

1  EXPEDITE

2  No Hearing is Set

3 The Honorable Judge Thomas McPhee

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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

**EIGHTEENTH 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, and  
21 Heather L. Polz, Assistant Attorney General, hereby submit the Eighteenth Quarterly Report of  
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 also re-categorized estimated Insurance Guaranty Association unallocated loss adjustment  
2 expenses as Class 1 Liabilities.

3 As of April 30, 2010, known assets totaled \$19,145,946 with 54% in cash and short-  
4 term investments. The estate's cash and short-term investment decreased significantly as a  
5 result of early access distributions to the insurance guaranty associations totaling \$6 million.  
6 All of Cascade's Alaska automobile claims have been closed. In accordance with Alaska  
7 statutes, Cascade's restricted deposit held by the state was transferred to the Alaska Guaranty  
8 Association, increasing the amount advanced to it by \$312,749. The Receiver has requested  
9 the finalization of the association's previously submitted proof of claim against the estate and  
10 is awaiting their response. Known liabilities totaled \$34,256,031 resulting in a deficiency of  
11 assets over liabilities of \$15,110,085. For the eighteen quarters ending April 30, 2010,  
12 exclusive of the early access distribution of \$6 million, cash disbursements exceeded cash  
13 receipts by \$266,727. Cash receipts were primarily from asset recovery efforts, collection of  
14 loss recoverable from reinsurers, refund of state premium taxes and recovery of salvage and  
15 subrogation on paid loss claims. Operating expenses continue to be well within amounts  
16 budgeted by the Receiver. Based on electronic claims data received from the guaranty  
17 associations as of March 31, 2010, a total of \$14,651,366 of loss claims and allocated loss  
18 adjustment expenses have been paid. See the Supplemental Claims Information, Exhibit C for  
19 details.

20 4. *Proof of Claims.* In accordance with paragraph 3.5 of the Plan of Liquidation,  
21 the Receiver issued Proof of Claim forms to all policyholders and other potential claimants.  
22 All claimants had until March 4, 2006, to file a timely Proof of Claim form. Claims continue  
23 to be reviewed. Some have been denied. The Receiver is seeking additional information from  
24 some claimants. The Receiver anticipates that there may be some claims that will be rejected  
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1 of Mr. Matar and his business in order to determine whether resources exist to repay Cascade.  
2 The information provided was limited and insufficient to determine the financial status of Mr.  
3 Matar, who personally guaranteed the obligation to Cascade. Mr. Matar was personally served  
4 in Pasadena, California on January 28, 2010. The original attorneys have since withdrawn, and  
5 another counsel for Statewide and Mr. Matar filed a Notice of Appearance in May 2010. The  
6 Receiver's counsel, after providing a brief extension to the new counsel, is awaiting  
7 substantive responses to additional discovery served in 2010.

8         The Receiver is also pursuing amounts owed by Mainstay, one of Cascade's workers'  
9 compensation accounts in California, which include payment for premium, paid claims, and  
10 reserves. Cascade has requested payment and information required under the policy with  
11 Mainstay for Cascade to conduct a premium audit. Mainstay has not provided payment, but an  
12 agreement regarding the audit premiums due has been reached. Cascade made a formal  
13 demand for payment from Mainstay on November 19, 2009. Cascade is attempting to  
14 communicate about these issues with Mainstay.

15         The Receiver, through counsel, continues to pursue various legal avenues that could  
16 result in recovery of assets to the receivership estate. The Receiver filed a Complaint for  
17 Damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-  
18 13068-5-SEA, against several defendants, including Danny Pixler, Anthony Huff, American  
19 Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management,  
20 LLC. The Complaint alleges that defendants failed to comply with the contract payment terms  
21 and failed to fund reserves while Cascade's obligation to provide workers' compensation  
22 coverage under the policies continued. Cascade's demands for compliance and payment went  
23 unanswered. The Complaint also alleges that Cascade was victimized in a deceptive scheme  
24 and seeks damages in excess of \$18.7 million arising from the workers' compensation  
25 coverage that was not paid for by Defendants. This case was removed to the U.S. District  
26

1 Services bankruptcy estate. The Receiver subsequently filed a \$2 million claim against the  
2 bankruptcy estate and it is uncertain when or whether there will be actual payment on that  
3 claim.

4 The Receiver had filed a civil action in King County Superior Court, No. 06-2-34413-  
5 8-SEA, to recover damages for officer/director actions that harmed Cascade. A favorable  
6 settlement has been reached and the action has been dismissed.

