

1  EXPEDITE  
2  No Hearing is Set  
The Honorable Judge Thomas McPhee

**RECEIVED**

AUG 18 2009

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

3  
4  
5  
6  
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

**FIFTEENTH 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, and  
20 Heather L. Polz, Assistant Attorney General, hereby submit the Fifteenth 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 are Cascade's July  
5 31, 2009 Balance Sheet, and Statement of Receipts and Disbursements, and its Supplemental  
6 Claims Information as of June 30, 2009. The financial figures are derived from calculations  
7 made in accordance with the Receiver's Handbook for Insurance Company Insolvencies  
8 published by the National Association of Insurance Commissioners ("NAIC").

9 The enclosed financial statements have been prepared from available information.  
10 Certain assets and liabilities are estimates. Assets with uncertain realizable value have not  
11 been included. Additional assets resulting from legal and/or collection efforts may be recorded  
12 in the future when realized. The review of incoming claims is an ongoing process. The  
13 estate's largest creditors are various Insurance Guaranty Associations. Current known Class 2  
14 (Loss Claims) liabilities of \$28,047,825 are calculated based upon the Receiver's best estimate  
15 of outstanding loss and loss adjustment expense reserves for automobile claims as of the  
16 review completed for closed files returned to Cascade as of the end of 2008, and estimated  
17 Workers Compensation claims based on the most current actuarial study performed using  
18 claims data as of March 31, 2009. Since the Guaranty Associations are now handling the  
19 automobile claims, the usual and traditional actuarial methodology for estimating loss reserves  
20 is not applicable. The Receiver has completed a detailed review of each individual automobile  
21 claim closed and returned to Cascade by all Guaranty Associations as of the end of 2008.  
22 Based upon that review of closed claims and known outstanding claims, the Receiver has  
23 adjusted Class 2 automobile claims liabilities to reflect the Receiver's best estimate of those  
24 liabilities going forward. Note that this adjustment includes a corresponding reduction in  
25 applicable reinsurance recoverable, a Balance Sheet asset. In this review process, the Receiver  
26

1 also re-categorized estimated Insurance Guaranty Association unallocated loss adjustment  
2 expenses as Class 1 Liabilities. Due to significant adverse development noted in the paid and  
3 case reserves of the California Workers Compensation business, the Receiver commissioned an  
4 update to the Workers Compensation independent actuarial study using the latest available  
5 claims data as of March 31, 2009. The result of the study reflects continuing deterioration of  
6 Cascade's California Workers Compensation business.

7 As of July 31, 2009, known assets totaled \$20,026,954 with 57% in cash and short-term  
8 investments. The estate's cash and short-term investment decreased significantly as a result of  
9 early access distributions to the insurance guaranty associations totaling \$6 million. Known  
10 liabilities totaled \$33,527,332 resulting in a deficiency of assets over liabilities of \$13,500,378.  
11 For the fifteen quarters ending July 31, 2009, exclusive of the early access distribution of \$6  
12 million, cash receipts exceeded cash disbursements by \$614,864. Cash receipts were primarily  
13 from asset recovery efforts, collection of loss recoverable from reinsurers, refund of state  
14 premium taxes and recovery of salvage and subrogation on paid loss claims. Operating  
15 expenses continue to be well within amounts budgeted by the Receiver. Based on electronic  
16 claims data received from the guaranty associations as of June 30, 2009, a total of \$13,709,473  
17 of loss claims and allocated loss adjustment expenses have been paid. See the Supplemental  
18 Claims Information, Exhibit C for details.

