

1 EXPEDITE

2 No Hearing is Set

The Honorable Judge Thomas McPhee

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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

**TWENTY-FOURTH
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 Twenty-Fourth 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.
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1 2. *Accounting to the Court.* In accordance with the Court's July 22, 2011 Order
2 Granting Motion For Semiannual Reporting By The Receiver, the Receiver shall file a report
3 with the Court twice per year, on or about May 15th and November 15th.

4 3. *Financial Report.* Attached hereto as Exhibits A, B, and C are Cascade's April
5 30, 2012 Balance Sheet, and Statement of Receipts and Disbursements, and its Supplemental
6 Claims Information as of March 31, 2012. 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 \$29,971,002 are calculated based upon the Receiver's best estimate
15 of outstanding loss and loss adjustment expense reserves for automobile claims as of March
16 31, 2012, and estimated Workers Compensation claims based on the most current actuarial
17 study performed using claims data as of December 31, 2011. Since the Guaranty Associations
18 are now handling the automobile claims, the usual and traditional actuarial methodology for
19 estimating loss reserves is not applicable. Periodically, the Receiver reviews automobile loss
20 experience and adjusts Class 2 automobile claims liabilities to reflect the Receiver's best
21 estimate of those liabilities going forward. A current review was completed to adjust such
22 liabilities as of March 31, 2012. Note that this adjustment includes a corresponding reduction
23 in applicable reinsurance recoverable, a Balance Sheet asset. In this review process, the
24 Receiver also re-categorized estimated Insurance Guaranty Association unallocated loss
25 adjustment expenses as Class 1 Liabilities.
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1 As of April 30, 2012, known assets totaled \$18,876,465 with 62% in cash and short-
2 term investments. The estate's cash and short-term investment decreased significantly as a
3 result of early access distributions to the Insurance Guaranty Associations totaling \$6 million.
4 All of Cascade's Alaska automobile claims have been closed. In accordance with Alaska
5 statutes, Cascade's restricted deposit held by the state was transferred to the Alaska Guaranty
6 Association, increasing the amount advanced to it by \$312,749. The Receiver has requested
7 the finalization of the association's previously submitted proof of claim against the estate and
8 is awaiting their response. Known liabilities totaled \$34,772,375 resulting in a deficiency of
9 assets over liabilities of \$15,895,911. For the period ending April 30, 2012, exclusive of the
10 early access distribution of \$6 million, cash disbursements exceeded cash receipts by
11 \$1,490,384. Cash receipts were primarily from asset recovery efforts, collection of loss
12 recoverable from reinsurers, refund of state premium taxes and recovery of salvage and
13 subrogation on paid loss claims. Operating expenses continue to be well within amounts
14 budgeted by the Receiver. Based on electronic claims data received from the guaranty
15 associations as of March 31, 2012, a total of \$15,657,218 of loss claims and allocated loss
16 adjustment expenses have been paid. See the Supplemental Claims Information, Exhibit C for
17 details.

18 4. *Proof of Claims.* In accordance with paragraph 3.5 of the Plan of Liquidation,
19 the Receiver issued Proof of Claim forms to all policyholders and other potential claimants.
20 All claimants had until March 4, 2006, to file a timely Proof of Claim form. Claims continue
21 to be reviewed. Some have been denied. The Receiver is seeking additional information from
22 some claimants. The Receiver anticipates that there may be some claims that will be rejected
23 in whole or part, which will be disputed by the claimant and will require a hearing for ultimate
24 resolution. The Receiver denied Mainstay Business Solutions' Proof of Claim No. 1284, and
25 on July 22, 2011, the Court entered an Order confirming the Receiver's Final Determination
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1 denying the Claim of Mainstay Business Solutions. The Receiver also denied Statewide
2 General Insurance Agency, Inc.'s Proof of Claim Nos. 3594-3599, and on January 6, 2012, the
3 Court entered an Order confirming the Receiver's Final Determination denying Statewide's
4 Claims. Finally, the Receiver denied Columbia State Bank's Proof of Claim No. 1203, and on
5 February 3, 2012, the Court entered an Order confirming the Receiver's Final Determination
6 denying Columbia's Claim.