7 RESPECTFULLY SUBMITTED this 1 day of June, 2010

8 

9 MARSHALL MCGINNIS

10 Deputy Receiver

11 Presented by:

12 ROBERT M. MCKENNA  
13 Attorney General

14   
15 HEATHER L. POLZ  
16 WSBA #30502  
17 Assistant Attorney General  
18 Attorneys for the Insurance Commissioner  
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**Cascade National Insurance Company in Liquidation**  
**Statement of Receipts and Disbursements**  
**Period Ending April 30, 2010**

	<b>6 Months Ending 4/30/2010</b>	<b>Since Date of Liquidation Order</b>
<b>RECEIPTS</b>		
Reinsurance recoveries	9,512	2,525,043
Agents balances	-	142,718
Salvage & subrogation recoveries	962	297,716
Recovery of taxes previously paid	-	283,221
Asset Recovery	-	1,500,000
Other receipts	1,014	265,457
Receipts Before Investment Activities	11,488	5,014,154
Investment receipts	2,882	1,494,413
Proceeds from sales & maturity	-	915,000
Receipts from Investment Activities	2,882	2,409,413
<b>TOTAL CASH RECEIPTS</b>	<b>14,370</b>	<b>7,423,567</b>
<b>DISBURSEMENTS &amp; DISTRIBUTIONS</b>		
Claims processing expenses	-	506,948
Legal fees	123,184	2,269,766
Audit fees	-	-
Consulting fees	40,921	438,899
Salaries	312,809	2,007,727
Employee benefits	12,469	89,020
Payroll & other taxes	16,590	118,457
Rent & related expenses	19,642	181,839
Equipment expenses	840	113,935
Office expenses	7,606	126,195
Other disbursements	4,188	58,151
Disbursements	538,249	5,910,937
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	538,249	11,910,937
Investment Expenses	2,007	14,053
Purchase of Investments	557	1,765,304
Disbursements for Investment Activities	2,564	1,779,357
<b>TOTAL CASH DISBURSEMENTS &amp; DISTRIBUTIONS</b>	<b>540,813</b>	<b>13,690,294</b>
<b>Net Cash Receipts over/(under) Disbursements</b>	<b>(526,443)</b>	<b>(6,266,727)</b>
Cash at beginning of period	6,435	773,413
Net Cash Receipts over/(under) Disbursements	(526,443)	(6,266,727)
Cash transferred from/(to) ST investment	570,000	5,543,306
Cash at end of period	49,992	49,992

**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**  
**Claim Counts by Loss Event**  
**As of March 31, 2010**

	<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	6	-	-	6	6
California	186	183	366	269	552	452
Oregon	63	62	-	-	63	62
Washington	178	161	-	-	178	161
	<u>433</u>	<u>412</u>	<u>366</u>	<u>269</u>	<u>799</u>	<u>681</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.

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15 Respondent.

NO. 04-2-02427-4

CERTIFICATE OF SERVICE

16 This will hereby certify that on the 4<sup>th</sup> day of June, 2010, I mailed a true and correct  
17 copy of the **Eighteenth Quarterly Report of Receiver, Exhibits A, B, and C, and**  
18 **Certificate of Service** via the U.S. Mail, first-class postage prepaid, in sealed envelopes, from  
19 Olympia, Washington, to the following interested parties:

20 Elizabeth J. Anderson, Sr. VP  
21 **Columbia Bank**  
22 Special Credits Department  
23 1301 "A" Street  
24 Tacoma, WA 98401

25 Harold Anderson  
26 P.O. Box 3526  
Bend, OR 97707  
*Former President of Cascade Majority Shareholder*

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2 Attorney at Law  
3 10500 NE 8<sup>th</sup> Street, Suite 1900  
4 Bellevue, WA 98004  
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10 ***Attorneys for Mainstay Business Solutions***

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12 Wolfe Leinback  
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14 Seattle, WA 98104-7043  
15 ***Attorney for Harold Anderson***

16 Mike Kreidler, Ins. Commissioner  
17 Office of Insurance Commissioner  
18 P. O. Box 40256  
19 Olympia, WA 98504-0256

20 Marshall McGinnis, Deputy Receiver  
21 c/o Cascade National Insurance Company  
22 PO Box 3366  
23 Bellevue, WA 98009-3366  
24 ***For Cascade National Insurance Company***

25 Jim Odiorne, Receiver  
26 Office Of Insurance Commissioner  
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3 Seattle, WA 98101-3299  
*Attorneys for Claimant James T. Feltman*

4  
5 DATED this 4<sup>th</sup> day of June, 2010.

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8 DARLA AUMILLER  
Legal Assistant