

PUBLIC ADJUSTERS OF COLORADO, LLC

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“Adjusters for the Policyholder”

RE: Insurer: State Farm Fire and Casualty Company
Insured: Colonial Manor Condominium Association
Loss Location: 4100 S. Dale Court, Englewood, Colorado 80110 (Units 1, 2, &3)
Policy Number: 96-KS-1619-0
Claim Number: 06-K180-354
Date of Loss: April 24, 2007

Chronological Claim Events

- On April 24, 2007 at 11:11 AM, a hostile fire was reported at the Colonial Manor Condominiums (CMC). The Sheridan Fire Department responded quickly. At 1:45PM the property was released to Sheridan Fire Investigator, Mr. Pat Conroy who asked restoration contractor, Disaster Restoration, Inc. (DRI) to board up and secure the three-unit building. The preliminary Sheridan Fire Investigation determined the origin to be the Unit 2 furnace area and declared the cause to be accidental.
- On April 24, 2007, the Association’s building insurance carrier, State Farm Fire and Casualty Company was notified of the serious fire loss claim. The fire caused significant structural, electrical, and smoke damages which adversely affected all three building units located at 4100 South Dale Court (*Note: The loss site was later determined to be asbestos contaminated as the result of the fire damages.*). The Sheridan Building Department posted the property as unfit for occupancy. The Association’s board elected to hire DRI as their contractor of choice to complete all damage repairs.
- The April 25, 2007, State Farm Large Loss Claim Adjusters Tim Thomsen and Tom Egger were assigned to handle the damage claims. The following State Farm claim actions were taken:
 1. State Farm hired Phoenix Investigations to perform a private cause & origin investigation. A representative from Phoenix Investigations met with Sheridan Fire Investigator Conroy. The follow-up investigation confirmed Mr. Conroy’s preliminary investigation results.
 2. Adjuster Thomsen contracted with Foothills Environmental, Inc. owner Andre Gonzalez to conduct asbestos testing of the loss site. Later that day, Mr. Gonzalez, a Certified Industrial Hygienist and Colorado Department of Public Health & Environment (CDPHE) licensed asbestos tester, surveyed the loss site and secured bulk material samples for asbestos evaluation.
 3. Adjuster Egger contacted CMCA President Robert Nolan to explain the benefits of State Farm’s Premier Service Program® (PSP). Adjuster Egger suggested selection of a State Farm PSP contractor would simplify the claim process; otherwise Mr. Nolan would be saddled with all the claim handling problems.
(Note: Mr. Nolan felt pressured to agree to the State Farm PSP scenario to get the Association’s claim settled. Mr. Nolan was not advised at this time that he could use a contractor of his choice.)
- On April 26, 2007, Mr. Gonzalez prepared and issued his company’s asbestos test report to Adjuster Thomsen suggesting the loss site posed no apparent asbestos danger.

(Note: This deceptive and inaccurate report proved to be based on a selective testing methodology used to sidestep real asbestos damage issues. The loss site was later thoroughly tested and determined to be a “major asbestos spill” hazard. On September 6, 2007, Mr. Gonzalez publicly stated that he “selectively tested” the loss site at the direction of State Farm Adjuster Thomsen. This deception has very serious implications.)

Figure 1: The April 26, 2007 Foothills asbestos testing report was commissioned by State Farm Large Loss Adjuster Thomsen. This report misrepresents the major asbestos spill hazard caused by the fire damages at the loss site. This deceptive report was based on inadequate asbestos testing of the loss site damages in accordance with Colorado Regulation 8B requirements. The report was carefully organized and worded such that an unsuspecting reader would believe the loss site posed no asbestos danger.

In oral communications on April 27, 2007 with Association President Nolan, Adjuster Thomsen stated the owners can enter their properties to evaluate damages without concern for asbestos. This representation proved to be false.

Adjuster Thomsen then suggested the Association's policy only provided coverage for damages to the structure framework and exterior finish. Adjuster Thomsen indicated he did not believe the policy provided coverage for interior finish damages from the drywall out. This representation was false and misleading as well. Mr. Thomsen, an experienced large loss adjuster, knew or should have known the policy afforded full coverage for all structure damage issues, including the interior finishes.

On April 27, 2007 Adjuster Thomsen released the deceptive Foothills asbestos test report to the Colonial Manor Condominium Association. This information was promptly disseminated to the affected unit owners. The unsuspecting owners, their children, helpful family members and friends spent several weeks salvaging and/or inventorying damaged personal property "without concern" for the major asbestos spill hazard. In fact, Ms. Barbra Mikus the owner of unit 3, removed soot contaminated interior drywall containing hazardous concentrations of asbestos fibers. Ms. Mikus was under the false belief interior finish damages were not covered by the Association's policy. The unit owners blindly relied on the false coverage and asbestos representations made by Adjuster Thomsen.

On May 16, 2007, Public Adjusters of Colorado (PAC) first examined the loss site and the Foothills asbestos testing report. We were immediately concerned the loss site had not been properly asbestos tested.

On May 18, 2007, the loss site was fully asbestos evaluated by Mr. Tom Koch, owner of Koch Environmental Health. On May 30, 2007, Mr. Koch released his comprehensive asbestos testing report which declared the loss site to be a "major asbestos spill" hazard in accordance with Colorado Regulation 8B.

The Colorado Department of Public Health & Environment (CDPHE) was immediately notified of the "major asbestos spill hazard". The association's contractor of choice, Disaster Restoration, Inc., arranged to place the loss site under mandatory negative air containment.

On September 6, 2007, Mr. Gonzalez publicly stated that he "selectively tested" the loss site at Mr. Thomsen's direction. Mr. Gonzalez reportedly confirmed this admission to CDPHE officials. CDPHE is actively investigating inappropriate asbestos handling practices on several State Farm losses.

Based on the facts involved, one can only conclude that Adjuster Thomsen's reckless disregard for the health, safety and well-being of countless individuals was solely motivated by his efforts to minimize State Farm's overall loss exposure. Please note the actions of Adjusters Thomsen and Egger are not ultra vires in nature; the State Farm Colorado Claims Team Management vigorously defends the inappropriate and reckless action of their Large Loss Adjusters. The outrageous conduct involved needs to be thoroughly investigated by all appropriate state regulatory authorities with appropriate remedies to prevent future recurrence.



April 26, 2007

State Farm
P.O. Box 339409
Greely, CO 80633-4909

Attn: **Tim Thomsen**

Re: **Asbestos Sampling at 4101 S. Dale Court #2 in Englewood, CO Claim #06-K180-354**

Dear Mr. Thomsen,

Foothills Environmental Inc. (FEI) collected asbestos bulk samples at the property located 4101 S. Dale Court in Englewood, CO. The sampling was conducted at your request on April 25th, 2007 in an effort to determine the location of asbestos containing materials and the extent of contamination. Mr. Andre Gonzalez of FEI is a certified Asbestos Inspector in the State of Colorado and conducted the bulk sampling.

EXECUTIVE SUMMARY

The property of concern is a condominium. Recently, a fire caused major damage to the basement and smoke damage throughout the rest of the condominium. **Asbestos bulk samples were collected of all damaged suspect materials in the condominium.**

ANALYTICAL RESULTS

Asbestos bulk samples were collected of suspect materials in the property that were damaged as a result of the fire. The following table summarizes the results. A copy of the analytical report is located in Appendix A.

Sample Number	Sample Description and Location	Analytical Result % Asbestos
A-1	Drywall tape, joint compound and texture	ND
A-2	Drywall tape, joint compound and texture	ND
A-3	Drywall tape and texture	ND

ND = None Detected

The damaged drywall material does not contain asbestos. The damaged drywall can be removed without concern for asbestos.



CONCLUSION and RECOMENDATIONS

Asbestos was not detected in the damaged drywall material and surfacing texture in the basement of the condominium. No other suspect materials were identified at the time of sampling. It is safe to remove the drywall and all damaged debris without concern for asbestos or asbestos contamination.

Andre Gonzalez, CIH
CDPHE Asbestos Inspector #3199

- On April 26, 2007, Colonial Manor Condominium Association (CMCA) President Nolan contacted State Farm Adjuster Egger to inform him of the Association’s decision to have repairs completed by DRI. Adjuster Egger advised DRI was not part of State Farm’s PSP contractor program, so all dealings with DRI would have to be directed through Mr. Nolan. On that same day, State Farm Adjuster Thomsen first surveyed the loss site and took photographic data of fire damage issues.

(Note: Adjuster Thomsen’s April 26, 2007 photographic data clearly showed unit damages later characterized as a “major asbestos spill” hazard. Foothills Environmental failed to test the obvious damages during their site characterization work performed on April 25, 2007 and April 30, 2007.)

- On April 27, 2007, State Farm Large Loss Adjusters Thomsen contacted CMCA President Nolan and made the following representations:
 1. The Foothills Environmental asbestos testing report was negative and the owners can enter properties to evaluate damages without concern for asbestos.
 2. The Association can use any contractor they choose. State Farm does not deal with DRI, so all claim and repair problems would have to be directed through Mr. Nolan since he was the HOA President.
 3. The Association’s Declarations and Bylaws contained a lot of “grey areas”; so he was not sure what damages were covered by State Farm’s policy. Mr. Thomsen indicated he thought the policy covered damages to the structure and exterior finishes, but did not believe the policy provided coverage for interior finish damages from the drywall out.

(Note: This representation was false and misleading. Adjuster Thomsen knew or should have known that the policy afforded full replacement coverage for all structure damage issues, including the interior finishes. Colorado laws specifically require that a common interest community such as a condominium association must purchase full replacement cost coverage policy to adequately insure common elements.)

The Colorado Revised Statute 38-33.3-313 (Insurance) clearly states:

- (1) Commencing not later than the time of first conveyance of a unit to a person other than a declarant, the association shall maintain, to the extent reasonably available:***
- (a) Property insurance on the common elements and, in a planned community, also on property that must become common elements, a broad form covered cause of loss; except that the total amount of insurance must be not less than the full insurable replacement cost of the insured property less applicable deductibles at the time insurance is purchased and at each renewal date, exclusive of land excavations, foundations and other items excluded from property policies;***

(Note: Mr. Thomsen is an experienced large loss claims adjuster operating in the State of Colorado; he has handled many fire loss claims involving condominium properties. Adjuster Thomsen should be fully aware that State Farm’s standard Condominium Coverage Policy provides full replacement cost coverage for all fire loss damages sustained to the structure, including interior finish details. PAC can only assume that Adjuster Thomsen was attempting to take advantage of Mr. Nolan’s lack of claim handling knowledge.)

- On April 28, 2007, Association President Nolan received a correspondence package from Adjuster Thomsen dated April 27, 2007. This State Farm correspondence attempted to document their conversation from the prior day, but contained numerous ambiguities relevant to the actual conversation. The correspondence did state, ***“We are attempting to ascertain the coverages detailed under your bylaws and declarations of the association and will be in contact with you regarding our findings.”*** Of course the Associations Declarations and Bylaws were irrelevant to the policy coverage matters, but Mr. Nolan was not aware of this issue and fully relied on Adjuster Thomsen’s misrepresentation.

The correspondence package contained the April 26, 2007 asbestos testing report from State Farm’s contractor, Foothills Environmental (See Figure 1). CMCA President Nolan copied and distributed the entire correspondence package, including the Foothills Environmental report, to all the members of the small association. Mr. Nolan advised the members that Adjuster Thomsen indicated the owners could enter the property to access damages without the concern for asbestos. Mr. Nolan also advised Adjuster Thomsen indicated there was most likely no coverage for interior finish damages from the drywall out. The entire community was upset by the potential coverage limitation issue.

- On April 30, 2007, State Farm Large Loss Adjusters Thomsen and Egger met representatives from Blu Sky Restoration Contractors, Inc. to survey the damages at the loss site.

(Note: Blu Sky participates in the State Farm Premier Service Program® (PSP) and derives substantial claim repair work directly through this program. Blu Sky has both contractual and financial relationships with State Farm which create a substantial conflict of interest relating to the appropriate handling the policyholder's repair needs.)

Following the loss inspection, Adjusters Thomsen and Egger met with Mr. Nolan and again tried to encourage him to consent to the State Farm PSP program by selecting Blu Sky to repair the damages. Once again, Mr. Nolan affirmed the Association's election to have DRI make the necessary damage repairs. Adjuster Thomsen indicated that State Farm's legal department was still reviewing the Association's Declarations and Bylaws to determine if there was coverage for the interior finish damages. Adjuster Thomsen implied the interior issues would not be an issue if Blu Sky performed the repair work. Mr. Nolan was very concerned by the persistent pressure being applied by Adjusters Thomsen and Egger.

- On April 30, 2007, Adjuster Thomsen again contacted Foothills Environmental to request asbestos sampling of the popcorn ceiling textures in the basements of Units 1 & 3. Mr. Gonzalez's firm promptly replied and collected 3 samples from each unit. These samples were submitted to accredited lab for analysis. The Lab results were released the next day (May 1, 2007).
- On May 2, 2007, Mr. Gonzalez released his second asbestos testing report to State Farm Adjuster Thomsen. This report again characterized the loss site to be of no asbestos concern. The report indicated, **"The damaged decorative ceiling material does not contain asbestos material. The damaged material can be removed without concern for asbestos."** Adjuster Thomsen failed to disclose the second asbestos testing action and the corresponding report to the CMCA.

(Note: Public Adjusters of Colorado (PAC) later received the curious 2nd asbestos testing report in an information package supplied by State Farm on June 4, 2007. Popcorn texture usually contains 2% to 4% concentrations of asbestos as a fiber reinforcing agent. This asbestos testing request was normal and necessary to complete required damage repairs. However, Mr. Gonzalez was to have reportedly sampled all the potential asbestos damages on April 25, 2007. Foothills for a second time fully ignored damaged (friable) presumed asbestos containing materials (PACM) littering the 1st floor of Unit 1. The friable damages present in Unit 1 later proved to be sufficient to classify the loss site as a "major asbestos spill" hazard in accordance with Colorado Regulation 8B. Adjuster Thomsen's efforts to arrange follow-up asbestos testing raises serious concerns: Why wasn't the loss site fully tested the first time? How did Adjuster Thomsen know it was not fully tested? Why would Adjuster Thomsen inform the Association that asbestos was of no concern if he knew the entire building was not adequately tested? Sometime later, comprehensive asbestos testing by Koch Environmental Health (5/18/07) and Mr. Gonzalez's public admission (9/6/07) confirmed a selective asbestos testing methodology had been performed at Adjuster Thomsen's request.)

- On May 4, 2007, Mr. Nolan received State Farm correspondence (May 3, 2007) from Adjuster Egger. This correspondence was intended to **"recap and verify the pertinent points of our conversation"** from their April 30, 2007 meeting. PAC notes several serious claim handling concerns as shown in Figures 2 through 4:

DECLARATIONS PAGE	
Policy Number 96-KS-1619-0	STATE FARM FIRE AND CASUALTY COMPANY 1555 PROMONTORY CIRCLE, GREELEY CO 80638-0001 A STOCK COMPANY WITH HOME OFFICES IN BLOOMINGTON, ILLINOIS
Named Insured and Mailing Address 20-1529-F631 W 1 COLONIAL MANOR CONDOMINIUM ASSOCIATION 4104 S DALE CT STE 1 ENGLEWOOD CO 80110-5365	
CONDO/ ASSOC POLICY - SPECIAL FORM 3 Inflation Coverage Index: 174.4	
AUTOMATIC RENEWAL - If the POLICY PERIOD is shown as 12 MONTHS, this policy will be renewed automatically subject to the premiums, rules and forms in effect for each succeeding policy period. If this policy is terminated, we will give you and the Mortgage/Lienholder written notice in compliance with the policy provisions or as required by law.	
Policy Period: 12 Months The policy period begins and ends at 12:01 am standard time at the premises location.	
Effective Date: NOV 16 2006	
Expiration Date: NOV 16 2007	
Named insured: CONDOMINIUM	
Location of Covered Premises: **See Schedule Page(s) for Location of Premises	2nd Mortgagee CITIFINANCIAL 344 S CHAMBERS RD AURORA CO 80017-2068
Coverages & Property	Limits of Insurance
Section I	
A Buildings (Blanket)	\$ 613,000
B Business Personal Property (Blanket)	\$ 6,800
Section II	
L Business Liability	\$ 1,000,000
M Medical Payments	\$ 5,000
Products-Completed Operations (PCO) Aggregate	\$ 2,000,000
General Aggregate (Other Than PCO)	\$ 2,000,000
	Deductibles - Section I
	\$ 1,000 Basic
In case of loss under this policy, the deductible will be applied to each occurrence and will be deducted from the amount of the loss. Other deductibles may apply - refer to policy.	

Figure 2: Excerpt from State Farm's Declarations page for the Colonial Manor Condominium Association showing Policy Property Coverage:

"A – Buildings (Blanket) \$613,000.00"

Figure 3: (right) Excerpt from State Farm's correspondence dated May 3, 2007 which clearly shows misrepresentation of the Colonial Manor Condominium Association policy coverage limit for structure damages:

"Coverage A – Buildings \$263,225.00"

Please note structure containment, maintenance, abatement, and damage repairs are in excess of \$700K.

Figure 4A: (below) The highlighted excerpt from State Farm's correspondence (dated May 3, 2007) reiterates the flawed asbestos conclusions. Adjuster Egger attempts to portray State Farm in a positive, proactive role; one where State Farm is somehow looking out for the Association. While in fact, State Farm representatives were placing the safety, health, and well being of countless people at risk in an effort to reduce State Farm's overall loss exposure.

The last highlighted sentence creates a false coverage issue that creates uncertainty for the association regarding damage coverage issues.

Large Loss Adjusters Thomsen and Egger intended to pressure the association to accept State Farm's PSP program in an effort to control all aspects of the loss exposure.

State Farm Insurance Companies®



State Farm Insurance Companies
P. O. Box 339409
Greerley, CO 80633-9409

May 3, 2007

Colonial Manor Condominium Association
Robert Nolan
4104 S. Dale Ct. Ste. 1
Englewood, Co. 80110

Re: Claim:06-K180-354
Date of Loss: April 24, 2007
Type of Claim: Fire
Policy Number:96-KS-1619-0
Type of Policy: Condominium

Dear Mr. Nolan:

Thank you for taking the time to speak with claim representative, Tim Thomsen and me during our personal meeting at the property on Monday April 30,2007 Your assistance in this matter was greatly appreciated. This letter serves to recap and verify the pertinent points of our conversation.