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

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

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

1 In 2007, the Receiver initiated an adversarial claim for wrongfully withheld premiums
2 against Statewide General Insurance Agency Inc. and Marcel Matar, personal guarantor of
3 amounts owed. Statewide was served, and its attorneys filed notices of appearance. In 2008,
4 an Answer was filed claiming lack of personal service against Mr. Matar. The Receiver's
5 counsel requested information regarding the financial status of Mr. Matar and his business in
6 order to determine whether resources exist to repay Cascade. The information provided was
7 limited and insufficient to determine the financial status of Mr. Matar. Mr. Matar was
8 personally served in Pasadena, California on January 28, 2010. The original attorneys have
9 since withdrawn, and another counsel for Statewide and Mr. Matar filed a Notice of
10 Appearance in May 2010. The parties are currently engaged in the discovery process.

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 an
15 agreement regarding the audit premiums due was reached. Cascade made a formal demand for
16 payment from Mainstay on November 19, 2009. On April 30, 2012, the Receiver filed a
17 Complaint in United States District Court, Eastern District of California, against Mainstay for
18 breach of contract and other remedies.

19 The Receiver, through counsel, continues to pursue various legal avenues that could
20 result in recovery of assets to the receivership estate. The Receiver filed a Complaint for
21 Damages in King County Superior Court against several defendants, including Danny Pixler,
22 Anthony Huff, American Staff Resources of California, Inc., Certified Services, Inc., and
23 Midwest Merger Management, LLC. The case was removed to U.S. District Court for the
24 Western District of Washington, No. C06-697 RSL. On May 21, 2010 the jury returned a
25 \$19,310,744 verdict in favor of the Receiver on claims of civil conspiracy, criminal
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1 profiteering, unfair trade practices/consumer protection, misrepresentation and fraud. On
2 January 3, 2011, the Court awarded \$2,031,925.75 in attorney's fees and \$494,496.61 in
3 litigation expenses under the Consumer Protection Act and Criminal Profiteering Act.
4 Defendants Anthony Huff, Sheri Huff, and Midwest Merger Management, LLC filed an appeal
5 to the U.S. Court of Appeals for the Ninth Circuit. Oral argument was heard on April 9, 2012.
6 On May 2, 2012, the Court issued an unpublished opinion affirming the District Court's
7 judgment, following a jury trial, in favor of the Receiver.

8 By way of additional background, the SEC initiated criminal proceedings against
9 defendant Danny Pixler in Florida. Defendant Pixler has entered into a plea agreement in those
10 proceedings, pleading guilty to conspiracy to commit wire fraud, and was sentenced to five
11 years of incarceration. The SEC initiated civil proceedings against Anthony Huff and a bench
12 trial was held beginning February 16, 2010. On September 30, 2010, the judge entered an
13 order in favor of the SEC, finding Huff violated federal securities laws and ordering him to
14 disgorge over \$10 million in ill-gotten gains. On January 3, 2012, the U.S. Court of Appeals
15 for the Eleventh Circuit affirmed that order.

16 After filing suit against the Defendants, the Receiver learned that Certified HR
17 Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered
18 into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No.
19 05-22912-BKC-RBR. The Receiver ultimately entered into an agreement with the bankruptcy
20 trustee and obtained a Court order establishing that none of Cascade's claims against the
21 Defendants in the Washington litigation were affected by the Florida bankruptcy action, and
22 preserving the possibility of recovery against the consolidated Certified HR Services/Certified
23 Services bankruptcy estate. The Receiver subsequently filed a \$2 million claim against the
24 bankruptcy estate. A \$100,000 interim distribution was received in April 2011, but it is
25 uncertain when or whether there will be further payment on this claim.
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1 The Receiver filed a civil action in King County Superior Court, No. 06-2-34413-8-
2 SEA, to recover damages for officer/director actions that harmed Cascade. A favorable
3 settlement has been reached and the action has been dismissed.

