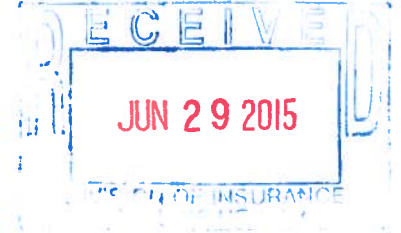


Alan D. Shuman
CLERK OF THE COURT



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

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

14 STATE OF NEVADA, EX REL.
15 COMMISSIONER OF INSURANCE, IN HIS
16 OFFICIAL CAPACITY AS STATUTORY
17 RECEIVER FOR DELINQUENT DOMESTIC
18 INSURER,

19 Plaintiff,

20 vs.

21 PROAIR Risk Retention Group, Inc.,

22 Defendant

Case No. A-14-7-705863

Coordinated with

Case No. A-14-700829

Dept. No. IV

23 **THIRD STATUS REPORT**

24 COME NOW, Scott J. Kipper, Commissioner of Insurance (the "Commissioner") for the
25 State of Nevada in his capacity as Permanent Receiver of PROAIR Risk Retention Group,
26 Inc., ("PROAIR" or the "Company"), and Regulatory Services Group ("RSG"), Receivership
27 Manager of PROAIR, and file this Third Status Report in the above-captioned receivership.

28 **I. INTRODUCTION AND HISTORICAL BACKGROUND**

PROAIR was an association captive insurance company operating as a risk retention
group under the authority of Nevada Revised Statutes Chapter 694C and was incorporated

Office of the Attorney General

1 and organized under the Nevada Insurance laws and the Liability Risk Retention Act of 1986.
2 PROAIR is domiciled in the state of Nevada and received it's Certificate of Authority on July
3 25, 2008. As an association risk retention group, the subscribers of PROAIR operated
4 through an Attorney-In-Fact, T. Edwards, LLC, a Nevada domestic limited liability company, to
5 enable the exchange of contracts of insurance among themselves. PROAIR's program
6 provided liability insurance to its subscribers – pilots and pilot groups specializing in the Air
7 Tractor industry.

8 PROAIR's June 30, 2014 financial statement, pursuant to NRS 680A.270, reported
9 total assets of \$511,233 and total liabilities of \$511,902 resulting in negative working capital
10 of -\$669. As such, PROAIR was unable to meet its requirements to maintain \$500,000 in
11 minimum capital and surplus in accordance with NRS 694C.250(1). As of December 15, 2014
12 the PROAIR bank account balance was \$7,087 and the Company had a \$500,000 Letter of
13 Credit held at Wells Fargo Bank. As a result of PROAIR's insolvency, with no apparent plan
14 or resources to recapitalize the Company, on July 10, 2014 at a special meeting of the Board
15 of Directors it was resolved by unanimous vote that in accordance with the bylaws and
16 subscribers agreement of the Company that the Company's captive manager was authorized
17 to petition the State of Nevada Division of Insurance to place the Company into voluntary
18 receivership pursuant to NRS 696B. Further, the formal consent to liquidation by PROAIR's
19 properly seated board of directors also serves as grounds for liquidation pursuant to NRS
20 696B.220(6).

21 On November 14, 2014, an Order Appointing the Nevada Insurance Commissioner as
22 Permanent Receiver of PROAIR. (the "Permanent Receivership Order") was entered by the
23 Eighth Judicial District Court of the State of Nevada for Clark County (the "Court").

24 On November 6, 2014, Commissioner Kipper as Permanent Receiver of PROAIR
25 retained David E. Wilson and Regulatory Services Group ("RSG") as Receivership Manager.
26 The Receivership Manager was authorized to retain the services of Scott Pearce of RSG as
27 his Receivership Supervisor. As provided for by the Permanent Receivership and Liquidation
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1 Order, the Receiver and Receivership Manager are authorized to conduct the business of
2 PROAIR and to administer its affairs for the protection of all secured creditors, insureds,
3 policyholders, and general creditors.