Your Condominium policy, Form FP-6109 provides coverage for the loss to the dwelling and business personal property as a result of the fire in the above captioned claim. The policy limits for these coverage's as of this date of loss are as follows:

Coverage A – Buildings- \$263,225.00
Coverage B - Business Personal Property-\$6800.00
Policy Deductible-\$1000.00

While at your property, I explained the applicable coverage and deductible for this loss, as well as discussed a general overview of the claims process.

COVERAGE A - BUILDINGS:

As we discussed, we will be preparing a building damage estimate for the repairs to the property based upon our inspection of the building damages. Once we complete our estimate,

HOME OFFICES: BLOOMINGTON, ILLINOIS 61710-0001

State Farm® will pay to repair damaged building property covered by your policy, less your deductible, subject to your policy's terms and conditions. Any additional work performed at your request for repairs or improvements not covered under your insurance policy will be your responsibility. Also, any additional cost of material upgrade used to complete repairs will be your responsibility.

State Farm arranged for an asbestos test of the property and tests were negative. We mailed you a copy of this report last week. We are currently reviewing the bylaws of the association and will contact you to discuss in more detail.

The loss settlement provision of your insurance policy prescribes the settlement of building damages in this claim. Please refer to your insurance policy, Form FP-6109, which reads, in part, as follows:

SECTION I CONDITIONS

CONDITIONS

1. **Loss Payment.** In the event of loss covered by this policy:

- a. we will give notice, within 30 days after we receive the sworn statement of loss, of our intent to settle the loss according to one of the following methods:

- On May 14, 2007, DRI project manager, Mr. Dan Meyer, informed Mr. Nolan that State Farm Adjuster Thomsen refused to work with them to determine the damage repair scope issues.
- On May 16, 2007, PAC representatives met with the Association members to discuss the claim situation. During this meeting we inquired as to whether the property had been asbestos tested. Several Association members indicated that the property had been tested and the testing report determined asbestos not to be of concern. All the members had a copy of the April 26, 2007 Foothills report. After reviewing the Foothills report and examining the three damaged units, we advised the property had not been comprehensively asbestos tested. A recommendation was made to have all parties stay out of the property until an independent licensed asbestos tester fully evaluated the loss site.

Association members expressed concerned the policy might not cover the interior damages from the drywall out. We advised that the policy had to provide full replacement cost coverage in accordance with the Colorado Revised Statues; their policy would cover full repair of the building damages including the interior finishes.

Representatives from PAC then distributed our standard claim adjustment agreement to the all the CMCA members. We discussed how PAC would handle the claim issues and the provisions of our contract of representation. There was a short question and answer period. The Association members held a unanimous vote to hire PAC for claims representation services (including Ms. Mikus). Association President Nolan signed our contract. We advised Mr. Nolan that comprehensive asbestos testing of the loss site would most likely take 1.5 weeks to complete; PAC would extend a two week courtesy period to ascertain the asbestos test results and enable the Association to seek professional advice; if the Association had a change of position, PAC would willingly rescind the contract.

- On May 17, 2007, Mr. Nolan informed State Farm Adjuster Egger that the Association would be retaining the services of PAC to handle the claim issues.
- On May 18, 2007, Adjuster Egger contacted Mr. Nolan and indicated he was prepared to have a claim check written for \$101,874.00 based on State Farm's reliance on the Blu Sky damage estimates to settle the claims. Mr. Nolan declined the offer made by Adjuster Egger because he felt the sum was inadequate to complete repairs. Mr. Nolan did not have the Blu Sky estimates and was not going to be pressured into an inadequate settlement. PAC notes the following issues:
 1. *State Farm PSP contractor Blu Sky supplied Adjusters Thomsen and Egger with three damage repair estimates (Emergency Board Up \$674.36, Structure Repairs \$101,874.00, and Code Repairs \$18,025.04) totaling \$120,573.40. State Farm did not release these estimates until June 4, 2007. Careful examination of these estimates revealed Blu Sky failed to address significant damage repair requirements: complicated main floor structural repairs, electrical rewiring, HVAC duct & unit replacements, numerous building code requirements and proper finish requirements. These estimates also involved substantial Xactimate "price shaving" tactics intended to reduce to recognized repair valuations. These significant estimate omissions and manipulations were independent of the yet unidentified asbestos abatement issues.*
 2. *State Farm's offer of the \$101,874.00 claim settlement based on the grossly deficient Blu Sky estimates (Excluding the yet unidentified asbestos issues.) constituted what can only be termed as a "lowball settlement offer". This settlement offer was clearly less than what a reasonable person would expect to repair the damages. This settlement offer is believed to constitute a willful violation of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices.*
 3. *State Farm refused to promptly tender the \$101,874.00 sum as an undisputed damage claim amount despite repeated PAC requests to do so. Adjusters Thomsen and Egger on several occasions indicated State Farm had no duty to tender and undisputed claim amount. State Farm representatives through their own written admissions knew this damage claim liability was reasonably clear. State Farm subsequently tendered the amount of \$102,548.36 (Emergency Board Up \$674.36 and Structure Repairs \$101,874.00) on September 27, 2007 as a condition to hold a meeting with the Sheridan Building Department. The undisputed claim amount tendered on September 27, 2007 was less than the asbestos containment maintenance costs incurred and invoiced at that time.*
- On May 18, 2007, Mr. Tom Koch, owner of Koch Environmental Health, was retained to complete an independent asbestos evaluation of the loss site. Mr. Koch, a Certified Industrial Hygienist and Colorado Department of Public Health & Environment (CDPHE) licensed asbestos tester, was provided with a complete copy of the April 26, 2007 Foothills asbestos testing report. Mr. Koch personally inspected the loss site and secured 43 samples for asbestos evaluation.

- On May 21, 2007, Mr. Koch provided a preliminary asbestos report that confirmed the loss site to be a “major asbestos spill per CDPHE regulations”.

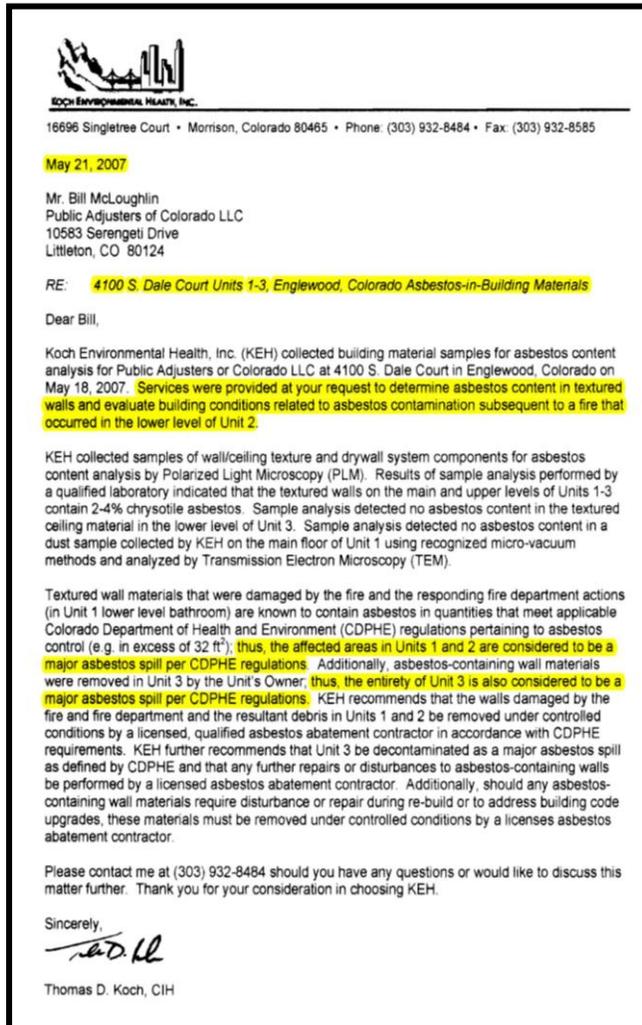


Figure 5: (above left) The preliminary Asbestos Testing Report from Koch Environmental Health describing Colonial Manor Condominium Units 1 through 3 as a “major spill per CDPHE regulations”.

Sample #	Date	Sample Description & Location	Results (%asbestos)
TX 01-01	5/18/07	Wall texture – Unit 3 top floor bath	3% Chrysotile
TX 01-02	5/18/07	Wall texture – Unit 3 top floor West Bed	2% Chrysotile
DW 01-01	5/18/07	Dry wall top floor – Unit 3 hall	2% Chrysotile
DW 01-02	5/18/07	Dry wall top floor – Unit 3 South wall West bed	3% Chrysotile
TX 02-01	5/18/07	Wall texture main floor South wall door	2% Chrysotile
TX 02-02	5/18/07	Wall texture main floor hall by stairs - kitchen	2% Chrysotile
DW 02-01	5/18/07	Drywall main floor front door	2% Chrysotile
DW 02-02	5/18/07	Drywall main floor top stairway	2% Chrysotile
TX 03-01	5/18/07	Basement texture South wall	ND
TX 03-02	5/18/07	Basement texture East wall	ND
DW 03-01	5/18/07	Basement East wall	ND
DW 03-02	5/18/07	Basement South wall	ND
CT 04-01	5/18/07	Basement ceiling	ND
CT 04-02	5/18/07	Basement popcorn ceiling	ND
1TX 01-01	5/18/07	Top floor Northwest Bedroom	ND
1TX 01-02	5/18/07	Top floor hallway outside bathroom	2% Chrysotile
1DW 01-01	5/18/07	Top floor Southwest bedroom	2% Chrysotile
1DW 01-02	5/18/07	Top floor bathroom	2% Chrysotile
1TX 02-01	5/18/07	Main floor kitchen back door	ND
1TX 02-02	5/18/07	Main floor living room	4% Chrysotile
1DW 02-01	5/18/07	Main floor kitchen West wall	4% Chrysotile
1DW 02-02	5/18/07	Main floor living room front door	2% Chrysotile
1TX 03-01	5/18/07	Basement washer & dryer room	ND
1TX 03-02	5/18/07	Basement bottom of stairs	ND
1DW 03-01	5/18/07	Basement end of bar	ND
1DW 03-02	5/18/07	Basement bottom of stairs corner	ND
1CT 03-01	5/18/07	Basement by washer dryer	ND
1CT 03-02	5/18/07	Basement bottom of stairs	ND
2TX 01-01	5/18/07	Top floor South bedroom	3% Chrysotile
2TX 01-02	5/18/07	Top floor North bedroom	3% Chrysotile
2DW 01-01	5/18/07	Top floor hall outside bathroom	3% Chrysotile
2DW 01-02	5/18/07	Top floor bathroom	3% Chrysotile
2TX 02-01	5/18/07	Main floor kitchen North wall	3% Chrysotile
2TX 02-02	5/18/07	Main floor living room South wall	3% Chrysotile
2DW 02-01	5/18/07	Main floor living room North wall	3% Chrysotile
2DW 02-02	5/18/07	Main floor kitchen East wall	3% Chrysotile
2TX 03-01	5/18/07	Basement East wall	ND
2TX 03-02	5/18/07	Basement West wall	ND
2DW 03-01	5/18/07	Basement South wall & ceiling	ND
2DW 03-02	5/18/07	Basement North wall & ceiling	ND
2CT 03-01	5/18/07	Basement back North ceiling	ND
2CT 03-02	5/18/07	Basement South ceiling	ND
MV - 01	5/18/07	Micro-Vac interior 4100 S. Dale Ct.	ND

Acronyms
 ACM asbestos-containing material ACBM asbestos-containing building materials
 NA Not Analyzed ND None Detected
 PLM Polarized Light Microscopy TSI thermal systems insulation
 TR Trace amounts (<1%)

According to regulatory definitions (CDPHE Regulation Number 8 and EPA 40 CFR part 763), materials containing greater than one percent asbestos (i.e. >1%) are considered asbestos-containing materials (ACM). Samples containing trace amounts (i.e. <1%) of asbestos are not

Figure 6: (above right) Excerpt from full Koch Environmental Health Asbestos Report dated May 30, 2007 showing asbestos sampling results. Note over 50% of samples taken had asbestos concentrations greater than the Colorado Regulation 8B, 1% asbestos trigger level. Friable damages qualified a major asbestos spill hazard.

- On May 21, 2007, Adjuster Egger issued correspondence relating to the conversation with Mr. Nolan on May 18, 2007. This State Farm correspondence recognizes the deficient but undisputed Blu Sky damage repair estimates totaling \$120,573.40 as previously discussed. Please note the appropriate claim payment for this deficient but undisputed damage liability was not included.

(Note: The May 21, 2007 correspondence also confirms coverage afforded under **Endorsement FE-6587** for the “code upgrade” items defined by the Blu Sky repair estimate in the amount of \$18,025.04. This endorsement, which is entitled **INCREASED COST AND DEMOLITION COVERAGE ENDORSEMENT**, provides 10% additional coverage or \$61,300.00 for building code required repairs including demolition and removal of the undamaged portions of the building. PAC notes code compliant loss damage repairs directly involve a clear coverage responsibility under this endorsement. Adjuster Egger later denied State Farm’s clear coverage duty under **Endorsement FE-6587** (See discussion dated November 21, 2007 for details.) by citing a section of the endorsement language that does apply to this loss. When confronted with this obvious coverage reversal, Adjuster Egger indicated his supervisor, State Farm Claim Team Leader, Mr. Rick Whitworth, personally made the decision to redact the coverage determination without explanation. To date, State Farm refuses to acknowledge or handle this clear endorsement coverage responsibility.)



May 21, 2007

Greeley Operations Center
Greeley, CO 80633-9408

ROBERT NOLAN
COLONIAL MANOR
CONDOMINIUM ASSOCIATION
4104 S DALE CT STE 1
ENGLEWOOD CO 80110



RE: Claim Number: 06-K180-354
Date of Loss: April 24, 2007
Type of Claim: Fire
Policy Number: 96-KS-1619-0
Type of Policy: Condominium

Dear Mr. Nolan:

Thank you for taking the time to visit with me about your claim on Friday, May 18, 2007. This letter follows our telephone conversation.

We discussed the fact that on April 30, 2007, State Farm met with Blu Sky Restoration and CoCat Restoration at your property and agreed on a scope of repairs as a result of the fire and smoke damages. These two contractors are reputable licensed contractors who do fire restoration work. We walked through the loss with these two contractors and sought their professional opinions on necessary restoration. We asked them to then prepare estimates based on their scope of repairs.

To date we have received the estimate from Blusky Restoration. They actually submitted three different estimates to us. One estimate represents the cost of what the board-up expense would be. That estimate totaled \$674.36. They also submitted a separate estimate totaling \$18,025.04 for required code updates payable under Endorsement FE-6587, which is an endorsement representing additional coverage to comply with current building codes. Blusky submitted a separate estimate for all of the necessary reconstruction which totals \$101,874. I am enclosing these estimates for your review.

When we receive the estimate from CoCat, we will forward a copy of it to you for your review.

In our conversation, I offered to pay you based on the Blusky Reconstruction estimate totaling \$101,874. Additionally, I offered to pay you \$674.36, representative of the board-up cost. I indicated the estimate totaling \$18,025.04 would be payable once those repairs are complete per the policy language in Endorsement FE-6587.

Please see the following applicable endorsement:

INCREASED COST AND DEMOLITION COVERAGE ENDORSEMENT

1. In the event a building covered under Coverage A sustains an insured loss, we will pay for:
 - a. the increased cost to repair or rebuild the building caused by enforcement of a building, zoning or land use ordinance or law if the enforcement is directly caused by the same insured loss and the requirement is in effect at the time the insured loss occurs. If the building is repaired or rebuilt, it must be intended for similar occupancy as the current building unless otherwise required by zoning or land use ordinance or law; and
 - b. the cost to demolish and clear the site of undamaged portions of the building caused by enforcement of a building, zoning or land use ordinance or law if the enforcement is directly caused by the same insured loss and the requirement is in effect at the time the insured loss occurs.
2. We will not pay for:
 - a. the costs associated with the enforcement of any ordinance or law which requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of pollutants, meaning any solid, liquid, gaseous or thermal irritant or contaminant, including vapor, soot, fumes, acids, alkalis, chemicals and waste;
 - b. any loss of value of the undamaged portion of the building caused by enforcement of any ordinance or law; or
 - c. any increased cost of construction under this endorsement:
 - (1) until the covered building is actually repaired or replaced at the same or another premises in the same general vicinity; and
 - (2) unless the repairs or replacement are made as soon as reasonably possible after the loss, not to exceed two years. We may extend this period in writing during the two years.
3. To the extent of any coverage provided under this endorsement, the following item 1.a. is deleted from **LOSSES NOT INSURED UNDER SECTION I LOSSES INSURED AND LOSSES NOT INSURED**:
 - a. the enforcement of any ordinance or law:
 - (1) regulating the construction, use or repair of any property; or

Figure 7: The three page State Farm correspondence dated May 21, 2007 is presented in its entirety to focus attention on several points concerning inappropriate claim handling practices.

(Top Left) The two highlighted paragraphs demonstrate State Farm's clear acknowledgement of \$120,573.40 in undisputed damage liability. Adjuster Egger suggests he offered to pay based on the Blu Sky damage estimates. PAC questions why State Farm failed to immediately tender claim payment for the recognized damage liability. PAC repeatedly asked Adjusters Thomsen and Egger to issue the undisputed damage claim sum. State Farm finally issued the first damage claim payment in the amount of \$102,548.36 on September 27, 2007; a full 4.5 months after recognition of clear damage liability.

(Top & Bottom Right) Adjuster Egger's correspondence clearly extends viable coverage under Endorsement FE-6587. PAC has highlight relevant coverage language contained within this endorsement that applies to the loss situation. State Farm Team Leader Whitworth redacted the clear coverage determination. The policyholder's contractor has completed numerous code compliant damage repairs necessary to restore the building to its original intended purpose. Leader Whitworth has orally suggested through Adjuster Egger that coverage is not afforded due to the language of paragraph 4. PAC has repeatedly pointed out building repairs did not involve "relocation" to a new foundation and therefore paragraph 4 does not apply to this loss. State Farm has failed to acknowledge and/or respond to PAC's reasonable coverage concerns. Team Leader Whitworth is ignoring State Farm's duty to find in favor of sensible coverage for the policyholder. We believe Team Leader Whitworth's revised coverage position is without a reasonable basis and solely intended to punish the insured for not selecting the State Farm PSP contractor.