4 RESPECTFULLY SUBMITTED this 15 day of May, 2012

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6 MARSHALL MCGINNIS

7 *Deputy Receiver*

8 Presented by:

9 ROBERT M. MCKENNA
10 Attorney General

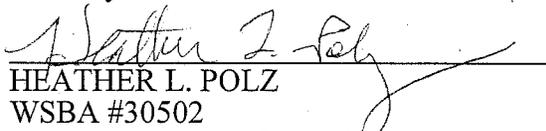
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12 HEATHER L. POLZ
13 WSBA #30502
14 Assistant Attorney General
15 *Attorneys for the Insurance Commissioner*

EXHIBIT A

Cascade National Insurance Company in Liquidation
Balance Sheet
As of April 30, 2012

	4/30/2012	
ASSETS		
Operating cash	555	
ST investments	11,769,361	
Cash & ST Investments	(1)	11,769,916
Advances to Guaranty Associations	6,312,749	
Reinsurance recoverable (net)	(2) 776,473	
Deposits/advances	17,327	
Total Other Assets		7,106,549
TOTAL ASSETS	(3)	18,876,465
LIABILITIES		
Secured Claims	-	
Class 1	(4) 4,591,172	
Class 2	(5) 29,971,002	
Class 3	-	
Class 4	-	
Class 5	55,284	
Class 6	138,863	
Class 7	16,054	
Class 8	-	
Class 9	-	
TOTAL LIABILITIES		34,772,375
Excess (Deficiency) of Assets Over Liabilities		(15,895,911)
TOTAL		18,876,465

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 \$133,809 of restricted state deposits.
- (2) Reinsurance recoverable includes \$776 thousands of ceded losses, loss adjustment expenses and related reserves 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 2011/2012 and 2012/2013 operating expense budget for the receivership and estimated unallocated loss adjustment expenses of the Insurance Guaranty Associations.
- (5) Automobile loss reserves are the Receiver's best estimates of outstanding losses and loss adjustment expenses as of March 31, 2012. These estimates will continue to be updated from time to time. 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 December 31, 2011.

EXHIBIT B

Cascade National Insurance Company in Liquidation
Statement of Receipts and Disbursements
Period Ending April 30, 2012

	6 Months Ending 4/30/2012	Since Date of Liquidation Order
RECEIPTS		
Reinsurance recoveries	-	2,810,532
Agents balances	-	142,718
Salvage & subrogation recoveries	1,311	302,226
Recovery of taxes previously paid	-	283,221
Asset Recovery	-	1,500,000
Other receipts	300	365,972
Receipts Before Investment Activities	1,611	5,404,668
Investment receipts	709	1,498,791
Proceeds from sales & maturity	-	915,000
Receipts from Investment Activities	709	2,413,791
TOTAL CASH RECEIPTS	2,320	7,818,459
DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	-	506,948
Legal fees	86,846	3,084,653
Consulting fees	65,981	618,503
Salaries	129,514	2,449,548
Employee benefits	6,301	104,520
Payroll & other taxes	5,702	139,459
Rent & related expenses	6,915	245,810
Equipment expenses	8,758	133,977
Office expenses	11,350	158,852
Other disbursements	4,478	75,112
Disbursements	325,845	7,517,381
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	325,845	13,517,381
Investment Expenses	1,992	21,779
Purchase of Investments	709	1,769,682
Disbursements for Investment Activities	2,700	1,791,461
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS	328,546	15,308,842
Net Cash Receipts over/(under) Disbursements	(326,226)	(7,490,384)
Cash at beginning of period	38,579	773,413
Net Cash Receipts over/(under) Disbursements	(326,226)	(7,490,384)
Cash transferred from/(to) ST investment	288,202	6,717,526
Cash at end of period	555	555

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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 March 31, 2012

	Auto	Workers Compensation	Total
Alaska	754,382	-	754,382
California	879,006	10,123,284	11,002,290
Oregon	1,010,780	-	1,010,780
Washington	2,889,766	-	2,889,766
	5,533,934	10,123,284	15,657,218

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 March 31, 2012**

	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	187	187	366	296	553	483
Oregon	66	66	-	-	66	66
Washington	178	175	-	-	178	175
	<u>437</u>	<u>434</u>	<u>366</u>	<u>296</u>	<u>803</u>	<u>730</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.