☐EXPEDITE
☑ No Hearing is Set
The Honorable Judge Thomas McPhee

STATE OF WASHINGTON
THURSTON COUNTY SUPERIOR COURT

MIKE KREIDLER, INSURANCE COMMISSIONER, Petitioner, v. CASCADE NATIONAL INSURANCE COMPANY, Respondent.	NO. 04-2-02427-4 **TWENTY-FIRST QUARTERLY REPORT OF RECEIVER**

Mike Kreidler, Insurance Commissioner of the State of Washington and Statutory Receiver of Cascade National Insurance Company in Liquidation ("Cascade" or "CNIC"), James T. Odiorne, Deputy Insurance Commissioner and Court-appointed Receiver of Cascade, and Marshall McGinnis, court-appointed Deputy Receiver of Cascade (collectively the "Receiver"), by and through their attorneys, Robert M. McKenna, Attorney General, and Heather L. Polz, Assistant Attorney General, hereby submit the Twenty-First Quarterly Report of Receiver pursuant to RCW 48.31.040(5), and state as follows:

1. *Order of Liquidation.* On November 4, 2005, this Court declared Cascade insolvent and entered an Order of Liquidation and Approval of Plan of Liquidation ("Order of Liquidation" or "Order") pursuant to Chapters 48.31 and 48.99 RCW.

2. *Accounting to the Court.* In accordance with the Order of Liquidation, the Receiver shall file a report with the Court quarterly. In order to ensure that the reports have the

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

3. *Financial Report.* Attached hereto as Exhibits A, B and C are Cascade's January 31, 2011 Balance Sheet, and Statement of Receipts and Disbursements, and its Supplemental Claims Information as of December 31, 2010. The financial figures are derived from calculations made in accordance with the Receiver's Handbook for Insurance Company Insolvencies published by the National Association of Insurance Commissioners ("NAIC").

The enclosed financial statements have been prepared from available information. Certain assets and liabilities are estimates. Assets with uncertain realizable value have not been included. 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 $28,399,041 are calculated based upon the Receiver's best estimate of outstanding loss and loss adjustment expense reserves for automobile claims as of the review completed for closed files returned to Cascade as of the end of 2008, and estimated Workers Compensation claims based on the most current actuarial study performed using claims data as of December 31, 2009. Since the Guaranty Associations are now handling the automobile claims, the usual and traditional actuarial methodology for estimating loss reserves is not applicable. The Receiver completed a detailed review of each individual automobile claim closed and returned to Cascade by all Guaranty Associations as of the end of 2008. Based upon that review of closed claims and known outstanding claims, the Receiver has adjusted Class 2 automobile claims liabilities to reflect the Receiver's best estimate of those liabilities going forward. Note that this adjustment includes a corresponding reduction in applicable reinsurance recoverable, a Balance Sheet asset. In this review process, the Receiver

also re-categorized estimated Insurance Guaranty Association unallocated loss adjustment expenses as Class 1 Liabilities.

As of January 31, 2011, known assets totaled $18,517,318 with 52% in cash and short-term investments. The estate's cash and short-term investment decreased significantly as a result of early access distributions to the insurance guaranty associations totaling $6 million. All of Cascade's Alaska automobile claims have been closed. In accordance with Alaska statutes, Cascade's restricted deposit held by the state was transferred to the Alaska Guaranty Association, increasing the amount advanced to it by $312,749. The Receiver has requested the finalization of the association's previously submitted proof of claim against the estate and is awaiting their response. Known liabilities totaled $33,380,752 resulting in a deficiency of assets over liabilities of $14,863,434. For the twenty-first quarter ending January 31, 2011, exclusive of the early access distribution of $6 million, cash disbursements exceeded cash receipts by $896,091. Cash receipts were primarily from asset recovery efforts, collection of loss recoverable 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, 2010, a total of $14,941,168 of loss claims and allocated loss adjustment expenses have been paid. *See* the Supplemental Claims Information, Exhibit C for details.