- (2) requiring the tearing down of any property, including the cost of removing its debris;
4. We will not pay more for the increased cost to repair or rebuild the building at the same or another premises in the same general vicinity if relocation is required by ordinance or law, and the cost to demolish and clear the site of undamaged parts of the building caused by enforcement of building, zoning or land use ordinance or law than the lesser of:
 - a. the amount you actually spend to demolish and clear the site of the undamaged portion of the building plus the increased cost to repair or rebuild the building but not for more than a building of the same height, floor area and style on the same premises as the covered building; or
 - 10% of the Coverage A limit of insurance on the building at the time of loss. This coverage does not increase the limit of insurance applicable to the building.
5. The terms of this endorsement apply separately to each building to which the policy applies. However, if more than one building is insured under a single Coverage A limit of insurance shown in the Declarations, the most we will pay in any one occurrence, regardless of the number of buildings involved, is 10% of that single limit of insurance.

All other policy provisions apply.

In our conversation, you indicated that you and fellow members of the association had decided to use Disaster Restoration Incorporated and had decided to use a public adjuster. Please be aware your policy does not provide any coverage for payment of public adjuster fees, costs and expenses. The settlement will be based on competitive market pricing for the agreed scope of repairs.

You indicated you had not yet received an estimate from Disaster Restoration Incorporated.

I understand you have chosen to utilize a public adjuster, however to date I have not received a letter of representation. Once I receive a letter of representation, communication will go through the public adjuster. Please advise the members of the association of this matter.

Sincerely,

Tom Egger
Claim Representative
719 260 2637
State Farm Fire and Casualty Company

24/417/471793

Cc: Agent/ Jack Sunahara Jr. 1529/06

- On May 22, 2007 Adjuster Thomsen issued correspondence to Mr. Nolan containing a formal demand, **“Unfortunately, we require completion of the signed, sworn Proof of Loss within 60 days. We expect receipt of the completed Proof of Loss to State Farm Insurance no later than July 23, 2007.”** The correspondence from Adjuster Thomsen failed to include State Farm’s Proof of Loss forms and PAC was not copied even though Mr. Nolan orally advised of representation.

(Note: The correspondence also makes an aggressive attempt to dissuade Mr. Nolan from moving forward with the Association’s decision to hire PAC. State Farm had not yet received formal representation documentation from PAC. We believe Adjuster Thomsen’s efforts were intended to take advantage of the claim handling transition, discourage the Association’s initiative to hire a public adjuster, and side step the real loss exposure that would result from a “major asbestos spill” determination; all in an effort to minimize State Farm’s real loss exposure.)

Adjuster Thomsen closes the correspondence by stating, **“We look forward to receipt of your completed Proof of Loss forms, the corresponding documentation and timely settlement of your claim.”**

(Note: Time and actions have proven the last remark to be patently false; the majority of the substantiated claims remain unpaid to date. Adjusters Thomsen and Egger specialize in what PAC commonly refers to the three D’s: Deny, Delay, and Diminish. Their systematic approach is intended to wear down the resolve and financial viability of the Insured. In this claim, the displaced unit owners are the focal point of the delay tactic. The delay in fair claim settlements was intended to deliberately distress the displaced unit owners (most without personal ALE coverage). After 7 month without a serious effort on behalf of State Farm to settle validated claims, DRI proceeded with the Association’s repairs without any assurance of proper claim payment. All reported Association policy coverage limits were essentially exhausted by accruing costs stemming from State Farm’s unreasonable settlement delays. This situation has been grossly unfair to the Association, the unit owners & their families and the contractor, DRI. Without DRI’s high risk commitment to the repair effort, the unit owners would most likely be displaced today and unable to financially mount a legal challenge.)

- On May 30, 2007, PAC forwarded introductory correspondence addressed to State Farm Adjusters Thomsen and Egger asserting proper contractual representation to handle the Association’s claim as follows:

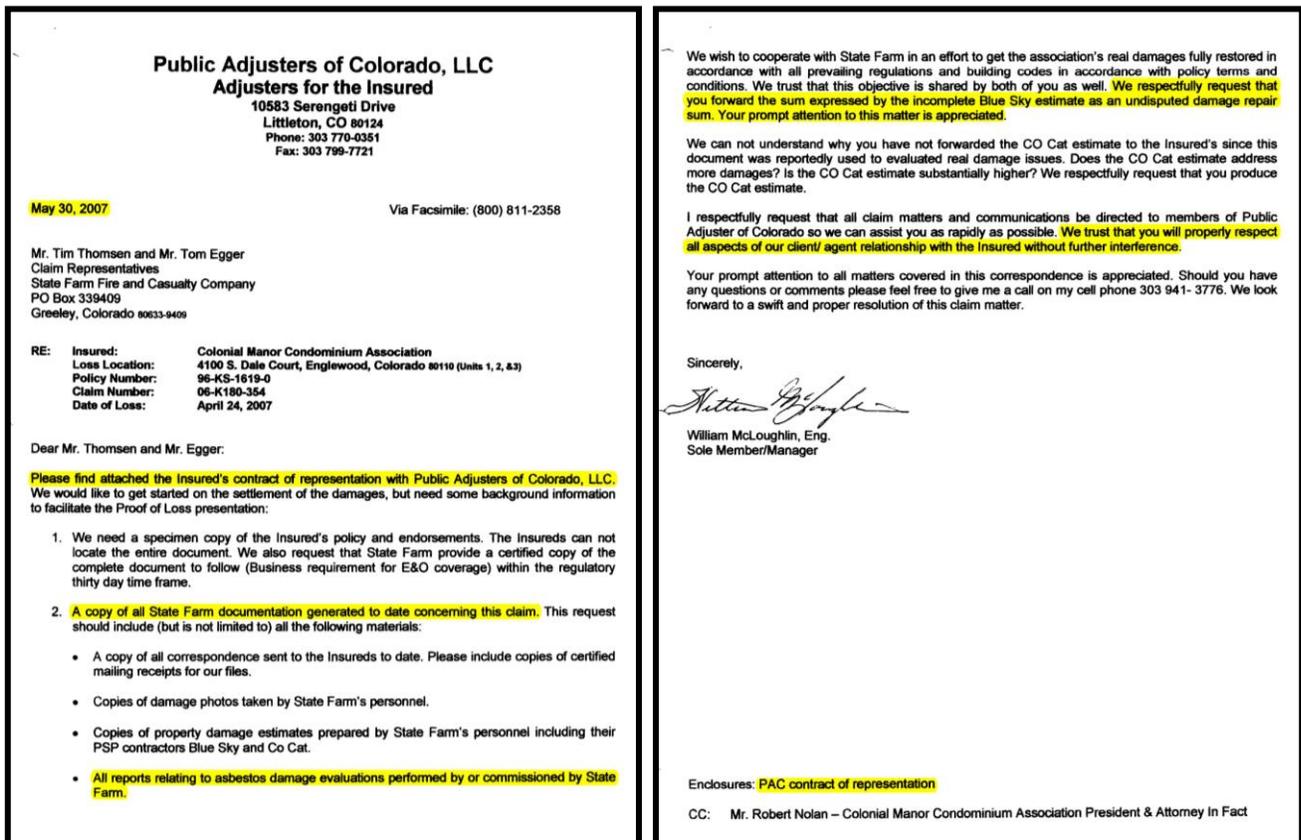


Figure 8: PAC correspondence dated May 30, 2007 advising State Farm Adjusters Thomsen and Egger of our contractual claim handling representation on behalf of the Colonial Manor Condominium Association. PAC specifically asks for State Farm’s asbestos documentation due to Koch’s preliminary determination indicating a major spill hazard. Please note that PAC formally requests the “undisputed” damage claim payment based on the incomplete damage estimates provided by State Farm PSP contractor Blu Sky.

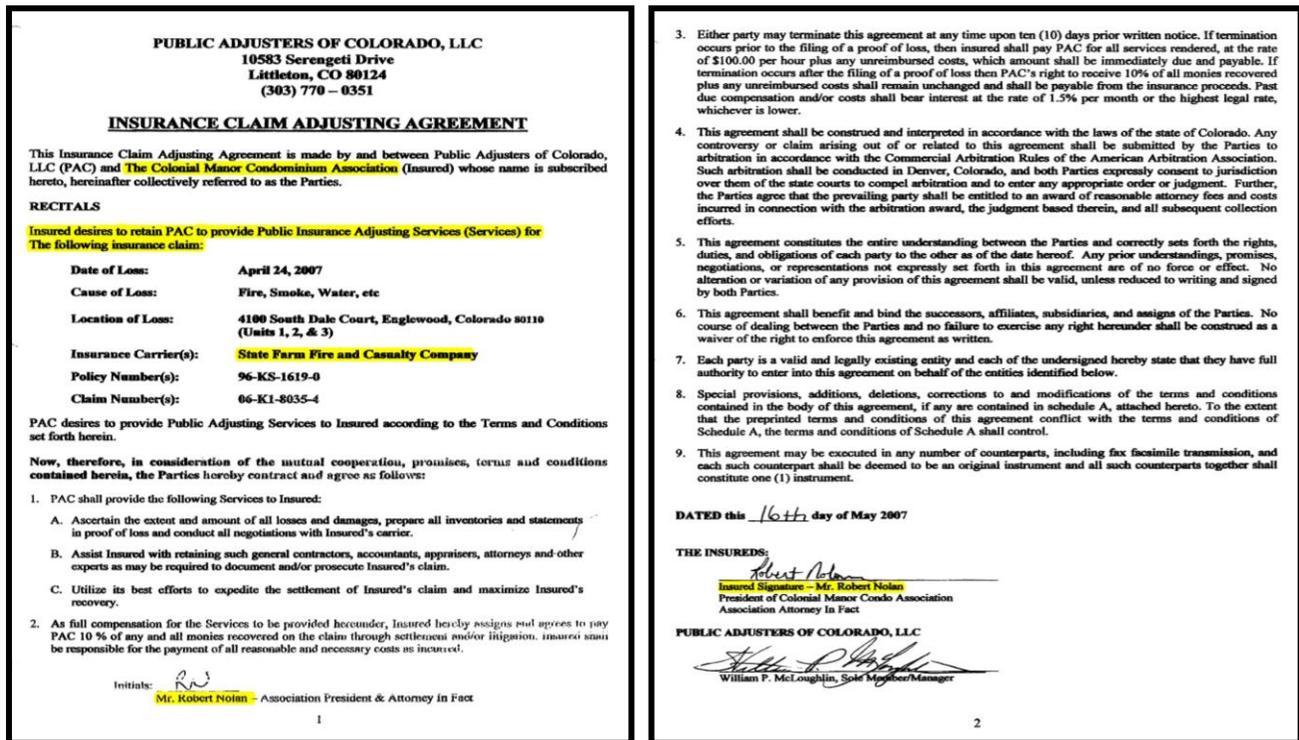


Figure 9: The documents shown are PAC's standard claim adjusting agreement initiated with the Colonial Manor Condominium Association to represent their claim interest concerning the April 24, 2007 loss with their carrier, State Farm Fire and Casualty Company. This document was forwarded as part of the PAC letter of representation sent to State Farm Large Loss Adjusters Thomsen and Egger on May 30, 2007 as shown in Figure 8. This standard PAC public adjusting agreement has been filed with the Colorado Division of Insurance for licensing requirements.

- On May 30, 2007, Koch Environmental Health issued a comprehensive (18 pages) asbestos testing report (See Figure 6: Table of asbestos testing results contained in report.) supporting the “**major asbestos spill**” determination in accordance with Colorado Regulation 8B requirements. The Association’s contactor of choice, DRI was notified and supplied copies of the Koch report. DRI retained Custom Environmental (A Colorado licensed General Abatement Contractor (GAC)) as the qualified asbestos subcontractor to establish proper loss site containment requirements in accordance with Colorado Regulation 8B.

Custom Environmental completed the following initial project tasks:

- Met with Mr. Koch to review asbestos report and recommendations.
- Notified CDPHE of the major asbestos spill situation and pulled the required emergency permit.
- Secured and posted the site. Erected and setup required critical containments for negative air operations.
- Arranged for proper installation of temporary GFI power services required for negative air operation.
- Established Regulation 8B required negative air operations on May 27, 2007.
- Provided containment operation/maintenance requirements until physical abatement was initiated (Nov. 27, 2007).

(Note: The Association and their contractors expected full abatement to commence no later than July 2007. State Farm failed to responsibly investigate and/or respond to the Association’s fully documented Proof of Loss claims made on July 13, 2007. When full abatement preparations were initiated on September 6, 2007 (without appropriate response from State Farm), State Farm representatives interfered and demanded abatement be immediately stopped to facilitate a late investigation. State Farm then asked to work out a resolution. State Farm again failed to timely respond. Full abatement was initiated on November 27, 2007 due to a frozen water line break at the loss, as well as the general frustration of the Association members, DRI, and Custom Environmental. The displaced unit owners and their families had to endure unnecessary hardship due to State Farm’s unreasonable claim settlement delays. The contractors tied up equipment, resources, and incurred avoidable project expenses due to the unreasonable State Farm claim handling practices. State Farm’s delay unfairly eroded (containment maintenance costs) the Association’s policy coverage benefit; in fact, the total available policy coverage limits, including Endorsement FE-6587, have been exhausted due to State Farm’s unfair claim tactics.)

- On June 4, 2007, Adjuster Thomsen and Egger sent correspondence to PAC acknowledging our May 30, 2007 letter of representation. Included in the State Farm correspondence was the requested claim correspondence history, the Blu Sky repair estimates totaling \$120,573.40, two asbestos testing reports from Foothills Environmental and requested State Farm loss photographic documentation.

PAC notes the following issues:

- The copy of the May 3, 2007 State Farm correspondence sent to PAC was considerably different than the documentation sent to Mr. Nolan. PAC received the unedited "canned" version of this "template" correspondence. PAC notes Adjusters Thomsen and Egger deliberately omitted pertinent segments relating to "contractor of choice" and PSP contractor matters.

(a) the limit of insurance under this policy applicable to the lost or damaged property;

(b) the cost to replace the lost or damaged property on the same premises with other property of comparable material and quality that can be used for the same purpose; or

(c) the amount you actually spend that is necessary to repair or replace the lost or damaged property;

(4) we will pay for loss to glass at the cost of replacement with safety glazing material if required by law;

b. actual cash value as of the time of loss to the following covered property:

(1) used or second-hand merchandise held in storage or for sale;

(2) manuscripts;

(3) works of art, antiques or rare articles, including etchings, pictures, statuary, marbles, bronzes, porcelains and bric-a-brac.

COVERAGE B - BUSINESS PERSONAL PROPERTY:

With regard to your business personal property, we understand there was no damage to any business personal property. If that is not correct please notify us immediately. Please refer to the following policy language:

SECTION I CONDITIONS

3. **Duties in the Event of Loss.** You must see that the following are done in the event of loss to covered property:

a. notify the police if a law may have been broken;

b. give us prompt notice of the loss. Include a description of the lost or damaged property in the notice;

c. as soon as possible, give us a description of how, when and where the loss occurred;

d. take all reasonable steps to protect the covered property from further damage by an insured loss. If feasible, set the damaged property aside and in the best possible order for examination. Also keep a record of your emergency and temporary repair expenses for consideration in the settlement of the claim. This will not increase the limit of insurance;

e. at our request, give us complete inventories of the damaged and undamaged property. Include quantities, costs, values and amount of loss claimed;

f. permit us to inspect the property and records proving the loss;

g. if requested, permit us to question you under oath at such times as may be reasonably required about any matter relating to this insurance or your claim, including your books and records. In such event, your answers must be signed;

h. send us a signed, sworn statement of loss containing the information we request to settle the claim. You must do this within 60 days after our request. We will supply you with the necessary forms;

i. cooperate with us in the investigation or settlement of the claim;

j. resume all or part of your business activities at the described premises as quickly as possible.

Thank you again for meeting with me at the property. If you should have any questions regarding this letter or if I can be of further assistance, please do not hesitate to contact me. I can be reached at 719-260-2637 or at 1-800-811-2356 x22300.

Sincerely,

Tom Egger
Team Extension 22300
Phone: 1-800-811-2356
STATE FARM FIRE AND CASUALTY COMPANY

Cc: Jack Sunahara 1529/06

Figure 4B: (above left) Excerpt from State Farm correspondence dated May 3, 2007 sent to CMCA president Nolan.

(Right) Excerpt from copy of State Farm correspondence dated May 3, 2007. This Document was sent as part of June 4, 2007 document package sent to PAC.

Adjuster Thomsen and Egger chose to omit relevant boiler plate concerning "contractor of choice". These State Farm representatives planned on derailing the Insured's decision to use DRI as their contractor of choice. Insertion of the first highlighted paragraph would have been contrary to their clear objective to control the loss exposure. Adjusters Thomsen and Egger clearly did not represent matters to Mr. Nolan as specified by the omitted standard State Farm boiler plate.

(a) the limit of insurance under this policy applicable to the lost or damaged property;

(b) the cost to replace the lost or damaged property on the same premises with other property of comparable material and quality that can be used for the same purpose; or

(c) the amount you actually spend that is necessary to repair or replace the lost or damaged property;

(4) we will pay for loss to glass at the cost of replacement with safety glazing material if required by law;

b. actual cash value as of the time of loss to the following covered property:

(1) used or second-hand merchandise held in storage or for sale;

(2) manuscripts;

(3) works of art, antiques or rare articles, including etchings, pictures, statuary, marbles, bronzes, porcelains and bric-a-brac.

During our meeting, we discussed your responsibility to select a contractor to complete the building repairs to the property. At that time, you requested I provide you the name of contractors that would assist you with the restoration to the property. As we discussed, you are under no obligation to use any contractor whose name is provided to you by either me or any representative of State Farm. Contractor names are provided to you for convenience purposes only and any decision to hire a contractor is entirely yours. It is our understanding that you have voluntarily decided to hire _____ to complete the repairs to the property. State Farm may solicit competitive estimates.

