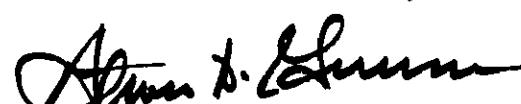


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14 **IN THE EIGHT JUDICIAL DISTRICT COURT OF THE STATE OF NEVADA**

15 **IN AND FOR THE COUNTY OF CLARK**

16 STATE OF NEVADA, EX REL. )  
17 COMMISSIONER OF INSURANCE, IN HIS )  
18 OFFICIAL CAPACITY AS STATUTORY )  
19 RECEIVER FOR DELINQUENT DOMESTIC ) Case No. A-700829-P  
20 INSURER, )  
21 Plaintiff, ) Dept. No. IV  
22 vs. )  
23 PROFESSIONAL AVIATION INSURANCE )  
24 RECIPROCAL, a Nevada Domiciled )  
25 Reciprocal Captive Insurance Company, )  
26 Defendant )  
27  
28

19 **FIRST STATUS REPORT**

20 COME NOW, Scott J. Kipper, Commissioner of Insurance (the "Commissioner") for the  
21 State of Nevada in his capacity as Permanent Receiver of Professional Aviation Insurance  
22 Reciprocal ("PAIR" or the "Company"), and Regulatory Services Group ("RSG"), Receivership  
23 Manager of PAIR, and file this first Status Report in the above-captioned receivership.

24 **I. INTRODUCTION AND HISTORICAL BACKGROUND**

25 PAIR is an unincorporated association formed as a captive insurance company  
26 pursuant to Chapter 694C of the Nevada revised statutes (NRS) and operating as a reciprocal  
27 insurer as that term is defined by NRS 680A.040. PAIR is domiciled in the State of Nevada  
28 and received its Certificate of Authority on November 27, 2007. As a reciprocal insurer, the

1 subscribers of PAIR operate through an Attorney-In-Fact, T. Edwards, LLC, a Nevada  
2 domestic limited liability company, to enable the exchange of contracts of insurance among  
3 themselves. PAIR's program provides hull liability insurance (physical damage) to its  
4 subscribers – pilots and pilot groups specializing in the Air Tractor industry – on a claims-  
5 made basis.

6 PAIR's September 30, 2013 financial statement, pursuant to NRS 680A.270, reported  
7 total assets of \$1,145,845 and total liabilities of \$1,671,776 resulting in a negative surplus  
8 position of -\$525,931. As such, PAIR is unable to meet its obligations as they mature and is  
9 deemed insolvent as defined by NRS 696B.110(1). Insolvency serves as grounds for  
10 liquidation pursuant to NRS 696.220(2). As a result of PAIR's insolvency, with no apparent  
11 plan or resources to recapitalize the reciprocal, on November 8, 2013 at a meeting of the  
12 Board of Directors it was resolved by unanimous vote that in accordance with the bylaws and  
13 subscribers agreement of the reciprocal that the Attorney-in-Fact of PAIR was authorized to  
14 petition the State of Nevada Division of Insurance to place the reciprocal into voluntary  
15 receivership pursuant to NRS 696B. Further, a formal consent to liquidation by PAIR's  
16 properly seated board of directors also serves as grounds for liquidation pursuant to NRS  
17 696B.220(6).

18 On July 3,, 2014, an Order Appointing the Nevada Insurance Commissioner as  
19 Permanent Receiver of PAIR (the "Permanent Receivership Order") was entered by the  
20 Eighth Judicial District Court of the State of Nevada for Clark County.

21 On June 2, 2014, Commissioner Kipper as Permanent Receiver of PAIR retained David  
22 E. Wilson and RSG as Receivership Manager. The Receivership Manager was authorized to  
23 retain the services of Scott Pearce of RSG as his Receivership Supervisor. As provided for by  
24 the Permanent Receivership and Liquidation Order, the Receiver and Receivership Manager  
25 are authorized to conduct the business of PAIR and to administer its affairs for the protection  
26 of all secured creditors, insureds, policyholders, and general creditors.

27  
28

The Permanent Receivership Order appointed the Commissioner as Permanent Receiver pursuant to NRS 696B.220 for the purpose of liquidating the business of insolvent PAIR and granted other permanent relief.

## II. RECEIVERSHIP ADMINISTRATION

## A. Notices of Receivership and Notification of Interested Parties

The Receivership Manager prepared and mailed notices of the receivership proceeding apprising interested parties of the receivership and pending liquidation of PAIR. The notice contained contact information for questions and where to find copies of the receivership orders. Additionally, the Regulatory Services Group website was updated with the notice and links to view and obtain copies of the permanent receivership order.

The Receivership Manager also served a certified copy of the permanent receivership order on the Company's depository banking partner Well Fargo Bank. The Receivership Manager and Receivership Supervisor have signed the proper signatory documents prepared by Wells Fargo Bank to take control of the Company's only known bank account.

Counsel for the Receiver and RSG together provided notice of the receivership and copies of the permanent receivership and liquidation order to both Constance Akridge, Esq., counsel for Risk Services LLC., and Corporation Service Company (“CSC”) in their capacities as registered agents of service for PAIR. In addition, RSG delivered copies of the Permanent Receivership Order to Trevor Edwards and T. Edwards, LLC as the Attorney-In-Fact of PAIR; Morris, Manning and Martin, LLP in their capacity as legal counsel to Mr. Edwards as Attorney-In-Fact for PAIR; all members of the Board of Directors of PAIR; all known subscribers to PAIR as well as all known reinsurers, brokers, reinsurance intermediaries, professional service providers and any other known stakeholders to PAIR. Notices will also be published in newspapers in locations where PAIR wrote insurance.