4. *Proof of Claims.* In accordance with paragraph 3.5 of the Plan of Liquidation, the Receiver issued Proof of Claim forms to all policyholders and other potential claimants. All claimants had until March 4, 2006, to file a timely Proof of Claim form. Claims continue to be reviewed. Some have been denied. The Receiver is seeking additional information from some claimants. The Receiver anticipates that there may be some claims that will be rejected

in whole or part, which will be disputed by the claimant and will require a hearing for ultimate resolution.

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

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

The Office of the Insurance Commissioner ("OIC") initiated a license revocation action against K.I. Tobey for failure to pay and mishandling of trust funds, and K.I. Tobey has voluntarily accepted revocation. Settlement negotiations between the OIC and K.I. Tobey failed, and K.I. Tobey filed for bankruptcy in Atlanta, Georgia. A trustee was subsequently appointed by the bankruptcy court. The Receiver is pursuing the claim in the bankruptcy court, but the likelihood of recovery is unknown. On October 23, 2009, the case was converted from Chapter 11 to Chapter 7.

In 2007, the Receiver initiated an adversarial claim for wrongfully withheld premiums against Statewide General Insurance Agency and Marcel Matar, personal guarantor of amounts owed. Statewide was served, and its attorneys filed notices of appearance. In 2008, an Answer was filed claiming lack of personal service against Mr. Matar. The Receiver's counsel requested information regarding the financial status of Mr. Matar and his business in order to

determine whether resources exist to repay Cascade. The information provided was limited and insufficient to determine the financial status of Mr. Matar. Mr. Matar was personally served in Pasadena, California on January 28, 2010. The original attorneys have since withdrawn, and another counsel for Statewide and Mr. Matar filed a Notice of Appearance in May 2010. The parties are currently engaged in the discovery process.

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

The Receiver, through counsel, continues to pursue various legal avenues that could result in recovery of assets to the receivership estate. The Receiver filed a Complaint for Damages in King County Superior Court against several defendants, including Danny Pixler, Anthony Huff, American Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management, LLC. The Complaint alleged that Cascade was victimized in a deceptive scheme and sought damages in excess of $18.7 million arising from the workers' compensation coverage that was not paid for by Defendants. The case was removed to U.S. District Court for the Western District of Washington, No. C06-697 RSL. On May 21, 2010 the jury returned a $19,310,744 verdict in favor of the Receiver on claims of civil conspiracy, criminal profiteering, unfair trade practices/consumer protection, misrepresentation and fraud. On January 3, 2011, the Court denied defendants Anthony Huff, Sheri Huff, and Midwest Merger Management, LLC's motion for judgment as a matter of law or, alternatively, for a new trial. That same day the Court granted in part and denied in part the Receiver's Motion

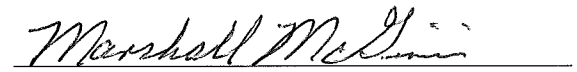
For An Award Of Attorney's Fees And Expenses against defendants Anthony Huff, Sheri Huff, and Midwest Merger Management, LLC. Specifically, the Court awarded $2,031.925.75 in attorney's fees and $494,496.61 in litigation expenses under the Consumer Protection Act and Criminal Profiteering Act. On January 19, 2011, the Court entered a Final Judgment. On February 2, 2011, defendants Anthony Huff, Sheri Huff, and Midwest Merger Management, LLC filed an appeal to the U.S. Court of Appeals for the Ninth Circuit. Proceedings are ongoing.

By way of additional background, the SEC initiated criminal proceedings against defendant Danny Pixler in Florida. Defendant Pixler has entered into a plea agreement in those proceedings, pleading guilty to conspiracy to commit wire fraud, and is now incarcerated on a five year sentence. The SEC initiated civil proceedings against Anthony Huff and a bench trial was held beginning February 16, 2010. On September 30, 2010, the judge entered an order in favor of the SEC, finding Huff violated federal securities laws and ordering him to disgorge over $10 million in ill-gotten gains.

After filing suit against the Defendants, the Receiver learned that Certified HR Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No. 05-22912-BKC-RBR. The Receiver ultimately entered into an agreement with the bankruptcy trustee and obtained a Court order establishing that none of Cascade's claims against the Defendants in the Washington litigation were affected by the Florida bankruptcy action, and preserving the possibility of recovery against the consolidated Certified HR Services/Certified Services bankruptcy estate. The Receiver subsequently filed a $2 million claim against the bankruptcy estate, and it is uncertain when or whether there will be actual payment on this claim.

