31, 2008, exclusive of the early access distribution of \$6 million, cash receipts exceeded cash disbursements by approximately \$953,259. Cash receipts were primarily from asset recovery efforts, 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 December 31, 2007, a total of \$9,829,118 million of loss claims and allocated loss adjustment expenses have been paid. See the Supplemental Claims Information exhibit for details.

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,

10 Petitioner,

11 v.

12 CASCADE NATIONAL INSURANCE  
13 COMPANY,

Respondent.

NO. 04-2-02427-4

CERTIFICATE OF SERVICE

14 This will hereby certify that on the 15<sup>th</sup> day of February, 2008, I mailed a true and  
15 correct copy of the Insurance Commissioner's Ninth Quarterly Report of Receiver in this  
16 matter via the U.S. Mail, first-class postage prepaid, in sealed envelopes, from Olympia, WA,  
17 to the following interested parties:

18  
19 Elizabeth J. Anderson, Sr. VP  
20 **Columbia Bank**  
Special Credits Department  
21 1301 "A" Street  
Tacoma, WA 98401

Terrence J. Donahue  
Eisenhower & Carlson  
1201 Pacific Avenue, Suite 1200  
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*Attorney for Columbia Bank*

22 Harold Anderson  
23 P.O. Box 3526  
Sun River, OR 97707  
24 *Former President of Cascade*  
*Majority Shareholder*

Gudeman & Weiss  
35055 W. Twelve Mile Rd., Suite 114  
Farmington Hills, MI 48331-3260  
*Shareholder of Legend Holdings*

25  
26  
CERTIFICATE OF SERVICE

**COPY**

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25 Creditor of Allied**  
26

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Bank of America NA  
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Pasadena, CA 91102-6102  
**Creditor of Allied**

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Business Transmition Network  
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**Former Outside Director of Cascade**

Dan Pixler, President & CEO  
Certified Services, Inc.  
American Staff Resources of CA, Inc.  
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**Shareholder of Legend Holdings**

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**Litigation Counsel for Cascade**

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4 Oregon Ins. Guaranty Association  
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5 Beaverton, OR 97005

6 WA Insurance Guaranty Association  
c/o Western Guaranty Fund Services  
7 1720 S. Bellaire, Suite 408  
Denver, CO 80222

8 Alaska Division of Insurance  
9 Linda S. Hall, Director of Juneau Office  
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11 John Mellen  
12 Keller Rohrback, LLP  
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13 Seattle, WA 98101

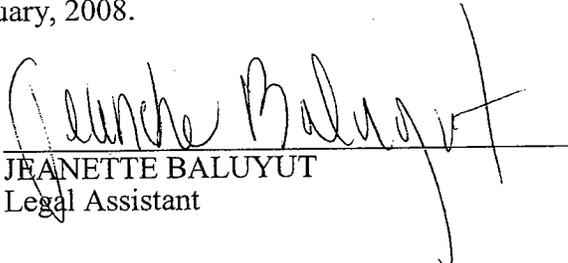
California Department of Insurance  
John Garamendi, Insurance Commissioner  
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Los Angeles, CA 90013

OR Dept. of Consumer & Business Svcs.  
Joel Ario, Ins. Division Administrator  
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Salem, OR 97309

Marshall McGinnis, Deputy Receiver  
*for Cascade National Insurance Company*  
Office of Insurance Commissioner  
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Olympia, WA 98504-0255

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

14 DATED this 15<sup>th</sup> day of February, 2008.

15  
16  
17   
JEANETTE BALUYUT  
18 Legal Assistant