19 4. *Proof of Claims.* In accordance with paragraph 3.5 of the Plan of Liquidation,  
20 the Receiver issued Proof of Claim forms to all policyholders and other potential claimants.  
21 All claimants had until March 4, 2006, to file a timely Proof of Claim form. Claims continue  
22 to be reviewed. Some have been denied. The Receiver is seeking additional information from  
23 some claimants. The Receiver anticipates that there may be some claims that will be rejected  
24 in whole or part, which will be disputed by the claimant and will require a hearing for ultimate  
25 resolution.  
26

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

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

12           The Office of the Insurance Commissioner (“OIC”) initiated a license revocation action  
13 against K.I. Tobey for failure to pay and mishandling of trust funds, and K.I. Tobey has  
14 voluntarily accepted revocation. Settlement negotiations between OIC and K.I. Tobey failed,  
15 and K.I. Tobey filed for bankruptcy in Atlanta, Georgia. A trustee was subsequently appointed  
16 by the bankruptcy court. The Receiver is pursuing the claim in the bankruptcy court, but the  
17 likelihood of recovery is unknown.

18           In an effort to marshal the assets of Cascade, the Receiver has initiated an adversarial  
19 claim for wrongfully withheld premiums against Statewide General Insurance Agency and  
20 Marcel Matar. This adversarial claim has been filed with the receivership court. Statewide has  
21 been served, and its attorneys have filed notices of appearance. Despite Mr. Matar having  
22 avoided service, Statewide’s attorneys have filed notices of appearance on behalf of Mr. Matar,  
23 as well. An Answer was filed, after the Receiver filed a motion for default. Mr. Matar is  
24 claiming lack of funds. The Receiver’s counsel requested information regarding the financial  
25 status of Mr. Matar and his business in order to establish whether there are resources available  
26

1 to repay Cascade. The information provided was limited and is not sufficient, particularly with  
2 respect to the financial status of Mr. Matar, who personally guaranteed the obligation to  
3 Cascade. The Receiver's counsel has propounded discovery in order to obtain additional  
4 information and that information is currently under review.

5 The Receiver is also pursuing amounts owed by Mainstay, one of Cascade's workers'  
6 compensation accounts in California, which include payment for premium, paid claims, and  
7 reserves. Cascade has requested payment and information required under the policy with  
8 Mainstay for Cascade to conduct a premium audit. Mainstay has not provided payment, but  
9 has provided some audit information. Mainstay and Cascade are continuing to communicate  
10 about these issues.

11 The Receiver, through counsel, continues to pursue various legal avenues that could  
12 result in recovery of assets to the receivership estate. The Receiver filed a Complaint for  
13 Damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-  
14 13068-5-SEA, against several defendants, including Danny Pixler, Anthony Huff, American  
15 Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management,  
16 LLC. The Complaint alleges that defendants failed to comply with the contract payment terms  
17 and failed to fund reserves while Cascade's obligation to provide workers' compensation  
18 coverage under the policies continued. Cascade's demands for compliance and payment went  
19 unanswered. The Complaint also alleges that Cascade was victimized in a deceptive scheme,  
20 and seeks damages in excess of \$18.7 million arising from the workers' compensation  
21 coverage which was not paid for by Defendants. This case was removed to the U.S. District  
22 Court for the Western District of Washington, No. C06-697 RSL. The parties engaged in  
23 extensive discovery, depositions, and motions practice. A mediation was held in Seattle on  
24 August 12, 2008 but was unsuccessful. The trial date was reset from September 2008 to March  
25 2009, and the Court has recently continued the trial date to October 2009 due to criminal  
26

1 proceedings against defendant Danny Pixler in Florida. Defendant Pixler has entered into a  
2 plea agreement in those proceedings and is scheduled to begin incarceration in September  
3 2009. The SEC has initiated civil proceedings against defendant Huff and trial in that action is  
4 expected to begin this fall.

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 consolidated Certified HR Services/Certified  
12 Services bankruptcy estate. The Receiver subsequently filed a \$2 million claim against the  
13 bankruptcy estate and it is uncertain when or whether there will be actual payment on that  
14 claim.

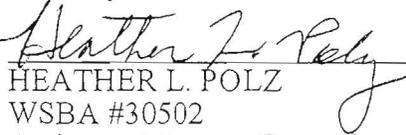
15 The Receiver had filed a civil action in King County Superior Court, No. 06-2-34413-  
16 8-SEA, to recover damages for officer/director actions that harmed Cascade. A favorable  
17 settlement has been reached and the action has been dismissed.