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

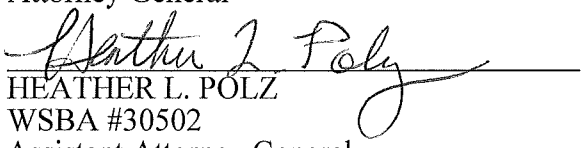
RESPECTFULLY SUBMITTED this 14 day of February, 2011



MARSHALL McGINNIS
Deputy Receiver

Presented by:

ROBERT M. MCKENNA
Attorney General



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

EXHIBIT A

Cascade National Insurance Company in Liquidation
Balance Sheet
As of January 31, 2011

		1/31/2011	
ASSETS			
Operating cash		25,627	
ST investments		9,647,727	
Cash & ST Investments	(1)		9,673,354
Advances to Guaranty Associations		6,312,749	
Reinsurance recoverable (net)	(2)	2,524,668	
Rental deposit		6,547	
Total Other Assets			8,843,964
TOTAL ASSETS	(3)		**18,517,318**
LIABILITIES			
Secured Claims		-	
Class 1	(4)	4,771,510	
Class 2	(5)	28,399,041	
Class 3		-	
Class 4		-	
Class 5		55,284	
Class 6		138,863	
Class 7		16,054	
Class 8		-	
Class 9		-	
TOTAL LIABILITIES			**33,380,752**
Excess (Deficiency) of Assets Over Liabilities			**(14,863,434)**
TOTAL			**18,517,318**

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 $133,733 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 six-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 assocations 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 12/31/09. 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.

EXHIBIT B

Cascade National Insurance Company in Liquidation
Statement of Receipts and Disbursements
Period Ending January 31, 2011

	3 Months Ending 1/31/2011	Since Date of Liquidation Order
RECEIPTS		
Reinsurance recoveries	31,962	2,771,665
Agents balances	-	142,718
Salvage & subrogation recoveries	408	299,301
Recovery of taxes previously paid	-	283,221
Asset Recovery	-	1,500,000
Other receipts	-	265,457
Receipts Before Investment Activities	32,371	5,262,362
Investment receipts	626	1,497,157
Proceeds from sales & maturity	-	915,000
Receipts from Investment Activities	626	2,412,157
TOTAL CASH RECEIPTS	**32,996**	**7,674,519**
DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	-	506,948
Legal fees	34,613	2,848,308
Consulting fees	21,399	495,115
Salaries	83,631	2,185,337
Employee benefits	600	90,820
Payroll & other taxes	3,096	126,491
Rent & related expenses	10,172	211,770
Equipment expenses	140	119,626
Office expenses	2,515	136,756
Other disbursements	3,010	63,983
Disbursements	159,175	6,785,155
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	159,175	12,785,155
Investment Expenses	1,477	17,408
Purchase of Investments	626	1,768,048
Disbursements for Investment Activities	2,103	1,785,456
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS	**161,278**	**14,570,610**
Net Cash Receipts over/(under) Disbursements	**(128,282)**	**(6,896,091)**
Cash at beginning of period	83,909	773,413
Net Cash Receipts over/(under) Disbursements	(128,282)	(6,896,091)
Cash transferred from/(to) ST investment	70,000	6,148,306
Cash at end of period	25,627	25,627

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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, 2010

	Auto	Workers Compensation	Total
Alaska	754,382	-	754,382
California	764,525	9,525,603	10,290,129
Oregon	1,010,780	-	1,010,780
Washington	2,885,877	-	2,885,877
	5,415,564	9,525,603	14,941,168

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, 2010

	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	6	-	-	6	6
California	186	184	366	274	552	458
Oregon	66	63	-	-	66	63
Washington	178	163	-	-	178	163
	436	416	366	274	802	690

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.