COVERAGE B - BUSINESS PERSONAL PROPERTY:

With regard to your business personal property, we understand there was no damage to any business personal property. If that is not correct please notify us immediately. Please refer to the following policy language:

SECTION I CONDITIONS

3. **Duties in the Event of Loss.** You must see that the following are done in the event of loss to covered property:

a. notify the police if a law may have been broken;

b. give us prompt notice of the loss. Include a description of the lost or damaged property in the notice;

c. as soon as possible, give us a description of how, when and where the loss occurred;

d. take all reasonable steps to protect the covered property from further damage by an insured loss. If feasible, set the damaged property aside and in the best possible order for examination. Also keep a record of your emergency and temporary repair expenses for consideration in the settlement of the claim. This will not increase the limit of insurance;

e. at our request, give us complete inventories of the damaged and undamaged property. Include quantities, costs, values and amount of loss claimed;

f. permit us to inspect the property and records proving the loss;

g. if requested, permit us to question you under oath at such times as may be reasonably required about any matter relating to this insurance or your claim, including your books and records. In such event, your answers must be signed;

h. send us a signed, sworn statement of loss containing the information we request to settle the claim. You must do this within 60 days after our request. We will supply you with the necessary forms;

i. cooperate with us in the investigation or settlement of the claim;

j. resume all or part of your business activities at the described premises as quickly as possible.

Thank you again for meeting with me at the property. If you should have any questions regarding this letter or if I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Optional PSP paragraph: As this fire loss qualifies for our Premier Service Program (PSP), we discussed the program and benefits, which are designed to assist you with the repairs to your damaged building property. At that time, you indicated an interest with participating in this program and have voluntarily selected _____ as your contractor. Also discussed was the indemnity payment process associated with your participation in the State Farm Premier Service Program. That is, all building damage payments are issued directly to the PSP contractor and their suppliers. In addition, payments to the contractor can be withheld until you are completely satisfied with the repair workmanship.

Sincerely,

Tom Egger
Team Extension 22300
Phone: 1-800-811-2356
STATE FARM FIRE AND CASUALTY COMPANY

Cc: Allan Wachtel 1979/06

2. The May 22, 2007 State Farm correspondence containing the Proof of Loss demand failed to include the State Farm Proof of Loss forms.

(Note: This matter becomes an issue when State Farm Team Leader Whitworth formally rejects the Insured's ISO based Proof of Loss documents. The Insured's ISO based proof documents were supplied to State Farm on July 13, 2007 as part of a comprehensive Claims Presentation prepared by PAC. In correspondence dated August 9, 2007, Team Leader Whitworth rejects the Insured's Proof of Loss documentation solely on the basis that the information was not on State Farm's forms. This occurred after Adjuster Thomsen acknowledge acceptance of the Insured's complete Proof of Loss documents in July 18, 2007 correspondence. PAC believes this effort was intentional and constitutes a willful violation of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices.)

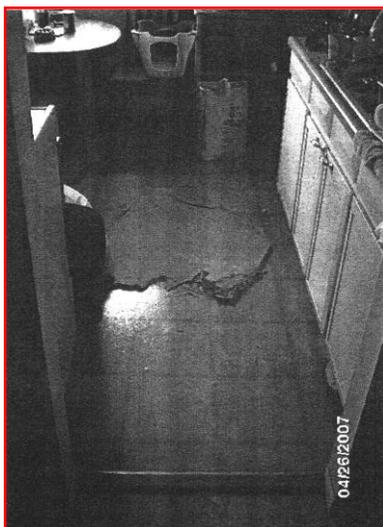
3. PAC was aware of the first Foothills testing report dated April 26, 2007 which raised serious concerns about incomplete and inconclusive asbestos testing. The second Foothills testing report dated May 2, 2007 was unexpected. This second testing effort was abnormal. The report confirmed suspicions that the loss site had been selectively tested to side step asbestos damages in an intentional effort to reduce State Farm's overall loss exposure. By the time this information was received, Koch Environmental Health had thoroughly asbestos tested the loss site and declared it to be a major asbestos spill in accordance with Colorado Regulation 8B.

(Note: PAC remains concerned that unsuspecting unit owners, their children, helpful family members & friends, and countless other individuals were misled without concern to serious health risks in an intentional effort to reduce would be loss exposure. This reckless conduct was orchestrated by State Farm Adjuster Thomsen. Mr. Gonzalez publicly stated on September 6, 2007 that the loss site was selectively asbestos tested at the direction of State Farm Adjuster Thomsen. Mr. Gonzalez has reportedly confirmed this selective testing operation with CDPHE officials. We believe Mr. Thomsen's reckless actions need to be fully investigated by all state regulatory authorities as this outrageous conduct should not be tolerated.)

4. Photographic data provided by State Farm clearly show "major spill" asbestos damages with ACM debris littering the floor of the kitchen and powder room of Unit 1. This State Farm photographic data (Center) was taken by Adjuster Thomsen on his first loss visit on April 26, 2007 as shown below:



Sheridan Fire Investigation
Photo April 24, 2007

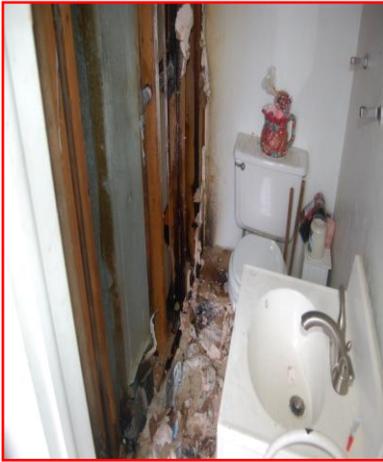


State Farm Loss Photo
April 26, 2007

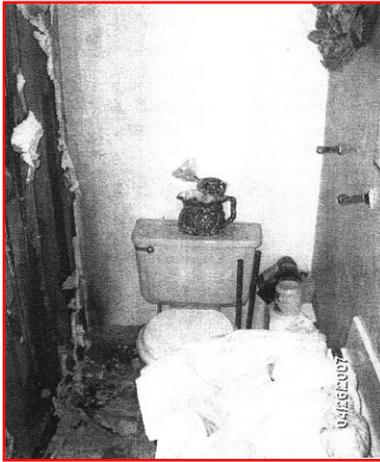


PAC Loss Photo
May 16, 2007

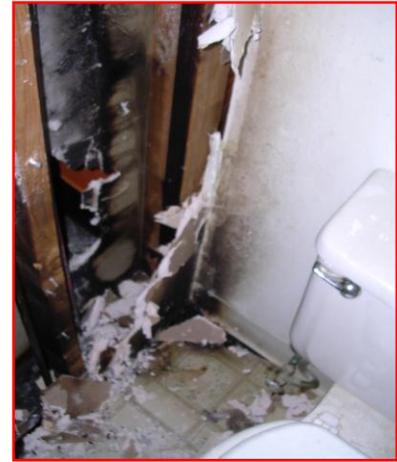
Figures 10: The three photos shown were all taken at different times, by different parties. Each photo shows the same asbestos containing debris littering the Unit 1 kitchen floor. This obvious presumed asbestos containing material (PACM) was not tested by State Farm's contracted asbestos testing firm, Foothills Environmental, during their April 25, 2007 and April 30, 2007 site inspections. Foothills issued incomplete and deceptive testing reports to State Farm that indicated there was "no concern for asbestos". The Foothills reports were later determined to be based on a "selective testing" methodology at the direction of State Farm Adjuster Thomsen. The first false testing report was disseminated to the unsuspecting Association. Due to professional concerns, Koch Environmental Health comprehensively asbestos tested the loss site on May 18, 2007 and determined the site to be a "major asbestos spill". The unsuspecting unit owners relied on the false report commissioned by State Farm. The unsuspecting unit owners (The Luna's) spent 3 weeks of evenings inventorying the smoke and soot damaged personal property while their 2 children were playing with the asbestos debris in the middle of the kitchen floor.



Sheridan Fire Investigation Photo
April 24, 2007



State Farm Loss Photo
April 26, 2007



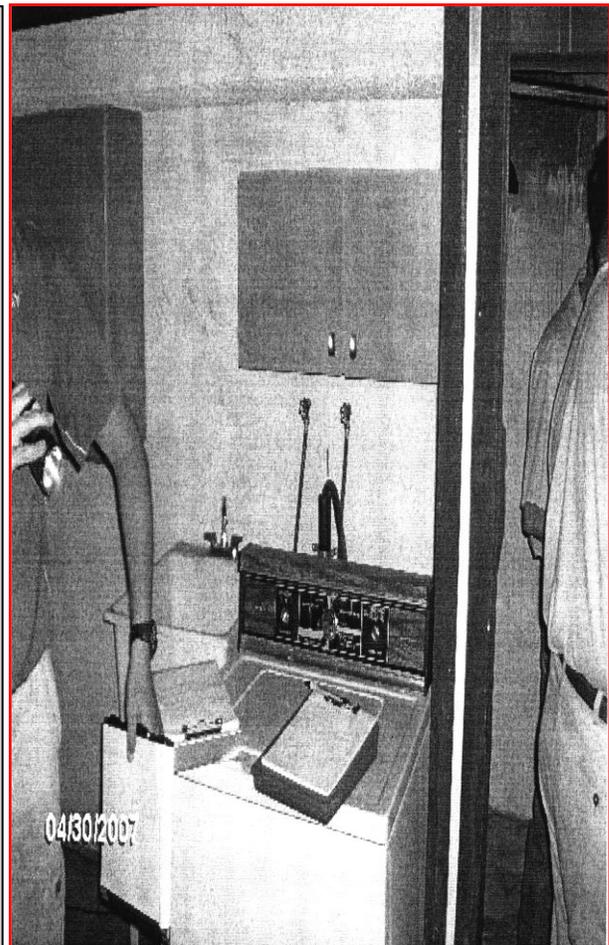
PAC Loss Photo
May 16, 2007

Figures 11: (Above) The three photos shown were taken at different times, by different parties. Each photo shows fire damages to the asbestos containing wall assembly in the Unit 1 powder room with ACM debris littering the floor. This obvious presumed asbestos containing material (PACM) was not tested by State Farm's contracted asbestos testing firm, Foothills Environmental, during their April 25, 2007 and April 30, 2007 site inspections. Foothills issued incomplete and deceptive testing reports to State Farm indicating there was "no concern for asbestos". The Foothills reports were later determined to be based on a "selective testing" methodology at the direction of State Farm Adjuster Thomsen. Based on the facts involved, one can only conclude that Adjuster Thomsen orchestrated the "selective testing" effort to minimize State Farm's real loss exposure. The first false testing report was disseminated to the unsuspecting Association. Countless individuals relied on State Farm to accurately assess and truthfully report health and safety issues. Adjuster Thomsen's outrageous action on behalf of State Farm's interest were in reckless disregard to the health, safety, and well being of countless individuals who were wrongly exposed to the major asbestos spill hazard. PAC believes appropriate state regulatory authorities should thoroughly investigate this matter and take necessary actions to prevent a similar recurrence.

Figure 12: (Right) The State Farm photo taken on April 30, 2007 shows Adjusters Thomsen and Egger along with Blue Sky Vice President, Mr. Andy Baker, inspecting the loss site. At State Farm's request, Foothills was asked to conduct a second round of selective asbestos testing at the loss site. Foothills representatives collected asbestos samples that same day. The laboratory test results were not completed until the next day. Yet the State Farm representatives are scoping the loss without wearing OSHA required personal protective equipment (PPE).

Please note the State Farm representatives have a cavalier attitude that sensible health and safety precautions do not apply to them. Yet Adjusters Thomsen and Egger have reported they received respirator fit testing and OSHA 40 hour hazard training in January 2007. This reckless disregard for their personal health and safety is not the whole story. These State Farm representatives routinely enter hazardous fire loss sites without PPE in order to establish a perception that the damages are not hazardous. Certainly Association members would have been concerned if these individuals were observed dressed in full OSHA PPE gear. Adjuster Thomsen's representation that "asbestos is not of concern" would have been viewed as not being credible; State Farm would not have been able to side step the costs associated with real asbestos damages.

PAC has similar documented claims where State Farm representatives systematically employed selective asbestos testing to side step real asbestos hazards. The owners were led to believe the hazard did not exist or was not of concern. We believe State Farm is engaging in what can only be described as a dangerous pattern of practice in an effort to reduce real damage claim exposure. This conduct is outrageous and needs to be fully investigated by all appropriate state regulatory authorities.



(Note: The photographic data presented is only a sample of documentation which supports the conclusion that State Farm directed a selective asbestos testing effort to minimize loss exposure. State Farm in July 18, 2007 correspondence suggests that either DRI or PAC were somehow responsible for asbestos spill damages created at this loss after the fire. The Sheridan Fire Investigation photographs taken on April 24, 2007 clearly show loss damages that should have been tested by Foothills as a potential major asbestos spill hazard. This State Farm allegation was simply untrue. Koch Environmental Health comprehensively asbestos tested the loss site on May 18, 2007 and determined the damages shown were in fact a major asbestos spill hazard. Once again, we remain concerned that unsuspecting unit owners, their children, helpful family members & friends, and countless other individuals were misled without concern to serious health risks in an intentional effort to reduce would be loss exposure.)

- During the month of June 2007, PAC and DRI representatives held meetings to discuss loss dynamics and formed sensible agreements on the required scope of damage repairs. PAC and DRI reached agreement that electrical and structural repairs would require the entire building be gutted to the studs through a regulatory compliant asbestos abatement process. DRI supplied PAC with a detailed Xactimate estimate (dated June 28, 2007) which reasonably represented and valued the required damage repairs. This DRI estimate totaling \$558,733.60 (Deducting damaged appliances and excluding ongoing daily asbestos containment maintenance charges.) was used as a basis for submission of the Association’s Sworn Statement in Proof of Loss.
- Public Adjusters of Colorado, LLC (PAC) provided State Farm with the Insured’s comprehensive damage claim under Sworn Statement in Proof of Loss on July 13, 2007. The fully supported, ISO (Insurance Standards Organization) based, Sworn Statements in Proof of Loss were presented to State Farm in a 3 in. documentation binder entitled “Claims Presentation”. This document detailed the need to fully abate the Insured’s damaged structure in conformance with Colorado Regulation 8B.

PUBLIC ADJUSTERS OF COLORADO, LLC.							
PHONE 303 770-0351 and FAX 303 799-7721							
"ADJUSTERS FOR THE INSURED"							
Colonial Manor Condo Association 4100 S. Dale Ct. Englewood, CO 80110				Public Adjusters of Colorado 10583 Serengeti Drive Littleton, Colorado 80124			
State Farm Fire and Casualty Company Proof of Loss Claim Summary (as of June 28, 2007)							
Item	Applicable Insurance Coverages	Applicable Coverage Limits	Amounts of Damages	Amounts Claimed Under Policies	Claims Paid To Date	Unpaid Claims To Date	Loss Unpaid
1	Coverage A - Buildings (including fixtures, alterations, appliances etc.)	\$ 613,000.00	\$ 568,199.62	\$ 568,199.62	\$ -	\$ -	TBD
2	Increased Cost and Demolition Coverage (End. 6587)	\$ 61,300.00	TBD	TBD	\$ -	\$ -	TBD
3	Extension of Coverage - Debris Removal	\$ 5,000.00	TBD	TBD	\$ -	\$ -	TBD
4	Extension of Coverage - Maintenance Fee Receivable	\$ 100,000.00	TBD	\$ 1,350.00	\$ -	\$ -	TBD
5	Coverage B - Business Personal Property	\$ 6,800.00	TBD	No Claim	No Claim	No Claim	No Claim
6	Extension of Coverage - Personal Effects	\$ 500.00	TBD	No Claim	No Claim	No Claim	No Claim
7	Extension of Coverage - Property of Others	\$ 2,500.00	TBD	No Claim	No Claim	No Claim	No Claim
***** Loss and Claim Subtotals *****		\$ 789,100.00	\$ 568,199.62	\$ 569,549.62	\$ -	\$ -	\$ -
Less Deductibles (Fully Absorbed)		\$ (1,000.00)	N/A	\$ (1,000.00)	N/A	N/A	\$ 1,000.00
*****Claim Totals*****			TBD	\$ 568,549.62	\$ -	\$ -	\$ 1,000.00
Proof of Loss Claim Summary Notes							
1) Coverage A - Building: State Farm through its consultant, Foothills Environmental, initially asbestos tested the loss for the presence of friable asbestos hazards. The first evaluation was completed on April 25, 2007. This site testing was restricted to limited plaster textures in Unit 2 (origin of fire) and the presence of asbestos was declared non detectable. State Farm's adjusters orally advised the Insured's representative and individual unit owners that the units were safe to enter as no asbestos hazard was present. State Farm's adjusters furnished these parties with copies of the Foothills Environmental report dated April 26, 2007. The State Farm adjusters orally advised the unit owners that the coverage policy only afforded coverage for the structure frame work and exterior finishes. The individual unit owners were advised they were responsible for interior damage repairs from the frame work out. On the reliance of the State Farm adjusters representations, the owners freely entered their damaged units to assay personal property damages. The owner of Unit 3 removed segments of damaged sheetrock and attempted to clean interior soot from wall surfaces in an effort to minimize damages.							
PAC wishes to note that the State Farm's representation of restrictive interior damage coverage (i.e. Does not cover interior finish damages from frame work out.) as discussed was false and in our opinion a clear violation of the Colorado Revised Statutes 10-3-1104 relating to Deceptive Insurance Practices.							
Despite the representations and assurances made by State Farm's adjusters based on the Foothills limited testing report dated April 26, 2007, the adjusters commissioned additional asbestos testing in the damaged units. State Farm's consultant, Foothills Environmental, performed the second round of limited testing on "popcorn" ceiling textures in Units 1 and 3 on April 30, 2007. The Insured and the unit owners had no knowledge that this second round of asbestos testing was performed. Foothills Environmental released the second testing report concerning its limited testing scope to State Farm on May 2, 2007. This second report also declared the damaged units to be a non hazardous asbestos situation and safe to remove debris without concern. For the record, State Farm's two testing events failed to sample clear and obvious fire damages (Burnt vinyl flooring and sheet rock wall debris in Units 1 and 2) that had a high probability of being classified as a "major asbestos spill" per Colorado Regulation 8B.							
Colonial Manor Condo Assoc.				1 of 4		7/10/2007	

Figure 13: This “Proof of Loss Claim Summary” document shown was contained in the 3 in. comprehensive “Claim Presentation” submitted to State Farm on July 13, 2007. This summary document calls attention to all identified damage repairs as of June 28, 2007. This document claim package contained and was supported by the detailed DRI Xactimate estimate of repair dated June 28, 2007 (Excluding ongoing daily asbestos containment charges.).

Please note that all damages claimed at this time were expected to be fully covered within the Coverage A – Building policy limit of \$613,000.00. The “Increased Cost and Demolition Coverage” afforded by Endorsement FE-6587 was not considered to be a coverage issue at this time. State Farm was expected to investigate and render a fair claim determination in accordance with the 30 day policy provisions and state regulatory requirements. State Farm failed to honor its reasonable duties of good faith and fair dealings owed the Insured.