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

7 **II. RECEIVERSHIP ADMINISTRATION**

8 **A. Notices of Receivership and Notification of Interested Parties**

9 The Receivership Manager continues to provide notice of the receivership proceeding
10 apprising any known interested parties or claimants of the receivership and pending
11 liquidation of PROAIR. Additionally, the Regulatory Services Group website is periodically
12 updated with any material developments and information as well as links to view and obtain
13 copies of the permanent receivership order and any subsequent pleadings filed in the
14 PROAIR receivership. Counsel for the Receiver and RSG together continue to receive and
15 address periodic inquiries from stakeholders or interested parties that have been provided
16 notice of the receivership and/or received a Proof of Claim ("POC") form. As reported in a
17 prior PROAIR status filing with the Court copies of the permanent receivership and liquidation
18 order have been served upon both Constance Akridge, Esq., counsel for Risk Services LLC.,
19 and the Corporation Service Company ("CSC") in their capacities as the former captive
20 manager and registered agent of service respectively for PROAIR. In addition, RSG delivered
21 copies of the Permanent Receivership Order to Trevor Edwards and T. Edwards, LLC as the
22 Attorney-In-Fact of PAIR; Morris, Manning and Martin, LLP in their capacity as legal counsel
23 to Mr. Edwards as Attorney-In-Fact for PROAIR; all members of the Board of Directors of
24 PROAIR; all known subscribers to PROAIR as well as all known reinsurers, brokers,
25 reinsurance intermediaries, professional service providers and any other known stakeholders
26 to PROAIR. The Receiver published legal notice of the permanent receivership proceeding in
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1 the Wall Street Journal as PROAIR wrote insurance in several different areas of the country.
2 This was done as part of the proof of claims ("POC") process.

3 **B. Policyholder Related Claims**

4 As of May 31, 2015 the Receivership Manager has received seven POCs related to
5 policy liability, of which two of the POCs were submitted as contingent and undetermined and
6 the other five policy-related POCs totaled approximately \$357,066 in estimated policy liability.
7 Final policyholder liability will be determined after completion of the Receivership Manager's
8 evaluation of all properly submitted claims through the Proof of Claim process. PROAIR
9 insured each of the claimants for liability coverage. PROAIR's open claims are not covered by
10 any insurance guaranty statutes but the Company has a reinsurance program in place that
11 may serve to pay a portion of any claims exposure or other claim-related obligations that may
12 result from the open claims.

13 **C. General Creditor and/or Other Enterprise Claims**

14 As of May 31, 2015 the Receivership Manager has received eight non-policy related
15 creditor POCs totaling approximately \$106,607. In accordance with the statutory claims-
16 priority scheme, the Receivership Manager will need to evaluate the claims through the POC
17 process, determine the proper class of the claim under NRS 696B.420. If the Receivership
18 Manager does not have sufficient assets to pay all approved policyholder claims in full, he will
19 forego any additional work and costs associated with reviewing and determining lower priority
20 claims as there will be no assets to satisfy such claims.

21 **D. Proof of Claim Process**

22 The Receivership Manager will review and determine the merit of the open claims via a
23 proof of claims process and will seek to address any approved obligations in accordance with
24 the Receivership Order and PROAIR's limited resources. Publication of the legal notice and
25 actual mailing of Proof of Claim ("POC") forms and instructions happened in the last week of
26 January, 2015. The Receivership Manager believes that all known potential creditors of the
27 estate have been identified, and a POC form has been sent to each potential creditor. To the
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1 extent additional creditors are identified they will be provided POC forms for submission and
2 consideration. The claims bar date was established as July 31, 2015.

3 **E. Reinsurance**

4 Of the seven known policy-related POCs received, none appear to have incurred
5 losses that would exceed PROAIR's retention threshold under the applicable reinsurance
6 treaty. Under the 2013 treaty, approved claims are recoverable from London reinsurers in the
7 amount of \$650,000 in excess of a \$350,000 retention per each loss. In addition, PROAIR
8 owes reinsurers the 4Q13 premium deposit which results in a June 30, 2014 premium
9 adjustment of \$25,700 which may be offset against any future reinsurance recoveries.