18 RESPECTFULLY SUBMITTED this 17 day of August, 2009.

19  
20   
21 MARSHALL MCGINNIS  
Deputy Receiver

22 Presented by:

23 ROBERT M. MCKENNA  
Attorney General

24   
25 HEATHER L. POLZ  
WSBA #30502  
26 Assistant Attorney General  
Attorneys for the Insurance Commissioner

**Cascade National Insurance Company in Liquidation**  
**Balance Sheet**  
**As of July 31, 2009**

		7/31/2009	
<b>ASSETS</b>			
Operating cash		36,582	
ST investments		11,457,149	
Cash & ST Investments	(1)	11,493,731	
Advances to Guaranty Associations		6,000,000	
Reinsurance recoverable (net)	(2)	2,524,668	
Rental deposit		8,555	
Total Other Assets		8,533,223	
<b>TOTAL ASSETS</b>	(3)	<b>20,026,954</b>	
 <b>LIABILITIES</b>			
Secured Claims		-	
Class 1	(4)	5,265,170	
Class 2	(5)	28,047,825	
Class 3		-	
Class 4		-	
Class 5		55,284	
Class 6		138,863	
Class 7		20,190	
Class 8		-	
Class 9		-	
<b>TOTAL LIABILITIES</b>		<b>33,527,332</b>	
<b>Excess (Deficiency) of Assets Over Liabilities</b>		<b>(13,500,378)</b>	
<b>TOTAL</b>		<b>20,026,954</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 \$447,166 of restricted state deposits.
- (2) Reinsurance recoverable includes \$2.5 million of ceded loss, loss adjustment expenses 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 Class 1 Liability represents the remainder of the four-year operating expense budget for the receivership and estimated unallocated loss adjustment expenses of the Insurance Guaranty Associations.
- (5) Automobile loss reserves are the best estimates based on detailed review of each individual automobile claim closed and returned to the estate by all guaranty associations as of the end of 2008. These estimates will continue to be updated as more claim files are closed and returned to the estate. For workers' compensation policies, the receivership, with the help of an independent consulting actuary, updated its Class 2 workers' compensation liabilities using paid losses and loss reserves data from the California Guaranty Association as of 3/31/09. 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, 2009**

	9 Months Ending 7/31/09	Since Date of Liquidation Order
<b>RECEIPTS</b>		
Reinsurance recoveries	674,094	2,515,343
Agents balances	-	142,718
Salvage & subrogation recoveries	5,140	296,227
Recovery of taxes previously paid	-	283,221
Asset Recovery	-	1,500,000
Other receipts	1,042	264,444
Receipts Before Investment Activities	680,275	5,001,952
Investment receipts	42,353	1,490,767
Proceeds from sales & maturity	302,000	915,000
Receipts from Investment Activities	344,353	2,405,767
<b>TOTAL CASH RECEIPTS</b>	<b>1,024,628</b>	<b>7,407,719</b>
<b>DISBURSEMENTS &amp; DISTRIBUTIONS</b>		
Claims processing expenses	-	506,948
Legal fees	424,186	1,921,115
Audit fees	-	-
Consulting fees	76,601	375,569
Salaries	336,282	1,610,731
Employee benefits	16,163	75,581
Payroll & other taxes	17,118	96,823
Rent & related expenses	28,867	152,610
Equipment expenses	3,816	113,040
Office expenses	19,911	112,949
Other disbursements	13,502	51,883
Disbursements	936,445	5,017,249
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	936,445	11,017,249
Investment Expenses	3,708	11,624
Purchase of Investments	33,233	1,763,983
Disbursements for Investment Activities	36,941	1,775,607
<b>TOTAL CASH DISBURSEMENTS &amp; DISTRIBUTIONS</b>	<b>973,385</b>	<b>12,792,856</b>
<b>Net Cash Receipts over/(under) Disbursements</b>	<b>51,243</b>	<b>(5,385,136)</b>
Cash at beginning of period	283,698	773,413
Net Cash Receipts over/(under) Disbursements	51,243	(5,385,136)
Cash transferred from/(to) ST investment	(298,359)	4,648,306
Cash at end of period	36,582	36,582