SWORN STATEMENT IN PROOF OF LOSS

Policy Number: 96-KS-1619-0

Claim Number: 06-K180-354

To: **State Farm Fire and Casualty Company**
A Stock Company of Bloomington, IL

At the time of the loss, by the above indicated policy of insurance (Policy), you, State Farm Fire and Casualty Company, insured Colonial Manor Condominium Association (CMCA), (Insured) a Colorado registered Condominium Association against loss by fire damaging (asbestos, char, smoke, soot, water, etc.) real property located at 4100 S Dale Court, Denver, CO 80110, according to the terms and conditions of the said policy and all forms, endorsements, transfers and assignments attached thereto.

Having been first placed upon oath, Robert Nolan, President of the CMCA and duly appointed representative for your Insured, states as follows:

1. **Date and Cause.** A fire loss occurred on or about April 24, 2007. No member of CMCA has any knowledge of the precise cause and origin of this fire other than information contained in the fire investigation report released by the Sheridan Fire Department. This report indicates the furnace as probable cause with the fire originating in the basement of unit 2 in the furnace area. The furnace was not evaluated by any party for probable malfunction.

2. **Occupancy.** The building described, or containing the property described, was occupied by condominium owners who are members of the association covered by this policy of Insurance.

3. **Title and Interest.** As a Colorado Condominium Complex, the CMCA owns and controls the covered structures and common grounds and has full title to said property.

4. **Other Insurance.** At the time of the loss, there is believed to be no other insurance in force that might cover the loss.

5. **Changes.** Since the Policy was issued, there have been no assignments thereof, change of interest, use, occupancy, possession, location or exposure of the property described, except assignment of proceeds of this claim to Public Adjusters of Colorado, LLC.

6. **Specifications of Damages.** The specifications of the loss and detailed estimate of repair, supplied by our contractor of choice pursuant to Colorado HB-1104, are set forth with all necessary supporting documentation and are summarized as follows:

7. Total of all damages at the time of the loss: _____ TBD _____

8. Less Deductible: _____ < \$ 1,000.00 > _____

9. Amount claimed under policy: (Coverage A - Dwelling: Partial RCV Damages) _____ \$ 567,199.20 * _____

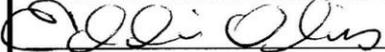
*(The partial replacement cost claim made is based on damages identified by Public Adjusters of Colorado, LLC and various third party repair experts. The claimed repairs are documented with the corresponding Xactimate repair estimate provided by restoration contractor DRI, our repair contractor of choice. The estimate(s) provided represent a collective effort to best determine all identifiable repair issues necessary to properly restore the damaged property in a manner consistent with the coverage afforded by your policy of insurance. The damage claim presented represents a partial determination as of this date. Additional issues such as hidden damages and repair compliance with the Sheridan Building Department (i.e. building codes) and/or the State of Colorado Electrical Inspector (i.e. electrical codes) may increase the scope of repair work and result in a higher RCV damage amount claimed. All reasonable efforts have been utilized to fully and fairly assess the real damages.)

The loss did not originate by any act, design or procurement on the part of the Insured; nothing has been done by or with the privity or consent of the Insured to violate the conditions of the Policy, or render it void; no property is mentioned herein or in schedules hereto but those that were destroyed or damaged at the time of the loss; and, no property saved has in any manner been concealed, and no attempt to deceive State Farm Fire and Casualty Company, as to the extent of the loss, has in any manner been made. Any further information that may be requested by State Farm Fire and Casualty Company and that may be furnished by the Insured will be considered a part of this proof.


Colonial Manor Condominium Association by Robert Nolan - President

State of Colorado)
County of Arapahoe) ss.

Subscribed and sworn to before me this 11th day of July, 2007 by Robert Nolan - President CMCA


Notary Public
My Commission Expires: My Commission Expires: July 21, 2009



This Proof of Loss was prepared by William P. McLoughlin, of Public Adjusters of Colorado, LLC.

Figure 14: This "ISO" (Insurance Standards Organization) based Sworn Statement in Proof of Loss was duly notarized by Association President Nolan and supplied to State Farm on July 13, 2007 as part of the Insured's comprehensive "Claims Presentation".

In August 9, 2007 correspondence, State Farm Team Leader Whitworth stated, "Unfortunately, we are not able to act on the proof of loss forms you provided because the forms you submitted do not provide proper information and they are not completed on the State Farm Sworn Statement in Proof of Loss Form provided."

The State Farm forms referenced by Mr. Whitworth were conveniently omitted in the May 22, 2007 correspondence sent to Mr. Nolan and the State Farm correspondence package supplied to PAC on June 4, 2007. The State Farm form is modeled around the standard "ISO" form supplied, except the information is simply in a different format. Mr. Whitworth's request to have the Insured complete substantially the same information to have the claim investigated and settled is viewed as a willful violation of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices.

- On July 18, 2007, Adjuster Thomsen forwarded correspondence indicating State Farm acknowledged receipt of the hand delivered “Claim Presentation” binder for the Colonial Manor Condominium Association loss on July 13, 2007. Adjuster Thomsen further states:

“State Farm will review the “claim presentation” you submitted and will provide a detailed reply to your “claim presentation” within the contractually prescribed 30 days after receiving your completed Sworn Proof of Loss. State Farm will abide by the contract policy conditions concerning all timing aspects of this claim. State Farm will not comply with arbitrary deadlines imposed by Public Adjusters of Colorado.”

(Note: Adjuster Thomsen clearly acknowledges receipt of the Insured’s completed Sworn Proof of Loss document. The correspondence also acknowledges that State Farm recognizes the 30 day policy provision to investigate and respond to the Association’s damage claims. State Farm failed to timely investigate and/or respond within the contractual period.)

In the same correspondence, Adjuster Thomsen attempts to assert either DRI or PAC was somehow responsible for the “major asbestos spill” that occurred at the loss site sometime after the fire while the building was reportedly under our control. Adjuster Thomsen attaches fabricated correspondence from Foothills Environmental dated July 17, 2007 that attempts to suggest that the loss site was fully tested and not a “major spill” as the result of fire.

(Note: Adjuster Thomsen’s allegations were false and deliberate effort to conceal the selective asbestos testing he orchestrated to minimize State Farm’s real loss exposure. When Adjuster Thomsen wrote this correspondence, he was not aware PAC had secured copies of Sheridan Fire Investigation photos taken immediately after the fire was extinguished on April 24, 2007. The photographic documentation shown in Figures 10 & 11 represent clear examples of asbestos containing fire debris present immediately following the loss. Koch Environmental Health tested this very same debris on May 18, 2007 and declared the site to be a major asbestos spill hazard. On September 6, 2007, Mr. Gonzalez publicly stated he selectively tested the loss site at the direction of Adjuster Thomsen. The whole situation is very troubling because Mr. Thomsen recklessly placed the health, safety, and well-being of countless individuals at risk by his actions.)

State Farm Insurance Companies

July 18, 2007

Danny Ray McCaffry
Public Adjusters of Colorado, LLC
10583 Serengeti Drive
Littleton, CO 80124

CERTIFIED MAIL RETURN RECEIPT REQUESTED

RE: Named Insured: **Colonial Manor Condominium Association**
Claim Number: **06-K180-354**
Policy Number: **96-KS-1619-0**
Date of Loss: **April 24, 2007**
Loss Location: **4100 S. Dale Ct, Units 1-3, Englewood, CO**
Type of Loss: **Fire**

Dear Mr. McCaffry:

We received your hand-delivered “claim presentation” at our South Denver Operations Center on Friday July 13, 2007. You asked our receptionist to sign a document titled “Receipt of Hand Delivered Claim Document”. The “receipt” document you presented refers to claim 06-K172-312, not the claim information contained in the binder for Colonial Manor Condominium Association, claim number 06-K180-354. Please clarify that you intended to deliver claim information concerning the Colonial Manor Condominium Association and the “receipt” document is inaccurate, or if you intended to provide information related to claim 06-K172-312, and the binder information is inaccurate. We ask you to be more careful with our policyholder’s claim information. Your improper handling of these documents could result in the improper dissemination of proprietary claim information.

We note the “Insurance Claim Adjusting Agreement” between our named insured, Colonial Manor Condominium Association, and Public Adjusters of Colorado was executed by Bill McLoughlin of Public Adjusters; however, the correspondence received is from Danny McCaffry. Who at Public Adjusters of Colorado is responsible for the handling of this claim and responsible for all activities at the above referenced claim location? Who should all future correspondence be directed?

State Farm will review the “claim presentation” you submitted and will provide a detailed reply to your “claim presentation” within the contractually prescribed 30 days after receiving your completed Sworn Proof of Loss. State Farm will abide by the contract policy conditions concerning all timing aspects of this claim. State Farm will not comply with arbitrary deadlines imposed by Public Adjusters of Colorado.



State Farm Insurance Companies
P. O. Box 339409
Greely, CO 80633-9409

Colonial Manor
06-K180-354

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HOME OFFICES: BLOOMINGTON, ILLINOIS 61710-0001

The asbestos testing requested by State Farm Insurance, in compliance with Regulation 8, was performed in two inspections, not in a primary and supplemental report as you state. The two inspections were necessary because Foothills Environmental was unable to gain access to units 1 and unit 3 on the date of the first inspection, since the units were locked and under the direct and total control of Disaster Restoration Inc.

Foothills Environmental disputes your assessment that the fire caused a major asbestos spill at the insured location. Please see the attached letter from Foothills Environmental concerning this issue. Foothills Environmental performed asbestos testing per the prescribed standards outlined by the Colorado Department of Health and did not discover a major asbestos spill at the time of their testing. At no time did State Farm Insurance or Foothills Environmental state the structure did not contain asbestos. The testing performed was to establish whether the building materials, which burned in the fire, contained asbestos and the site was safe for entry to establish a scope of repair. Any necessary additional testing would be based on the agreed scope of damage.

The entire loss location was in the exclusive, direct control of Disaster Restoration Inc, Colonial Manor Condominium Association and Public Adjusters of Colorado through the lockboxes owned by Disaster Restoration Inc, placed on each unit starting on the date of loss, April 24, 2007. State Farm Insurance cannot comment on any activities performed by Colonial Manor Condominium Association, the individual unit owners, or other parties such as Public Adjusters of Colorado or Disaster Restoration Inc, which may have caused this structure to become a major asbestos spill following the testing completed by Foothills Environmental on April 30, 2007. Any activities or demolition to this structure occurred during the time Disaster Restoration Inc and Public Adjusters of Colorado had direct control and full responsibility for the insured location referenced above.

In your “claim presentation”, you detail demolition of “asbestos containing materials” performed by the owner of unit 3. As the loss scene was under the direct control of Disaster Restoration Inc and Public Adjusters of Colorado immediately following the loss, through the present date, who at Disaster Restoration Inc provided the unit owner the lockbox code to gain entry into the unit? Who at Disaster Restoration Inc, or Public Adjusters of Colorado authorized and directed the demolition in unit 3, without the proper permits and without the necessary asbestos testing of the items being demolished? Please provide a detailed explanation concerning the demolition taking place without a permit at this loss, while in direct and exclusive control of Disaster Restoration Inc and Public Adjusters of Colorado. Where was the debris disposed of following the unpermitted demolition? If the debris was improperly disposed of, in an uncertified landfill, have the proper parties been notified? Since Public Adjusters of Colorado is our insured’s representative, per the contract dated May 16, 2007, please address these serious concerns.

State Farm shares the outrage of the unit owners concerning this asbestos contamination situation, which occurred after the date of the fire, April 24, 2007, while the insured location was under the direct control of Disaster Restoration Inc and Public Adjusters of Colorado. We welcome the involvement of the Colorado Department of Health to confirm the cause of the major asbestos spill and document who is responsible for causing this contamination after the fire loss and after Foothills Environmental completed their asbestos inspection, while the loss

Colonial Manor
06-K180-354

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was under direct control of Disaster Restoration Inc, per their signed contract. The responsible party(s) will be accountable for this additional damage, including abatement as this is not a direct result of the fire damage claim and would be a separate occurrence as it is not direct damage from this fire loss. We recommend a meeting with the Colorado Department of Health Inspector, Foothills Environmental and Koch Environmental to resolve this issue. We also recommend notification to the Sheridan Building Department to report this un-permitted demolition while the property was in direct control of Disaster Restoration Inc. The responsible party(s) for the loss location control, from the date of loss, and the responsible party for the release of the asbestos should immediately address this situation.

The estimate from Disaster Restoration Inc does not accurately reflect the necessary scope of repairs or fair and accurate market pricing for the repairs from the fire damage. Disaster Restoration Inc has modified and manipulated the published Xactimate price list, as is reflected by their across-the-board excess pricing above the published Xactimate pricing. An example of their inaccurate scope include the replacement of undamaged building materials as well as inaccurate line item entries, such as those for fiberglass exterior doors, which did not exist in this building. State Farm will evaluate whether the additional cost to "accelerate repairs" is justified, in relation to the cost for Maintenance Fees Receivable. If the additional cost is not justifiable, and our policyholder chooses to incur this additional cost, they will be responsible for these costs. Please provide monthly accounting records reflective of the Maintenance Fees for the 24 months prior to the date of loss, and the accounting records since the date of loss to justify a claim for Maintenance Fees Receivable.

It is unfortunate if the individual unit owners failed to obtain insurance to pay for their additional living expenses in the result of a loss. If they choose to be self-insured for this type of event, it was their decision, not the decision of our policyholder or State Farm Insurance. There is no coverage under this policy for the individual unit owners' additional living expenses as a result of this fire.

COCAT and Blu Sky Restoration provided comparable estimates for the fair and proper amount of repairs to the direct fire damage from this claim occurrence. State Farm made an offer to settle this claim, based on the independent estimate completed by a licensed, reputable, qualified restoration contractor, Blu Sky Restoration. We reiterate our intention of settling this claim based on a fair and proper amount to repair the direct fire damage to the insured location. The inaccurate estimate provided by Disaster Restoration Inc does not represent a fair and proper amount for the direct fire damage from this occurrence.

At no time did State Farm Large Loss Claim Representatives communicate coverage, scope, asbestos or any other claim specific event with any of the individual unit owners. Claim Representatives Thomsen and Egger provided a copy of the asbestos report from Foothills Environmental to only Mr. Nolan on April 27, 2007. The asbestos report was provided as a courtesy to Mr. Nolan, to provide to his contractor of choice, per our letter dated April 27, 2007. Mr. Nolan or another party, not State Farm Insurance, chose to disseminate the asbestos report to the individual unit owners, who interpreted the report on their own accord. All claim specific discussions between State Farm and Colonial Manor Condominium Association took place with Mr. Robert Nolan, President of the Association. State Farm Large Loss Claim Representatives

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06-K180-354

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specifically instructed all of the unit owners to direct all communication through Robert Nolan, President of the Colonial Manor Homeowners Association. Please refer to the correspondence from State Farm to Mr. Nolan dated May 14, 2007, which clearly details the necessity of Mr. Nolan to notify all unit owners to communicate through the Association, not contact State Farm directly concerning the claim. State Farm also asked Public Adjusters to provide the same information to the individual unit owners in our June 4, 2007 letter. We requested a copy of this written notification to the unit owners from both Mr. Nolan and Public Adjusters; however, we never received a copy of either letter.

You state in your "claim presentation", "The owner of DRI, Mr. Michael Griggs, was disturbed by the inaccurate State Farm report that had been issued, as they too had relied on this report to guide restoration plans and activates at the loss." Please provide a detailed explanation as to what State Farm report Mr. Griggs is referring to, because we have not provided Disaster Restoration Inc with any State Farm reports concerning this claim. Please provide an explanation concerning the means Disaster Restoration Inc obtained a State Farm report when none was provided.

We are puzzled why you included the Court of Appeals of Colorado decision concerning Faith Dupre v. Allstate Insurance Company. This case concerns a rental dwelling policy and ordinance and law coverage. Our policy contract on the above referenced claim is a Condominium/Association Policy, which has building ordinance and law coverage, as has been detailed in our correspondence dated May 21, 2007, and is included in the detailed estimate we based our offer of settlement upon.

We will review the documentation you have submitted and will provide a detailed reply within the contractually stipulated 30 days. We will continue to work toward a timely and fair resolution of this fire claim. The asbestos contamination, which occurred after the date of loss, is a separate occurrence and not included in the above referenced claim. If you have any questions or concerns, please address them in writing to the address above.

Sincerely,

TE
Tom Egger
Claim Representative
Large Loss Unit
State Farm Fire and Casualty Company

TT
Tim Thomsen
Claim Representative
Large Loss Unit
State Farm Fire and Casualty Company

Cc: Robert Nolan, President Colonial Manor Condominium Association
State Farm Agent Jack Sunahara Jr, 1529
Foothills Environmental

Encl: Foothills Environmental letter

Figure 15: The July 18, 2007 State Farm correspondence from Adjusters Thomsen and Egger is shown without the attached Foothills Environmental correspondence dated July 17, 2007. Page one demonstrates that State Farm recognizes the Association's filed a complete Sworn Proof of Loss. This correspondence further demonstrates that State Farm is fully aware of the 30 day contractual and regulatory duties to investigate and respond to the Insured claim documentation. State Farm failed to meet the recognized obligations.

PAC finds many aspects of the remainder of the correspondence very disturbing. Adjusters Thomsen and Egger spend considerable energy trying to suggest some other party was responsible for the major asbestos spill subsequent to the fire loss. Adjusters Thomsen and Egger aggressively defend their selective asbestos testing as somehow being compliant with Colorado Regulation 8B. Adjusters Thomsen and Egger were unaware that PAC had secured the Sheridan Fire Investigation photos taken immediately after the fire was extinguished on April 24, 2007. The Sheridan Fire Investigation photos fully discredit the spurious allegations made by Adjusters Thomsen and Egger.

Adjusters Thomsen and Egger are comfortable with the idea that State Farm's false testing report was released exclusively to the Association President as a "courtesy". They suggest the other parties (i.e. unit owners) who received this report were not entitled to the report, so if they misinterpreted the report conclusion and were exposed to an asbestos hazard, that simply is not State Farm's problem.