1 **B. Policyholder Related Claims**

2 As of March 31, 2014 PAIR reported five open claims totaling \$1,652,971 in estimated  
3 policy liability. PAIR insured each of the claimants for "hull" or property damage only  
4 coverage. Two of the open claims are being litigated. Notice of the PAIR receivership  
5 injunction has been filed in one case as PAIR's response to the original Red River Aviation  
6 complaint was due at the end of June 2014. In the second case, known as the Benny White  
7 case, notice of the receivership and liquidation order was provided to opposing counsel. The  
8 balance of claimants also received notice of the Receivership Order and injunction. PAIR's  
9 open claims are not covered by any insurance guaranty statutes but the reciprocal has a  
10 reinsurance program in place that may serve to pay a portion of any claims exposure or other  
11 claim-related obligations that may result from the litigation. The Receivership Manager will  
12 review and monitor the open claims and legal cases and will seek to address any obligations  
13 that may arise in accordance with the Receivership Order and PAIR's limited resources. The  
14 Receivership Manager is still working to compile a complete set of legal and/or open claim  
15 files for the reciprocal. Based upon initial discussions with Mr. Edwards and his counsel, all  
16 claims related documents and correspondence were handled by Mr. Edwards who is currently  
17 working with RSG staff to complete the transfer all claim related files to RSG. The  
18 Receivership Manager will make it a priority to gain a complete record of each open claim and  
19 case facing the reciprocal.

20 **C. Records and Assets Control**

21 The Receivership Manager has essentially completed the process of taking control and  
22 possession of most of PAIR's books and records, both tangible and electronic. The majority  
23 of PAIR's records are maintained in electronic form, and were held by its captive manager  
24 RSG or by the reciprocal's Attorney-In-Fact, Trevor Edwards of T. Edwards, LLC. The  
25 Receivership Manager has made contact with and conducted introductory interviews with  
26 RSG, Mr. Edwards as well as counsel to Mr. Edwards. The Receivership Manager has set  
27 up a secure web-based location to have all of PAIR's books and records transferred to. As a  
28 result of certain records being held by parties in various states, the process of collecting all of

1 PAIR's documents and information is requiring additional time and effort, specifically in  
2 obtaining the claims and claims handling records. As mentioned above the Receivership  
3 Manager will continue to compile a comprehensive record of the reciprocals books and  
4 records.

5 In addition to records control, the Receivership Manager is actively working to take  
6 control of PAIR's bank account. The Receivership Manager has provided formal notice of the  
7 PAIR Receivership Order to the reciprocals banking partner, Wells Fargo Bank as well as  
8 providing the necessary engagement documents authorizing the Receivership Manager to act  
9 on behalf of the Receiver. The Receivership Manager is in the process of working with the  
10 bank's legal/compliance unit to change over account control and signatory access to PAIR's  
11 bank account at Wells Fargo. Once Wells Fargo's legal unit is provided a certified copy of the  
12 PAIR receivership order the control of the account will transfer to the Receivership Manager.

13 **D. Financial Analysis**

14 According to the May 15, 2014 Wells Fargo checking account statement, PAIR had  
15 liquid assets of \$21,019 as well as a \$500,000 irrevocable letter of credit, also held by Wells  
16 Fargo as custodian, resulting in total cash or cash equivalent assets of \$521,019. Additionally,  
17 for the period ending March 31, 2014 PAIR reported a reinsurance asset of approximately  
18 \$333,000. Together with the reported cash assets PAIR reported total assets of approximately  
19 \$854,019. On March 31, 2014 PAIR reported \$1,855,569 in claim and expense liabilities.  
20 Based on the impaired financial condition of the Company, the Receiver will need time to  
21 determine the ultimate obligations of the Company as a result of the pending litigation and  
22 determine if sufficient assets are available through reinsurance, assessment and cash on  
23 hand to pay all or a portion of the Company's creditors.

24 / / /

25 / / /

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### III. CONCLUSION

In compliance with NRS 696B.290(7), the Receivership Manager submits the aforementioned report and respectfully requests that this Court approve this status report and the actions of the Receiver and Receivership Manager.

DATED this 13<sup>th</sup> day of August, 2014.

Respectfully submitted:

Scott J. Kipper, Commissioner of Insurance  
of the State of Nevada, in his Official Capacity as  
Statutory Receiver of Delinquent Domestic Insurers

By: /s/ Scott Pearce  
Regulatory Services Group  
Receivership Supervisor

Submitted by:

# CATHERINE CORTEZ MASTO

## Attorney General

By:/s/ Joanna N. Grigoriev

Joanna N. Grigoriev  
Senior Deputy Attorney General  
*Attorneys for the Commissioner  
of Insurance as Receiver*

## **CERTIFICATE OF SERVICE**

I hereby certify that I electronically filed the foregoing FIRST STATUS REPORT with the Clerk of the Court by using the electronic filing system on the 13<sup>th</sup> day of August, 2014.

I certify that on the 13<sup>th</sup> day of August, 2014, the forgoing document was served as follows:

The participants in this case are registered electronic filing system users and will be served electronically.

I certify that some of the participants are not registered electronic filing system users in this case and I have mailed the foregoing document by First Class Mail, postage prepaid to:

Constance Akridge, Esq.  
Leslie Nino, Esq.  
Holland & Hart, LLP  
9555 Hillwood Drive, 2<sup>nd</sup> Floor  
Las Vegas, NV 89134

CSC of Nevada, Inc.  
2215-B Renaissance Drive  
Las Vegas, NV 89119

I certify that I have dispatched the foregoing document to a third party commercial carrier for delivery to:

/s/ Marilyn Millam

## An Employee of the Office of the Attorney General