☐ EXPEDITE
☑No Hearing is Set
The Honorable Judge Thomas McPhee

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 February, 2011, I mailed or emailed a true and correct copy of the **Twenty-First 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, or if indicated by electronic mail, to the following interested parties:

Robert Draper, Sr. VP
Columbia Bank
Special Credits Department
Per agreement via electronic mail to: rdraper@columbiabank.com

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

Donald Anderson and Terrence Donahue
Eisenhower & Carlson PLLC
Per agreement via electronic mail to danderson@eisenhowerlaw.com
Attorneys for Columbia Bank

ATTORNEY GENERAL OF WASHINGTON
1125 Washington Street SE
PO Box 40100
Olympia, WA 98504-0100
(360) 664-9006

ORIGINAL

Michael Gossler
Per agreement, via electronic mail to mgossler@mpba.com and eservice@mpba.com
Attorneys for Harold Anderson

Joseph K. Hegedus
Per agreement, via electronic mail to hegedus@lbbslaw.com
Special Request for Notice

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

William T. Lebo, CPCU, President
Lebo Mgmt & Insurance Consulting
14722 38th Avenue NE
Lake Forest Park, WA 98155
Former Outside Director of Cascade

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

Larry Morrison, President
Business Transition Network, Inc.
Per agreement, via electronic mail to larry.morrison@comcast.net
Former Outside Director of Cascade

W. Theodore Vander Wel, Attorney at Law
Per agreement, via electronic mail to theo@vbm.com
Attorney for Morrison and Lebo

Marina N. Vitek, Esq.
Per agreement, by electronic mail to mnv@rpnalaw.com
Attorneys for Mainstay Business Solutions

John W. Wolfe
Two Union Square
601 Union Street, Suite 5110
Seattle, WA 98101
Attorney for Harold Anderson
Mike Kreidler, Ins. Commissioner
Per agreement, via electronic mail to mikek@oic.wa.gov

Marshall McGinnis, Deputy Receiver

ATTORNEY GENERAL OF WASHINGTON
1125 Washington Street SE
PO Box 40100
Olympia, WA 98504-0100
(360) 664-9006

c/o Cascade National Insurance Company
Per agreement, via electronic mail to mmcginnis@cascadenational.com
For Cascade National Insurance Company

Jim Odiorne, Receiver
Office of Insurance Commissioner
Per agreement, via electronic mail to jimo@oic.wa.gov
For Cascade National Insurance Company

Victoria L. Vreeland
Gordon Thomas Honeywell
Per agreement, via electronic mail to vvreeland@gth-law.com

Alaska Guaranty Association
1401 Rudakof Circle
Anchorage, AK 99508

C. Guerry Collins, Esq.
Lord Bissell & Brooke, LLP
300 S. Grand Avenue, 8th Floor
Los Angeles, CA 90071
For CA Ins. Guarantee Association (CIGA)

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

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

Alaska Division of Insurance
Linda S. Hall, Director of Juneau Office
State Office Building, 9th Floor
333 Willoughby Avenue
Juneau, AK 99801

California Department of Insurance
Dave Jones, Insurance Commissioner
300 South Spring Street, South Tower
Los Angeles, CA 90013

OR Dept. of Consumer and Business Svcs.
Teresa Miller, Ins. Division Administrator
350 Winter Street NE, Room 440
Salem, OR 97309

ATTORNEY GENERAL OF WASHINGTON
1125 Washington Street SE
PO Box 40100
Olympia, WA 98504-0100
(360) 664-9006

Todd C. Hayes
Harper Hayes PLLC
One Union Square
600 University Street, Suite 2420
Seattle, WA 98101
Attorney for Respondents Marcel Matar & Statewide General Insurance Agency, Inc.

John Mellen
Law Offices of Keller Rohrback L.L.P.
Per agreement at jmellen@kellerrohrback.com
Attorney for Harold Anderson

Richard Alan Stout
Richard Alan Stout, Attorney at Law LLC
Per agreement, via electronic mail to alanstout1@msn.com
Attorney for Amica Mutual Insurance Co.

Bradley W. Hoff
Christopher M. Alston
Foster Pepper PLLC
Per agreement, via electronic mail to alstc@foster.com
Attorneys for Claimant James T. Feltman

DATED this 15th day of February, 2011.

Candace Vervair

CANDACE VERVAIR
Legal Assistant

ATTORNEY GENERAL OF WASHINGTON
1125 Washington Street SE
PO Box 40100
Olympia, WA 98504-0100
(360) 664-9006