PAC in the Claim Presentation had extended a spirit cooperation to reach a swift claim resolution so as to minimize the hardship faced by the displaced unit owners without personal ALE (Additional Living Expense) coverage benefits. Adjusters Thomsen and Egger in true cavalier fashion demonstrate their total lack of empathy for the unit owners without personal insurance. This was no real surprise, as Adjusters Thomsen and Egger have repeatedly demonstrated they have no real empathy for any large loss insured. These hard core adjusters look at each loss situation through a twisted lens of disdain, with one clear objective: minimizing State Farm's loss exposure. PAC has observed Adjusters Thomsen and Egger on numerous occasions and can equivocally state that these aggressive individuals will do or say anything to accomplish their clear objective. In the case of Colonial Manor, exposing unsuspecting people to a major asbestos spill hazard or indefinitely delaying resolution of a claim while premium paying unit owners fend for themselves is simply another claim well handled.

- On August 9, 2007, State Farm Team Leader Whitworth sent correspondence suggesting that State Farm could not act on the Association's "Claim Presentation" because the Sworn Statements in Proof of Loss (POL) submitted were not supplied on State Farm's form. Mr. Whitworth stated, **"Unfortunately, we are not able to act on the proof of loss forms you provided because the forms you submitted do not provide proper information and they are not completed on the State Farm Sworn Statement in Proof of Loss Form provided."** State Farm forms were conveniently omitted in the May 22, 2007 correspondence sent to Mr. Nolan and the State Farm correspondence package supplied to PAC on June 4, 2007.

(Note: The State Farm form referenced by Team Leader Whitworth is modeled around the standard "ISO" form supplied by the Insured except the information required is simply in a different format. Mr. Whitworth's request to have the Insured complete and provide substantially the same information so as to have the claim timely investigated and settled is viewed as a willful violation of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices.)

State Farm Insurance Companies

August 9, 2007

Bill McLoughlin
Public Adjusters of Colorado, LLC
10583 Serengeti Drive
Littleton, CO 80124

CERTIFIED MAIL RETURN RECEIPT REQUESTED

RE: Named Insured: Colonial Manor Condominium Association
Claim Number: 06-K180-354
Policy Number: 96-KS-1619-0
Date of Loss: April 24, 2007
Loss Location: 4100 S. Dale Ct, Units 1-3, Englewood, CO
Type of Loss: Fire

Dear Mr. McLoughlin:

Thank you for submitting your proof of loss forms. We received these documents on July 13, 2007. Unfortunately, we are not able to act on the proof of loss forms you provided because the forms you submitted do not provide the proper information and they are not completed on the State Farm Sworn Statement in Proof of Loss form we provided.

Our letter to Mr. Nolan dated May 22, 2007, detailed the policy contract conditions and included the Sworn Statement in Proof of Loss. Enclosed is a copy of our May 22, 2007 letter for your review. We want to make every reasonable effort to allow you sufficient opportunity to comply with the conditions of the policy contract. Therefore, we are providing another blank Sworn Statement in Proof of Loss form for you to complete. The May 22, 2007 letter originally requested you submit the completed proof of loss form by July 23, 2007. Since that date has passed, we will extend an additional 30 days from the date of this letter for you to complete the Sworn Statement in Proof of Loss and submit it to our office. Please mail or deliver your completed proof of loss on or before September 8, 2007.

Our return of the incomplete proof of loss form is not to be construed as a waiver of any of the policy provisions including requiring the filing of Sworn Statement in Proof of Loss, nor is it to be construed as an admission of liability or of any fact whatsoever. The sole purpose is to permit you sufficient time to comply with the provisions of the policy, if you so desire.

We are in the process of reviewing the 42 page estimate from Disaster Restoration Inc, and will provide a detailed reply in the near future. The estimate from Disaster Restoration Inc does not list the room measurement variables or the individual room dollar amount totals. This

HOME OFFICES: BLOOMINGTON, ILLINOIS 61710-0001

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information is necessary for us to properly reconcile this estimate and will assist you in your documentation of this loss. The Disaster Restoration Inc estimate appears to be excessive in scope and pricing, includes material upgrades, and does not accurately reflect the necessary repairs for the direct fire damage to the structure.

If you have any questions or concerns, please contact Large Loss Claim Representatives Tim Thomsen at 303-264-1632 or Tom Egger at 719-260-2637 or write to us at the above address.

Sincerely,

Rick Whitworth, CPCU
Team Manager
Large Loss Unit
State Farm Fire and Casualty Company

Cc: Robert Nolan, President Colonial Manor Condominium Association
State Farm Agent Jack Sunahara Jr, 1529

Enclosures: May 22, 2007 letter, Sworn Statement in Proof of Loss

Figure 16: (above left) The August 9, 2007 correspondence from State Farm Team Leader Whitworth rejecting Insured's Proof of Loss. Leader Whitworth indicates State Farm is "not able to act" on Insured's ISO Proofed claims because the "forms do not provide the proper information and they are not completed on the State Farm Sworn Proof of Loss Form we provided". As of the date of this correspondence, State Farm had accomplished:

- Contracted to selectively asbestos tested the loss.
- Released false asbestos test data to Insured.
- Recklessly exposed countless people to a serious asbestos hazard.
- Loss was 108 days old without a sensible damage investigation.
- PSP contractor supplied lowball estimates totaling \$120K.
- Had Insured's POL for 29 days without any additional investigation.
- Raised spurious asbestos allegations to cover up misdeed.
- Not paid 1 ¢ on the claim damages.
- Rejected POL; asked for same information to delay claim payments.

State Farm actions are reportedly "Like a good neighbor"? When looking at the claim handling practices involved, one can easily understand how State Farm had published 2006 Colorado Loss Ratios of 41.84% or less; simply avoid paying claims.

Sworn Statement in Proof of Loss

Barcode Only

POLICY NUMBER: _____ EFFECTIVE DATE: _____ EXPIRATION DATE: _____

TYPE OF POLICY: _____ PROPERTY INSURED: _____ AMOUNT \$: _____ CLAIM NO.: _____

TO: STATE FARM FIRE AND CASUALTY COMPANY STATE FARM GENERAL INSURANCE COMPANY STATE FARM COUNTY MUTUAL INSURANCE COMPANY OF TEXAS STATE FARM FLOYS STATE FARM FLORIDA

By the above policy of insurance, you insure: _____ (hereinafter called insured).

Name of Insured _____

A _____ Loss occurred _____ about the hour of _____ A.M. P.M.

Which loss upon best knowledge and belief of insured was caused by _____ Origin _____

The interest of the insured in the described property was _____

Others having interest in the described property at the time of loss either as mortgagee, lienholder, or otherwise were _____ Since the above policy was issued there has been no change in title, use, or possession of said property except _____

THE ACTUAL CASH VALUE of the described property at time of loss was (\$ _____ Building _____ Contents _____) \$ _____

THE REPLACEMENT COST of the described property at time of loss was (\$ _____ Building _____ Contents _____) \$ _____

THE TOTAL INSURANCE covering the described property including this policy and all other policies (whether valid) Or not, lenders, or agreement to insure was at time of said loss \$ _____

THE ACTUAL LOSS AND DAMAGE to the described property as a result of said loss was (Building \$ _____ Contents \$ _____ Other \$ _____) \$ _____

LESS AMOUNT OF DEDUCTIBLE: _____ \$ _____

INSURED HEREBY CLAIMS OF THIS COMPANY ("I") UNDER THIS POLICY THE SUM OF \$ _____ "Subject to Supplemental Claim, if applicable, to be filed in accordance with the terms and conditions of the Replacement Cost Coverage under the above described policy.

THE FULL COST OF REPAIR OR REPLACEMENT is \$ _____

MAXIMUM AMOUNT OF SUPPLEMENTAL is \$ _____

MAXIMUM AMOUNT OF SUPPLEMENTAL CLAIM under the Replacement Cost Coverage of the above described policy is (\$ _____ Building \$ _____ Contents _____) \$ _____

In consideration of the payment to be made hereunder for any property other than real property on an actual cash value or replacement cost basis, the insured does hereby assign to said insurer all right, title and interest in and to said property for which claim is being made hereunder, and agrees to immediately notify said insurer in case of any recovery of the property for which claim is being made hereunder, and will render all assistance possible in any endeavor to recover said property. Insured also agrees to turn over to said insurer, any such recovery which may be made, or reimburse said insurer in full to the extent of the payment which may be recovered.

The said loss was not caused by design or procurement on the part of the insured or this affiant; nothing has been done by or with the privity or consent of insured or this affiant, to violate the conditions of the policy, or render it void, no articles are mentioned herein or in annexed schedules but such as were interested in the loss and insured under this policy, and belonged to the insured at the time of said loss, no property saved has been in any manner concealed, and no attempt to deceive the said insurer as to the extent of said loss, has in any manner been made. Any other information that may be required will be furnished on call, and considered a part of this proof. All loss verification, as required by the insurance policy, is annexed hereto.

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It is expressly understood and agreed that the furnishings of this blank to the insured or the assistance of an adjuster, or any agent of the insurer in the making of this proof, is not a waiver of any rights of said insurer or of any of the conditions of this policy.

It is unlawful to knowingly provide false, incomplete, or misleading facts or information to an insurance company for the purpose of defrauding or attempting to defraud the company. Penalties may include imprisonment, fines, denial of insurance, and civil damages. Any insurance company or agent of an insurance company who knowingly provides false, incomplete, or misleading facts or information to a policyholder or claimant for the purpose of defrauding or attempting to defraud the policyholder or claimant with regard to a settlement or award payable from insurance proceeds shall be reported to the Colorado Division of Insurance within the department of regulatory agencies.

WITNESS _____ hand at _____ Signature _____ Date _____
this _____ day of _____ State of _____
State of _____ County of _____ Signature _____ Date _____

Personally appeared before me, the day and date above written, _____
signer of the foregoing statements, who being by me duly sworn, made solemn oath that the matters contained in the foregoing statements are true in substance and in fact.

_____(SEAL) My commission expires _____

Figure 17: (above right) The State Farm Sworn Statement in Proof of Loss sent on August 9, 2007 contains essentially similar elements contained in the industry standard "ISO" Sworn Statement in Proof of Loss supplied by the Insured (See Figure 14 for example.). State Farm's form asks all the same core questions as contained in the "ISO" form.

On July 18, 2007, Adjuster Thomsen fully acknowledged receipt of Insured's "complete Sworn Proof of Loss". Instead of diligently investigating claims and making sensible settlement, State Farm chose to do nothing. After 29 days, State Farm is "not able to act" because the "forms do not provide the proper information and they are not completed on the State Farm Sworn Proof of Loss Form we provided".

State Farm representatives conveniently failed to send their company form in prior correspondence when requesting the Insured to supply a Sworn Statement in Proof of Loss within 60 days. State Farm's actions concerning this matter are viewed as a willful violation of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices.

PAC notes 29 days had passed since submission of the Insured's comprehensive damage claim and State Farm had not undertaken any action to investigate or re-evaluate the secure loss site. PAC received no phone communications from Adjusters Thomsen or Egger regarding loss dynamics, measurement issues, Xactimate pricing issues, repair scope questions or concerns. The only communications received by PAC was July 18, 2007 correspondence from Adjusters Thomsen that acknowledged the receipt of the Insured's "complete Sworn Proof of Loss" and State Farm's 30 day contractual duty to investigate and respond to the claims. State Farm failed to comply with the recognized duty to investigate and respond. Team Leader Whitworth's correspondence was viewed as a deliberate attempt to side step State Farm's duty to their Insured.

The August 9, 2007 correspondence from Claim Team Leader Whitworth also makes broad statements suggesting the DRI Xactimate estimate of damage repairs (42 pages) submitted as supporting documentation in the Association's Claim Presentation is somehow deficient, excessive, and/or inaccurate therefore impeding State Farm's ability to evaluate and settle the claims. As a supplement to this discussion on Team Leader Whitworth's correspondence concerning DRI estimate issues, PAC notes the following:

1. *"The estimate from Disaster Restoration, Inc. does not list the room measurements variables or the individual room dollar amounts."*

The 42 page DRI Xactimate damage repair estimate was presented in a compressed print format that omitted the thumbnail sketches and line item sub totals for each room. This format minimizes the estimate print out by approximately 50%. The estimate did include the fully detailed, dimensioned sketch package, customarily found at the end of a typical Xactimate estimate. A competent evaluator should have been able to verify all necessary room dimensions and computed square foot determinations based on this physical data, if so desired. The estimate contained all the properly documented, room by room, line item repair details. Once again, a competent evaluator could quickly determine the room repair total with a simple hand held calculator, if such information was required.

On April 30, 2007, Adjusters Thomsen and Egger reportedly scoped the entire building layout with representatives from PSP contractor Blu Sky. PAC presented a State Farm photograph (See Figure 12) which documents this activity. Blu Sky provided State Farm with Xactimate repair estimates dated May 9, 2007 and May 14, 2007 that contain the detailed room by room thumbnail sketch information. Although the Blu Sky estimates were grossly deficient, these documents contained all the necessary dimensional information to make a competent dimensional scope evaluation, if so desired.

State Farm electronically exchanges Xactimate "ESX" estimate files with their PSP contractors over XactNet (Proprietary Xactimate data exchange service.). Certainly Team Leader Whitworth or any other State Farm representative could have gotten the Blu Sky "ESX" files to check any dimensional issue if so desired.

State Farm representatives certainly could have asked for the fully expanded version of the DRI Xactimate repair estimate at any time. PAC would have quickly supplied such documentation if so desired. PAC views Team Leader Whitworth's estimate claims as another example of State Farm's systematic efforts to delay sensible claim payment.

2. *"The Disaster Restoration, Inc. estimate appears to be excessive in scope and pricing, including material upgrades, and does not accurately reflect the necessary repairs for the direct fire damage to the structure."*

At this point in time, State Farm was still in denial that the loss site was a major asbestos spill hazard as the result of the fire. Team Leader Whitworth's comment reflects the position of his subordinate, Adjuster Thomsen, who in July 18, 2007 correspondence was suggesting the major asbestos spill occurred after the fire loss. PAC provided detailed documentation in Section 4 of the Insured's Claim Presentation which called attention to the selective testing orchestrated by Adjuster Thomsen to side step the major asbestos spill abatement and repair requirements. The Section 4 document entitled "Serious Environmental Claims Handling Error by State Farm" (See Attached) should have prompted Team Leader Whitworth, as a responsible manager, to promptly investigate such matters. Instead Team Leader Whitworth chose to dismiss the "major asbestos spill" situation and any associated DRI repairs by suggesting the Insured's independent estimate "*does not accurately reflect the necessary repairs for the direct fire damage to the structure.*"

(When presented with the April 24, 2007 Sheridan Fire Investigation photographs, Mr. Gonzalez (Owner of Foothills Environmental) publicly stated on September 6, 2007 that he “selectively tested” the loss site at the direction of Adjuster Thomsen. Mr. Gonzalez has reportedly confirmed this statement with CDPHE officials investigating asbestos handling issues associated with several State Farm losses. On September 7th through 10th State Farm had Foothills Environmental complete extensive follow-up asbestos testing of the loss site. The Foothills September 12, 2007 testing report confirmed the major asbestos spill hazard. PAC questions why Team Leader Whitworth waited two full months to have the loss retested if he disputed the documented damage claims.)

Regarding excessive Xactimate pricing concerns, PAC notes State Farm claim representatives typically use a custom State Farm repair price list for Xactimate estimates prepared by State Farm claims representatives. This company generated custom price list undervalues many repair tasks relative to the standard Xactimate repair price list for a given zip code area.

Adjuster Thomsen takes the Xactimate task pricing initiatives beyond the typical State Farm practice. In prior losses known to PAC, Adjuster Thomsen has used his personal custom price list (Lower than State Farm’s price list.) or encouraged State Farm PSP contractors to make **artificial alterations** to the standard Xactimate price list. Both of these claim tactics have been used by Adjuster Thomsen to deliberately **undervalue** true damage repair costs. In this claim, Adjuster Thomsen used the later strategy. PSP contractor Blu Sky provided an **under scoped** Xactimate estimate with contains **artificial alterations** of the standard Xactimate price list. Adjusters Thomsen and Egger represented the grossly **undervalued** Blu Sky repair estimates as the only “qualified basis” that would be considered for settlement of the damage claims. Adjuster Thomsen and Egger are experienced with Xactimate and knew, or should have known, the Blu Sky estimates were patently deficient. In the following sections, PAC will demonstrate several examples that call attention to estimating tactics utilized on behalf of State Farm to **undervalue** represented damage repairs.

For starters, the Blu Sky PSP repair estimates supplied for this claim show the contractor wrongly used **1st quarter** Xactimate pricing code CODE4B7A (CO = Colorado; DE = Denver; 4 = Xactimate release 24; B = Structure Repair & Content Cleaning Price List; 7 = 2007; A = 1st Quarter). The fire loss occurred in the **2nd quarter** of 2007. Xactimate released the **2nd quarter** pricing model CODE4B7B on April 1, 2007; 23 days before the loss and 43 days before Blu Sky officially priced the estimate of repair. This subtle error reduced the deficient Blu Sky loss determination by another 2 to 3 % (approximately \$3,000.00).

From: BLU SKY 303 7894759 05/14/2007 06:17 #283 P.002/051

Blu Sky Restoration Contractors, Inc.
3040 S Tejon St
Englewood, CO 80110
P 303.789.4258
F 303.789.4759

Client: Colonial Manor Condo Assoc Home: (720) 833-9299

Property: 4101 S Dale Ct
Englewood, CO 80110

Operator Info:
Operator: ANDREW
Estimator: Andy Bakker Business: (303) 789-4258

Business: 3040 S Tejon
Englewood, CO 80110

Type of Estimate: Fire
Dates:
Date Entered: 05/03/2007

Price List: CODE4B7A
Restoration/Service/Remodel
Estimate: 2007-05-03-1137

Blu Sky Restoration Contractors, Inc. is a restoration company specializing in assisting the owners and insurers of residential, commercial, medical, public and multi-family buildings in recovery following fire, water and most every type of emergency loss. We are experienced in mobilizing and managing your entire project. Our services include: general contracting, structural drying, mold remediation, consulting, engineering, and architectural.

Figure 18: The Blu Sky estimate cover sheet was provided by State Farm’s PSP contractor as part of a \$120K damage repair evaluation package. As previously noted, the Blu Sky repair evaluations were grossly deficient with or without asbestos damage considerations.

PAC calls attention to the incorrect Xactimate estimate price list code used: CODE4B7A. This code is applicable for repair work done in the 1st quarter of 2007. The loss involved occurred in the 2nd quarter of 2007. Blu Sky should have used Xactimate price list code: CODE4B7B or CODE4S7B. This subtle error reduced the already deficient Blu Sky determination by approximately \$3,000.00.