**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 July 31, 2009**

	Auto	Workers Compensation	Total
Alaska	753,880	-	753,880
California	701,113	8,561,938	9,263,051
Oregon	961,038	-	961,038
Washington	2,731,504	-	2,731,504
	<u>5,147,535</u>	<u>8,561,938</u>	<u>13,709,473</u>

## 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 July 31, 2009**

	Auto (1)		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	186	179	366	247	552	426
Oregon	62	58	-	-	62	58
Washington	178	160	-	-	178	160
	<u>432</u>	<u>402</u>	<u>366</u>	<u>247</u>	<u>798</u>	<u>649</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.

1  EXPEDITE  
2  No Hearing is Set  
3 The Honorable Judge Thomas McPhee  
4  
5  
6

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

9 MIKE KREIDLER,  
10 INSURANCE COMMISSIONER,  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
Petitioner,

NO. 04-2-02427-4  
CERTIFICATE OF SERVICE

v.

CASCADE NATIONAL INSURANCE  
COMPANY,  
Respondent.

This will hereby certify that on the 17<sup>th</sup> day of August, 2009, I mailed a true and correct copy of the **Fifteenth Quarterly Report of Receiver, Exhibits A, B, and C, and Certificate of Service** via the U.S. Mail, first-class postage prepaid, in sealed envelopes, from Olympia, Washington, to the following interested parties:

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

Harold Anderson  
P.O. Box 3626  
Sun River, OR 97707  
*Former President of Cascade Majority Shareholder*

///

///

1 Terrence J. Donahue  
Eisenhower & Carlson  
2 1201 Pacific Avenue, Suite 1200  
Tacoma, WA 98402-4395  
3 *Attorney for Columbia Bank*

4 Michael Gossler  
*Attention: Karen Oliphant*  
5 Montgomery Purdue Blankinship Austin  
701 Fifth Avenue, Suite 550  
6 Seattle, WA 98104-7096  
*Attorneys for Harold Anderson*

7 Joseph K. Hegedus  
8 Lewis Brisbois Bisgaard Smith  
221 N. Figueroa Street, Suite 1200  
9 Los Angeles, CA 90012  
*Special Request for Notice*

10 Jeffrey A. King  
11 Kent & Wittekind PC  
111 W Monroe, Suite 1000  
12 Phoenix, AZ 85003  
*Attorneys for Insureds Try Us Trucking + Rufer*

13 Brian F. Kreger  
14 Ryan Swanson Cleveland  
1201 Third Avenue, Suite 3400  
15 Seattle, WA 98101-3034  
*Attorney for Gudeman & Weiss*

16 William T. Lebo, CPCU, President  
17 Lebo Mgmt & Insurance Consulting  
14722 38<sup>th</sup> Avenue NE  
18 Lake Forest Park, WA 98155  
*Former Outside Director of Cascade*

19 Thomas S. Linde  
20 Law Offices of Laurin S. Schweet  
295 80<sup>th</sup> Avenue SE, Suite 102  
21 Mercer Island, WA 98040  
*Attorneys for Bank of America NA,  
22 Creditor of MBR Corp (Allied...)*

23 Eric Mendoza  
24 Bank of America NA  
CA9-702-03-03, POB 479  
25 Pasadena, CA 91102-6102  
*Creditor of MBR Corp (Allied...)*  
26

1 Larry Morrison, President  
2 Business Transition Network, Inc.  
3 16515 Stilly Way  
4 Arlington, WA 98223  
5 ***Former Outside Director of Cascade***

6 W. Theodore Vander Wel  
7 Attorney at Law  
8 10500 NE 8<sup>th</sup> Street, Suite 1900  
9 Bellevue, WA 98004  
10 ***Attorney for Morrison and Lebo***