10 **F. Records and Assets Control**

11 The Receivership Manager has essentially completed the process of taking control of
12 PROAIR's books and records, both tangible and electronic. The majority of PROAIR's records
13 are maintained in electronic form, and were held by its captive manager Risk Services, LLC or
14 by the Company's Attorney-In-Fact, Trevor Edwards of T. Edwards, LLC. The Receivership
15 Manager has set up a secure web-based location to have all of PROAIR's books and records
16 transferred to. Although many of PROAIR's records were being held by parties in various
17 states, the process of collecting all of PROAIR's documents and information is essentially
18 complete and the Receivership Manager has compiled what appears to be a comprehensive
19 collection of the risk retention group's books and records.

20 In addition to records control, the Receivership Manager has control over PROAIR's
21 bank account at Wells Fargo Bank. The Receivership Manager has not located and is not
22 aware of any other material assets beyond the current Wells Fargo Bank account balance
23 belonging to PROAIR with the potential exception of the reinsurance program that may serve
24 to pay a portion of any approved policy related claims. The Receivership Manager will seek
25 recovery of the reinsurance upon determination of the policy related claims where such claims
26 exceed the treaty retention level. Actual reinsurance collections will be determined as policy
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1 claims are determined through the POC process and any resulting cessions are prepared and
2 submitted through the broker to the reinsurers.

3 **G. Financial Analysis**

4 As of May 31, 2015 PROAIR's Wells Fargo Bank account had a balance of \$440,535.
5 The Receivership Manager also holds a \$50,000 retainer. Through May 31, 2015 the
6 Receivership Manager has incurred \$60,357.45 in administration expenses, including incurred
7 but unpaid expenses. Considering the current cash assets less \$45,651 in incurred but
8 unpaid administrative expenses PROAIR has as of May 31, 2015 total current cash assets of
9 approximately \$444,883 (including retainer). At May 31, 2015 PROAIR estimates in excess of
10 \$463,000 in both policy related claims and enterprise/vendor expense liabilities.

11 The Receivership Manager had a receipt and disbursement review performed by a third
12 party vendor for all amounts received and paid by the receivership estate from the date of the
13 liquidation to December 31, 2014. The review was performed to determine whether the
14 receipts and disbursements of the receivership estate were properly supported and accounted
15 for. The review identified one finding related to the timing of payment of certain invoices.
16 While acting in the capacity of Receivership Manager RSG must submit incurred expenses for
17 both regulatory and judicial approval prior to payment. The delay in paying the incurred but
18 unpaid invoices is due to the time necessary to gain the necessary approvals. The report
19 concluded that all invoices and expenses were properly supported and accounted for. The
20 finding related to the timing of payment is not deemed to be material.

21 The Receivership Manager has commenced a formal POC process to determine the
22 ultimate claim and creditor obligations of the risk retention group and will pursue recovery of
23 any reinsurance assets for claims that pierce the retention level of the applicable treaty.
24 Thereafter the Receivership Manager will seek court approval to distribute PROAIR's
25 remaining assets in accordance with NRS 696B.420.

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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 29th day of June, 2015.

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
Scott Pearce
Regulatory Services Group
Receivership Supervisor

Respectfully submitted by:

ADAM PAUL LAXALT
Attorney General

By: /s/ Joanna N. Grigoriev
Joanna N. Grigoriev
Senior Deputy Attorney General
Attorneys for the Commissioner of Insurance as Receiver

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CERTIFICATE OF SERVICE

I hereby certify that I am an employee of the State of Nevada, Office of the Attorney General and that on the 29th day of June, 2015 I served the foregoing THIRD STATUS REPORT via US Mail addressed as follows:

CSC of Nevada, Inc.
c/o Constance Akridge, Esq.
Holland & Hart, LLP
9555 Hillwood Drive, 2nd Floor
Las Vegas, NV 89134

/s/ Marilyn Millam
An employee of the Office of the Attorney General