State Farm Adjuster Thomsen knew or should have known this treatment was inappropriate, but chose to forward this to the Insured as a watered down basis of claim settlement. State Farm routinely uses their PSP contractors as a tool to reduce loss exposure. This subtle example is one of many Xactimate estimating tricks employed to short change the consumer.

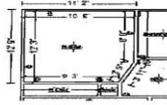
State Farm typically makes their PSP contractors conform to the lower custom State Farm Xactimate pricing dynamics to participate in the program. However, the Blu Sky estimates show different pricing anomalies which PAC refers to as “**price shaving**”. In the estimates State Farm provided as a basis of claim payment, we note line item repair prices were systematically shaved to lower prices. Since the Blu Sky estimate indicate a standard Xactimate pricing code (DECO4B7A), the line item pricing detail had to be **artificially altered** by the Blu Sky estimator. This alteration process requires multi-step operator input, so changing of repair pricing is not something that occurs accidentally.



Blu Sky Restoration Contractors, Inc.

3040 S Tejon St
 Englewood, CO 80110
 P 303.789.4258
 F 303.789.4759

Unit 2 2nd



Room: N Bed

Ceiling Height: 8'

357.41 SF Walls	128.15 SF Ceiling
485.55 SF Walls & Ceiling	128.15 SF Floor
14.24 SY Flooring	44.68 LF Floor Perimeter
44.68 LF Ceil. Perimeter	

DESCRIPTION	QNTY	REMOVE	REPLACE	TOTAL
Clean the walls and ceiling	485.55 SF	0.00	0.32	155.38
Seal then paint the walls and ceiling (2 coats)	485.55 SF	0.00	0.48	233.06
Clean door - bifold set (per side)	2.00 EA	0.00	13.08	26.16

Figure 19: State Farm's PSP contractor, Blue Sky, supplied Xactimate repair estimates dated May 14, 2007. State Farm used the Blu Sky Xactimate estimates as a basis for determining the so called fire damage repairs were \$120,573.40. As previously discussed, the Blu Sky estimates failed to address significant damage repair requirements: complicated main floor structural repairs, electrical rewiring, HVAC duct & unit replacements, numerous building code requirements and proper finish requirements. These significant estimate omissions were independent of the yet unidentified asbestos abatement issues.

On another level, the Blu Sky Xactimate estimates involved in this claim show clear and substantial "price shaving" issues. We call attention to the Xactimate painting line item detail as shown in the Blu Sky estimate excerpt presented above: Seal then paint the walls and ceiling (2 coats) also known as Xactimate code PNTSP.

At the time the estimate was prepared, the "standard" Denver Area Xactimate price for the indicated painting task was 65¢ per sq. ft. versus the 48¢ per sq. ft. shown in the Blu Sky estimate. The 17¢ price difference does not seem like a big deal, but this factor was applied repeatedly throughout the Blu Sky estimate to all painted wall and ceiling surfaces. When using the Blue Sky figure of 17,172.77 sq. ft. of painted wall and ceiling surface, the 17¢ unit price differential results in a \$3,503.24 total estimate reduction (Calculated: 17,172.77 sq.ft. X \$.17 per sq.ft. X 1.2 Overhead & Profit factor = \$3,503.24 overall repair estimate pricing reduction).

The Blu Sky estimate contained this and many other "price shaving" issues intended to "undervalue" the so called defined repair costs. Blu Sky supplied the grossly incomplete, price shaved repair estimate, for the benefit of their PSP contractor relationship with State Farm. State Farm Adjusters Thomsen and Egger in turn presented the "low ball" Blu Sky estimates to the Insured as the only qualified basis for paying damage claims. State Farm Adjuster Thomsen and Egger knew or should have known this Xactimate treatment was inappropriate. State Farm routinely uses their PSP contractors as a tool to reduce loss exposure. PAC believes the documentation shown suggests a willful violation of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices. This subtle example is one of many Xactimate estimating tricks employed to short change the consumer.

<u>Blu Sky Estimate:</u>	Price list CODE4B7A	(1 st Quarter 2007 – Artificially Altered)	PNTSP	\$ 0.48 sq. ft.
1. Xactimate Standard:	Price list CODE4B7A	(1 st Quarter 2007-)	PNTSP	\$ 0.64 sq. ft
2. Xactimate Standard:	Price list CODE4B7B	(2 nd Quarter 2008 – Loss Occurred)	PNTSP	\$ 0.65 sq. ft.
3. Xactimate Standard:	Price list CODE4B8B	(1 st Quarter 2008 – Repairs Completed)	PNTSP	\$ 0.65 sq. ft.

XACTIMATE PRICE CODE INFORMATION

(Examples: CODE4B7B or CODE4S7A)

- CO = Colorado
- DE = Denver Area Market
- 4 = Xactimate 24 & 5 = Xactimate 25 (Software platform does not change task pricing.)
- B = Structure Repair + Content Cleaning Price List
 S = Structure Repair Price List
 (B & S involve the same structure repair pricing)
- 7 = Year 2007 or 8 = Year 2008
- A = 1st Quarter or B = 2nd Quarter
- PNTSP = Xactimate Task Code for "Seal then paint walls and Ceiling (2 coats).

(Historical Xactimate Price Detail Data from PAC Account)

Xactimate Price List: CODE4A7A - RSR with SC
 Activities for PNTSP

Description	Hard Cost	Market Conditions	Untaxed Unit \$
+ Replace	0.64	0.00 (0.000 %)	0.64
- Remove	--	--	--
R Detach & Reset	--	--	--
& Remove and Replace	--	--	--
M Material Only	0.13	0.00 (0.000 %)	0.13
I Install Only	0.51	0.00 (0.000 %)	0.51

Xactimate Price List: CODE4B7B - RSR with SC
 Activities for PNTSP

Description	Hard Cost	Market Conditions	Untaxed Unit \$
+ Replace	0.64	0.01 (1.538 %)	0.65
- Remove	--	--	--
R Detach & Reset	--	--	--
& Remove and Replace	--	--	--
M Material Only	0.13	0.00 (0.000 %)	0.13
I Install Only	0.51	0.01 (1.923 %)	0.52

Xactimate Price List: CODE5B8A - RSR with SC
 Activities for PNTSP

Description	Hard Cost	Market Conditions	Untaxed Unit \$
+ Replace	0.64	0.01 (1.538 %)	0.65
- Remove	--	--	--
R Detach & Reset	--	--	--
& Remove and Replace	--	--	--
M Material Only	0.12	0.00 (0.000 %)	0.12
I Install Only	0.52	0.01 (1.987 %)	0.53

(Note: The Xactimate estimating program allows for price change operations, but this feature is usually used to increase pricing issues to reflect upward market changes. Some recent notable major price increases in the Denver market were concrete (Increased from \$72/cu. yd. to \$130/ cu. yd. in a six month period) or copper electrical wire (Increased from \$20/ roll to \$60/roll in a 3 months period) or rising fuel prices which are effecting everything. Xactimate releases quarterly price list updates which do not necessarily capture price increases because of their data collect technique. Case in point, concrete pricing reached \$125 per cu. yd. by 3rd quarter of 2005, Xactimate pricing data did not reach the correct material price until the 1st quarter of 2007. Please note Xactimate is an insurance industry standard tool; slow pricing corrections are beneficial to their largest client base. To address this matter, Xactimate has published white papers suggesting savvy contractors should make necessary upward pricing adjustments to reflect true market conditions. Unfortunately many seasoned large loss claim adjusters use this capability to shave standard pricing to reduce the company loss exposure. Xactimate priced work generally involves razor thin margins, so blatant efforts to reduce standard pricing simply short change the unsuspecting consumer.)

Contractor Blu Sky supplied patently deficient and “price shaved” estimates for State Farm to further their PSP business relationship. Documentation presented in Figures 17 & 18 represents only a portion of the “price shaving” tactics employed in this case. State Farm routinely uses PSP contractor relationships to supply undervalued repair estimates in an effort to reduce significant loss exposure. Adjusters Thomsen and Egger are experienced large loss adjusters who understand the means and methods to construct undervalued Xactimate damage repair estimates. Adjusters Thomsen and Egger knew or should have known the Blu Sky repair estimates involved were not fair and reasonable. Adjusters Thomsen and Egger should have prepared their own Xactimate repair determinations in accordance with the State Farm Claim Operations Manual. Instead, these adjusters chose to forward the “low ball” Blu Sky estimates to the Insured as the only qualified basis of claim payment. PAC believes Adjusters Thomsen and Egger would not be able to carry out such deceptive tactics without the full support and encouragement from their immediate supervisor, Team Leader Whitworth and State Farm’s Colorado Claims Management. When these issues have been raised, State Farm management has simply ignored the problem. PAC believes the documented issues demonstrate a willful violation of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices.

In light of State Farm Xactimate practices, Team Leader Whitworth’s suggestion “***The Disaster Restoration, Inc. estimate appears to be excessive in scope and pricing***” seems a bit convoluted. Team Leader Whitworth’s broad statement lacked any specific basis to facilitate sensible response even though the State Farm Operations Manual calls for detailed examination of the Insured’s contractor estimate of repair, item by item, and discussions to resolve differences (See Figure 21: **B. Evaluation of Structural Losses; 1. Procedure; Part J**). The DRI estimate used to support the Insured’s claim presentation utilized a custom Xactimate price list which was clearly represented as such (“**Price List: DRI Denver**”) on the front cover of the repair estimate. Prior to submission of the Insured’s claim, PAC carefully reviewed DRI’s custom Xactimate model and found the price changed items to be representative of fair market conditions. Please note Xactimate issues quarterly pricing updates that may or may not reflect true market conditions. Xactimate white papers encourage savvy contractors to carefully check task pricing and make appropriate price changes. DRI’s price list by all metrics appeared to be fair and reasonable. However, State Farm representatives made repeated representations that the DRI custom price list was excessive, but failed to identify any specific concerns as required by the State Farm Operations Manual.

(Note: State Farm failed to timely respond to the Insured’s proof of loss claims as required by the policy provisions and state regulatory requirements. On September 6, 2007, the start of abatement work was suspended to allow State Farm a late opportunity to fairly settle damage claims. State Farm did not entertain sensible repair estimate discussions (As required in the State Farm Operations Manual) until September 27, 2007, a full 5 months after the date of loss and 2.5 months after receiving the Insured’s proof of loss. During the September 27, 2007 meeting held with the Sheridan Building Department, Adjusters Thomsen and Egger discovered the DRI repair representation was based on sensible requirements. Despite reaching substantial agreement on the DRI repair scope involved, Adjusters Thomsen and Egger would not reach agreement on the DRI Xactimate pricing utilized. Adjusters Thomsen and Egger broadly suggested the custom DRI Xactimate pricing model was excessive without raising any specific issue. PAC examined the DRI custom Xactimate pricing and determined the modified pricing factors involved reflected sensible fair market adjustments. After another three months without a reasonable State Farm resolution, DRI was compelled proceed with the repair work without assurance of proper payment. Full abatement was initiated on November 27, 2007 due to a frozen water line break at the loss, as well as the general frustration of the Association members, DRI, and Custom Environmental. The displaced unit owners and their families had to endure unnecessary hardship due State Farm’s unreasonable claim settlement delays. The contractors tied up equipment, resources, and incurred avoidable project expenses due to the unreasonable State Farm claim handling practices. State Farm’s delays unfairly eroded and exhausted the Association’s policy coverage benefits.

STATE FARM - FIRST PARTY CLAIM PROCEDURES:

OPERATION GUIDE (Excerpts)

OG 75-01, Claim Procedures - First Party Page 1 of 24

OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
06-18-03	Claim Practices Fire	Claim Procedures - First Party	75-01

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- II. GENERAL INFORMATION
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 - A. Investigation of Structural Losses
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 - D. Evaluation of Personal Property Losses
 - E. Calculating ACV of Personal Property based on Replacement Service Prices
 - F. Documentation of Personal Property Loss
 - G. Closing the Loss
 - H. Reporting on Losses
 - I. Assembly of Closed File
- IV. LOSSES HANDLED WITHOUT PHYSICAL INSPECTION

EXHIBITS

- Exhibit 1. Combined Fire Report
- Exhibit 2. Closing Report
- Exhibit 3. First Party File Arrangement
- Exhibit 4. Loss Settlement Form
- Exhibit 5. Underwriting Review Form
- Exhibit 6. Property Loss Preliminary Report

I. **PURPOSE**

This Operation Guide establishes guidelines and procedures for handling first party structural and personal property losses. For specific types of losses such as crime, water, etc., refer also to the OG under that title.

OG 75-01, Claim Procedures - First Party Page 2 of 24

II. GENERAL INFORMATION

It is the intention of State Farm® to handle each claim fairly, promptly, and courteously. To ensure the attainment of this goal, reasonably consistent investigative patterns, interpretations, and reporting procedures should be followed.

III. LOSSES HANDLED WITH PHYSICAL INSPECTION

A. Investigation of Structural Losses

1. Inspection
 - a. Thoroughly inspect each loss.
 - b. Carefully note any indication of the source of the loss, as well as when the loss occurred. It is important to note the date of loss, whether one or more occurrences caused the loss, and whether subrogation potential exists.
 - c. When inspecting buildings, it is recommended to follow a consistent routine to be sure relevant parts of the building are inspected. For example, start at the front or street side of the house, and go clockwise until returning to the start spot. Use similar routines in inspecting roofs and interiors.
 - d. Record the date of inspection in the file, along with pertinent comments on the loss.
2. Photographs

Take pictures to preserve facts, illustrate any unusual features, or more clearly reflect damaged and undamaged areas. If underwriting characteristics of an adverse nature are noted, take one or more exterior photos and refer to your Underwriting section via the Underwriting Review form (Exhibit 5).

Example: If a wood burning stove or free-standing fireplace is observed at the risk, take a photo and route to Underwriting on the Underwriting Review form.

The claim representative's role in this area is limited to reporting underwriting concerns. The claim representative does not recommend or initiate underwriting activity.
3. Shipping Hazardous Materials

Occasionally in the investigation of the claim, it becomes necessary to ship materials and debris for expert analysis. Some of this material may be hazardous. The United States Department of Transportation (DOT) has

Figure 20: PAC presents highlighted excerpts from the State Farm Operations Guide entitled "Claims Procedures - First Party" which are relevant to this claim handling concerns associated with this loss. Documents of interest are presented in pages 23 through 28 and support our contention that Adjusters Thomsen and Egger acted in consort with full management support.

PAC notes many actions undertaken by Adjusters Thomsen and Egger concerning treatment and adjustment of this loss failed to meet the operation standards establish by State Farm. The operation standards clearly read, "It is the intention of State Farm® to handle each claim fairly, promptly, and courteously." We believe Adjusters Thomsen and Egger failed on all accounts.

Furthermore, the operation standards call for formal reporting and review by Team Leader Whitworth and Section Claim Manger Markey. We believe State Farm's Colorado management team failed to address serious claim handling issues when raised. These management representatives failed to take affirmative action to adhere to State Farm's clear procedural requirements. Based on these facts, one can only conclude that the reckless and deceptive claims treatment orchestrated by Adjusters Thomsen and Egger was fully endorsed by State Farm's Colorado Claims Management Team. PAC believes numerous State Farm representatives willfully participated in aggressive and egregious claim handling tactics. These claim handling tactics are believed to be contrary to the State Farm Operation Guide and in violation of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices.

PAC calls for thorough investigation of State Farm's conduct by the Colorado Division of Insurance and other appropriate state regulatory agencies. This claim does not involve an isolated incident, but a very serious pattern of practice. The health and well-being of Coloradans are indiscriminately being placed at risk in a deliberate effort to bolster corporate profitability. State Farm's published 2006 Colorado Policy Loss Ratios tell the story.

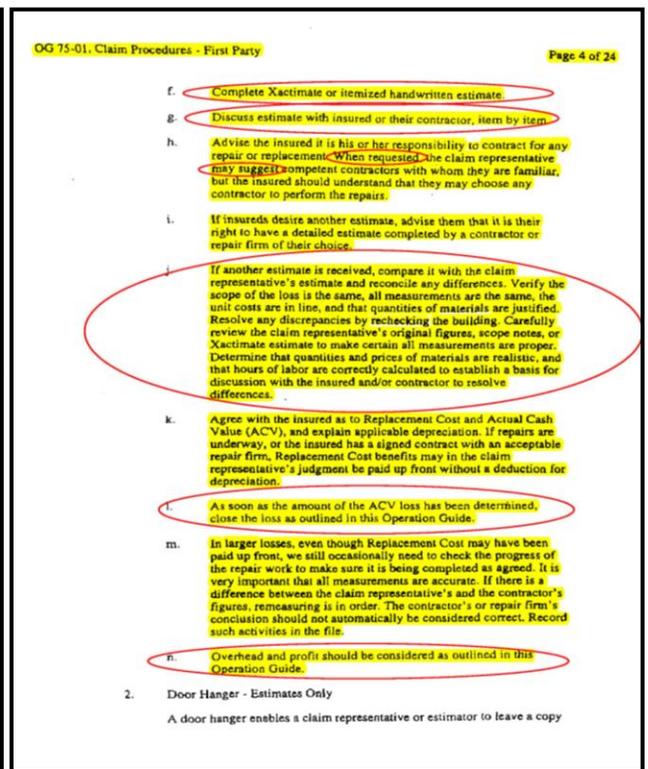
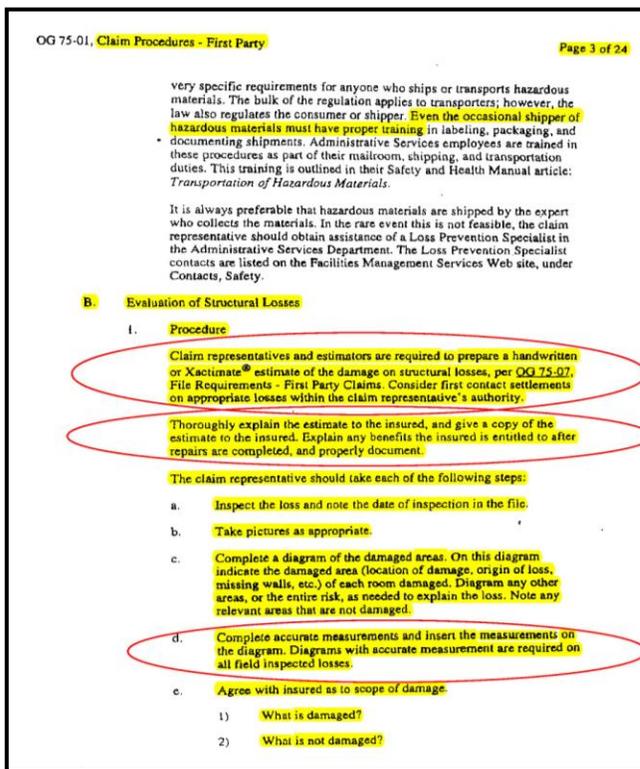


Figure 21: The State Farm Operation Guide clearly states, "Claim representatives or estimators are required to prepare a hand written or Xactimate® estimate of the damage on all structure losses." Adjusters Thomsen and Egger did not prepare their own estimate of repair; instead these claim representatives relied on the grossly deficient repair estimates supplied by State Farm PSP contractor Blu Sky to make a "low ball" settlement offer to the Insured.