11 Marina N. Vitek, Esq.  
12 Roxborough Pomerance NYE LLP  
13 5820 Canoga Avenue, Suite 250  
14 Woodland Hills, CA 91367  
15 ***Attorneys for Mainstay Business Solutions***

16 John W. Wolfe  
17 Wolfe Leinback  
18 701 Fifth Avenue, Suite 6110  
19 Seattle, WA 98104-7043  
20 ***Attorney for Harold Anderson***

21 Mike Kreidler, Ins. Commissioner  
22 Office of Insurance Commissioner  
23 P. O. Box 40256  
24 Olympia, WA 98504-0256

25 Marshall McGinnis, Deputy Receiver  
26 c/o Cascade National Insurance Company  
PO Box 3366  
Bellevue, WA 98009-3366  
***For Cascade National Insurance Company***

Jim Odiorne, Receiver  
Office Of Insurance Commissioner  
P.O. Box 40255  
Olympia, WA 98504-0255  
***For Cascade National Insurance Company***

Victoria L. Vreeland  
Gordon Thomas Honeywell  
600 University St Suite 2100  
Seattle, WA 98101-4185

Alaska Guaranty Association  
1401 Rudakof Circle  
Anchorage, AK 99508

1 C. Guerry Collins, Esq.  
2 Lord Bissell & Brooke, LLP  
3 300 S. Grand Avenue, 8<sup>th</sup> Floor  
4 Los Angeles, CA 90071  
5 *For CA Ins. Guarantee Association (CIGA)*

6 Oregon Ins. Guaranty Association  
7 10700 SW Beaverton Hwy, Suite 426  
8 Beaverton, OR 97005

9 WA Insurance Guaranty Association  
10 c/o Western Guaranty Fund Services  
11 1720 S. Bellaire, Suite 408  
12 Denver, CO 80222

13 Alaska Division of Insurance  
14 Linda S. Hall, Director of Juneau Office  
15 State Office Building, 9<sup>th</sup> Floor  
16 333 Willoughby Avenue  
17 Juneau, AK 99801

18 California Department of Insurance  
19 John Garamendi, Insurance Commissioner  
20 300 South Spring Street, South Tower  
21 Los Angeles, CA 90013

22 OR Dept. of Consumer and Business Svcs.  
23 Joel Ario, Ins. Division Administrator  
24 350 Winter Street NE, Room 440  
25 Salem, OR 97309

26 Michael W. Mayberry,  
27 Matthew B. Edwards,  
28 Owens Davies, P.S.  
29 1115 West Bay Drive, Suite 302  
30 Olympia, WA 98502  
31 *Attorneys for Respondents Marcel Matar & Statewide General Insurance Agency, Inc.*

32 Brian L. Budsberg  
33 PO Box 1489  
34 Olympia WA 98507-1489  
35 *Attorney for Respondents Marcel Matar & Statewide General Insurance Agency, Inc.*

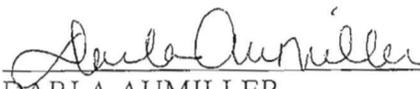
36 John Mellen  
37 Law Offices of Keller Rohrback L.L.P.  
38 1201 Third Avenue, Suite 3200  
39 Seattle, WA 98101-3052  
40 *Attorneys for Harold Anderson*

41 / / /

1 Richard Alan Stout  
2 Richard Alan Stout, Attorney at Law LLC  
3 18160 Cottonwood Road PMB 273  
4 Sunriver, OR 97707  
5 *Attorney for Amica Mutual Insurance Co.*

6 Bradley W. Hoff  
7 Christopher M. Alston  
8 Foster Petter PLLC  
9 1111 Third Avenue, Suite 3400  
10 Seattle, WA 98101-3299  
11 *Attorneys for Claimant James T. Feltman*

12 DATED this 17<sup>th</sup> day of August, 2009.

13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  


DARLA AUMILLER  
Legal Assistant