On May 18, 2007, Adjuster Egger contacted Mr. Nolan and indicated he was prepared to have a claim check written for \$101,874.00 to settle the damage claims. This "low ball" offer was based on State Farm's reliance of the so-called qualified Blu Sky damage estimates. At this time, Adjuster Egger failed to "give a copy of the estimate to the Insured" and "thoroughly explain the estimate to the Insured" as required by the State Farm Claims Guide.

On May 21, 2007, Adjuster Egger wrote to the Insured, "We discussed the fact that on April 30, 2007, State Farm met with Blu Sky Restoration and CoCat Restoration at your property and agreed on a scope of repairs as the result of the fire and smoke damages. These two contractors are reputable licensed contractors who do fire restoration work. We walked the through the loss with these two contractors and sought their professional opinions on necessary restoration. We asked them to prepare estimates based on their scope of repairs. To date we have received the estimate from Blu Sky. When we receive the estimate from CoCat, we will forward a copy of it to you for your review." Adjuster Egger forgot the part where he is to reach agreement with the Insured as to the scope of damage.

On the next day (May 22, 2007), Adjuster Thomsen wrote to the Insured, "We have solicited competitive estimates from two, licensed, reputable, restoration contractors to complete the covered fire damage repairs, per the agreed scope of damage repairs. We will settle your claim based on these competitive bids, which utilize industry standards of restoration and market pricing. Our settlement will be actual cash value, until the repairs are complete, per the policy language." Adjuster Thomsen failed to follow the State Farm Claims Guide as well.

PAC notes a number of claim settlement concerns that do not conform to State Farm's Operations Claims Guide:

- Adjuster Thomsen arranged for selective asbestos testing reports to side step major asbestos spill damages.
- Adjuster Thomsen released an incomplete asbestos report that mislead and placed countless unsuspecting people at serious health risk.
- Adjuster Thomsen's hired asbestos tester publicly admitted he selectively tested the property at the request of Adjuster Thomsen
- Adjusters Thomsen and Egger misrepresented the Insured's coverage benefits (i.e. interior finish coverage, policy limits, End. FE-6587 cov.).
- Adjusters Thomsen and Egger failed to take careful measurements and independently document real damage issues.
- Adjusters Thomsen and Egger failed to complete their own independent Xactimate estimate of the real damages.
- Adjusters Thomsen and Egger refused to work with the Insured's established contactor of choice, DRI.
- Adjusters Thomsen and Egger did not attempt to reach agreement with the Insured or their contractor on the repair scope.
- Adjusters Thomsen and Egger utilized State Farm preferred contractors contrary to the Insured's request.
- Adjusters Thomsen and Egger failed to bring in a licensed professional engineer necessary to address serious structural damages.
- Adjusters Thomsen and Egger used State Farm PSP contractor Blu Sky to under scope Xactimate damage estimates.
- Adjusters Thomsen and Egger represented that Blu Sky and CoCat would somehow provide independent, qualified competitive bids.
- Adjusters Thomsen and Egger falsely asserted these estimates utilized industry standards of restoration and market pricing.
- Adjusters Thomsen and Egger made a low ball claim settlement offer based solely on the grossly inadequate Blu Sky damage repair estimates.
- Adjusters Thomsen and Egger made the low ball settlement offer without supplying the Insured with the estimate used for the settlement basis.
- Adjusters Thomsen and Egger failed to thoroughly discuss the PSP estimates with the Insured or their contractor, item by item.
- Adjusters Thomsen and Egger later produced the Blu Sky estimates but failed to produce the so-called CoCat competitive bid estimate.
- Adjusters Thomsen and Egger failed to immediately issue the undisputed ACV claim payment based on the Blu Sky estimate.
- Adjusters Thomsen and Egger received the Insured's repair estimates (DRI) and failed to carefully reconcile the estimates item by item.
- Adjusters Thomsen and Egger failed to timely investigate the Insured's claims as required by policy and regulatory provisions.
- Adjusters Thomsen and Egger attempted to falsely blame major asbestos spill conditions on other parties.
- Adjusters Thomsen and Egger investigated and accepted the loss site was a major asbestos spill as the result of the fire 5 months later.
- Adjusters Thomsen and Egger issued the first claim settlement, based on the undisputed Blu Sky estimates, a full 5 months after the fire.
- Adjusters Thomsen and Egger finally agreed the DRI estimate of repair was based on a sensible repair scope, a full 5 months after the fire.
- Adjusters Thomsen and Egger reached agreement on the DRI scope but refused to reconcile the estimate pricing item by item.
- Adjusters Thomsen and Egger failed to make additional claim payments where increased claim liability had become very clear.
- Adjuster Egger clearly extended pertinent endorsement coverage and later wrongly redacted (denied) this coverage to reduce loss exposure.

We believe these reported actions were under taken with extreme indifference to State Farm's expressed procedure: "It is the intention of State Farm® to handle each claim fairly, promptly, and courteously."

of a completed estimate at the insured's residence when they are not there during inspection. The door hanger (560-277) can be ordered through regular supply channels.

Fold the completed estimate into thirds and place in the door hanger bag. Place a business card in the lower portion of the hanger bag to assist the insured in reaching the claim representative to discuss the estimate.

Hang the door hanger from a door knob at the residence via the top of the hanger bag. The door hanger should not be left in the mailbox.

Contact the insured within 24 hours and explain the estimate before closing the loss. Use this procedure only when a personal meeting with the insured at the premises is not feasible.

3. Contractor and Source of Repair Information

Each claim section has the responsibility for creating and maintaining a directory of contractors and sources of repair firms in the area.

Sections using the State Farm Premier Service® Program (SFPSP) should contact their program coordinator for a list of approved SFPSP contractors. Sections without SFPSP should contact their local Pricing Specialist or Estimators' Team Manager for contractor information.

4. Xactimate System Price Lists

Each claim representative should have a reasonable familiarity with frequently used Xactimate prices. This will facilitate the prompt writing of estimates.

5. Applicable Sales Tax

Sales tax is a component of the loss, and we must take care that our payments reflect the sales tax applicable to the loss location. Some jurisdictions tax materials but not labor, while others tax both. In some areas sales tax is applicable to the "bottom line" of the estimate. Other jurisdictions will exempt certain trades from sales tax and will draw distinctions between taxable repairs and non-taxable "improvements." It is not possible to discuss all possible variations in statutes throughout the U.S. and Canada. If there are questions about the local tax applicability, contact your consultant.

Xactimate unit prices do not include applicable tax on materials and labor. Since Xactimate prices cannot incorporate the peculiarities of each state's or province's sales and use tax system, claim sections are charged with making sure that estimating practices are modified to reflect any locally-specific issues. Refer to QG 783-100 for information on Xactimate.

Contractors' bids and estimates may make different pricing and tax

assumptions. Make sure these assumptions are understood so that payments will be proper and Xactimate and contractor estimates are properly compared.

6. Overhead and Profit

a. General Information

In addition to incurring costs for labor and materials, contractors incur overhead costs. Examples of overhead costs include office space and materials, depreciation, utilities, property and liability insurance, telephone, office employee expenses, etc. Such overhead must be considered when estimating property losses. It is difficult to determine the amount of overhead applicable to any one job. For this reason it has become customary in many areas to express overhead charges as a fixed percentage of the total cost of the job.

In addition, a contractor is entitled to profit. Generally, profit is expressed as a fixed percentage of the job cost. Consider negotiating the percentage of profit on larger, more competitive jobs. Because of economies of scale, a contractor may be willing to work at a lower profit margin on a large reconstruction project than on a minor repair.

b. Overhead and Profit Considerations

1. Contractors' Overhead and Profit

Individual tradespersons are entitled to overhead and profit. In general the unit prices used in our Xactimate software include overhead and profit, so an additional calculation is not necessary.

When evaluating contractors' estimates, however, it is important to compare prices and to note whether the contractor's prices include overhead and profit to avoid duplication of payment.

2. General Contractor's Overhead and Profit

In some instances, as repairs become more complex and as more trades become involved, a policyholder may choose to engage a general contractor. A general contractor coordinates and schedules the efforts of various subcontractors and is entitled to overhead and profit above the cost of individual subcontractors.

c. ACV Settlements

1. Calculation of ACV

Figure 22: The State Farm Operations Guide clearly requires their claim representatives to be intimately familiar with Xactimate estimating techniques including "a reasonable familiarity" with local repair pricing data. The State Farm Operations Guide also recognizes contractor estimates will have different, but quantifiable pricing assumptions.

Under Xactimate guidelines, each contractor has uniquely different requirements for labor burdens, workman's compensation, etc. These recognized factors are usually predicated on the size of the contractor's operation. Xactimate makes provisions for savvy contractors to legitimately address these issues. The savvy contractor must develop a "custom" Xactimate price list to address these factors.

Xactimate supplies quarterly "standard" pricelist updates. The "standard" Xactimate repair pricelist reportedly represent the typical requirements for the average restoration contractor. Xactimate does not define the average contractor. Due to Xactimate sampling techniques, the quarterly price updates may or may not reflect true market repair dynamics on many repair issues. In general, Xactimate is an insurance industry tool, so price updates tend to lag true market conditions. This dynamic is beneficial to Xactimate's largest customers, the insurance industry as a whole. Xactimate recognizes potential pricing deficiencies in their published white papers and encourages savvy contractors to develop a "custom" price list to account for the deficiencies as well.

DRI supplied detailed repair estimates (dated June 28, 2007) utilizing their company specific "custom" price list. Adjusters Thomsen and Egger, in a September 27, 2007 meeting with the Sheridan Building Department, recognized the DRI scope of repairs to be fair and reasonable. However, Adjusters Thomsen and Egger refused to accept the "custom" repair pricing utilized by DRI. Adjusters Thomsen and Egger did not reconcile their pricing issues item by item as required by the State Farm Operations Guide. Instead Adjusters Thomsen broadly asserted that the "custom" pricing was excessive. Adjusters Thomsen and Egger took this position to intentionally delay fair claims resolution. Adjusters Thomsen and Egger took this action with complete indifference to State Farms Operations Guide which clearly addresses this situation.

PAC was unable to respond to the broad and unspecified "fair market" Xactimate pricing concerns raised by Adjuster Thomsen and Egger. DRI made substantial concessions to facilitate a resolution in a detailed Xactimate estimates dated October 30, 2007 and December 12, 2007. Adjusters Thomsen and Egger refused to specify their broad and unspecified "custom" pricelist concerns.

CMCA and DRI were forced to move forward with reconstruction efforts on November 27, 2007 (two months after the scope agreement and a full 7 months after the fire) because Adjuster Thomsen and Eggers unreasonable efforts to delay fair settlement had exhausted all policy coverage limits. The displaced unit owners had endured over 7 months of unnecessary hardship; most without personal insurance coverage for ALE expenses.

PAC in May of 2008 re-priced the last DRI repair estimate dated December 12, 2008 with the "standard" Xactimate pricelist from the first quarter of 2008 (CODE5BA) and determined the DRI estimate was approximately \$2K under priced. PAC does not understand why Adjusters Thomsen and Egger have failed to keep State Farm's clear duty owed to the Insured, especially in light of the clear claims procedures spelled out in the State Farm Operations Guide.

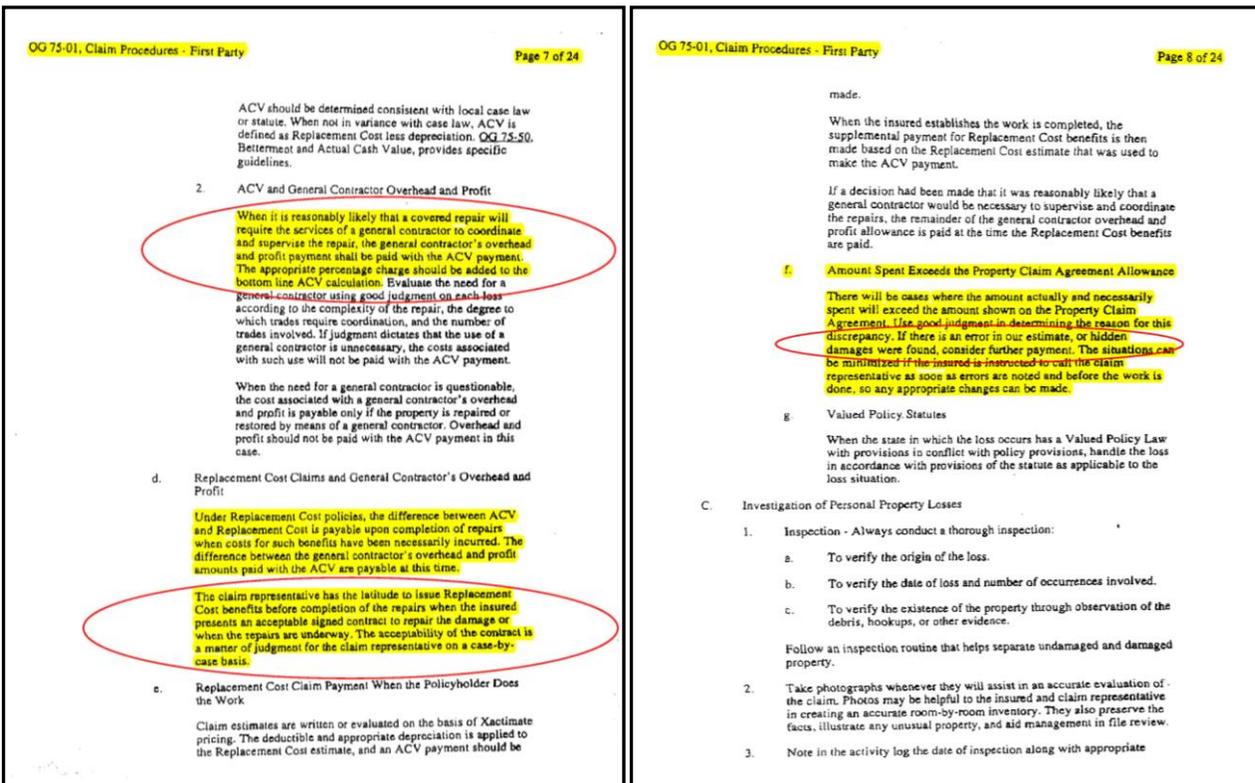


Figure 23: The State Farm Operations Guide clearly addresses the issue of “errors” associated with State Farm’s loss determination. If errors or hidden damages are found, the claim representatives are encouraged to “consider further payment”.

Adjusters Thomsen and Egger failed to properly identify the major asbestos spill hazard. State Farm’s consultant, Foothills Environmental, later confirmed the major spill situation in their September 12, 2007 report.

During the September 27, 2007 meeting with the Sheridan Building Department, Adjusters Thomsen and Egger discovered the DRI repair estimate (full abatement / gut reconstruction) was based on sound fundamentals. Meeting participants were surprised that Large Loss Adjusters Thomsen and Egger had a very low level understanding of technical reconstruction fundamentals and proper application of basic building code requirements. State Farm’s adjusters relied heavily on technical input from Blu Sky representative Mr. Andy Bakker; he affirmed the DRI estimate scope through sensible dialog. Adjusters Thomsen and Egger became cognizant the Blu Sky repair estimates failed to address serious structural, electrical, mechanical, and HVAC repair issues necessary to satisfy basic construction requirements. Adjusters Thomsen and Egger were apprised of significant code compliance issues not adequately addressed in the Blu Sky determination.

One would have expected the State Farm representatives to quickly rectify their obvious errors, but they did not. PAC believes Adjusters Thomsen and Egger simply do not have the necessary technical underpinning to make a proper determination themselves. Adjusters Thomsen and Egger were forced to rely on Mr. Bakker to resolve their problem. Mr. Bakker and his company were placed in a difficult and embarrassing situation. Mr. Bakker spent the whole month of October avoiding arrangements set up so he and DRI project manager, Mr. Dan Meyer, could reach complete estimate agreement. PAC believes it was not Mr. Bakker’s responsibility to address the DRI estimate evaluation, this responsibility belonged to State Farm. Adjusters Thomsen and Egger clearly did not want to accept this responsibility due to their poor technical estimating capabilities. Adjusters Thomsen and Egger later attempted to conceal their estimating deficiencies by creating broad and unspecified complaints concerning DRI’s “custom” Xactimate pricelist. Adjusters Thomsen and Egger certainly should have determined their “undisputed” claim amount based on the DRI estimates provided and issued the appropriate claim payment. However, Adjusters Thomsen and Egger had no intension of issuing a sensible claim payment, as controlling State Farm’s cash flow stemming from large losses is an important management objective. PAC believes reserves for this loss have most likely not been handled in an appropriate manner.

PAC questions how Adjusters Thomsen and Egger could handle so many large loss claims without sound, technical reconstruction, estimating capabilities. Adjuster Thomsen and Egger are supposedly experienced large loss adjusters who, according to the State Farm Operations Guide, should be able to develop their own competent repair estimates. Adjusters Thomsen and Egger can write a cosmetic paint & patch repair estimate, but these individual do not have appropriate capabilities to handle more complicated repair matters. Their role is not about preparing competent repair estimates to indemnify the Insureds; their sole function is to practice what PAC calls the 3 D’s: Deny, Delay, and Diminish. Make no mistake, the number one responsibility of Adjuster Thomsen and Egger is to minimize State Farm’s real loss exposure; writing an accurate, technically proficient repair estimates to indemnify the insured is contrary to their objective. Adjusters Thomsen and Egger specialize in a brand of claims management intended to wear down the resolve of the Insured with the expressed purpose of minimizing settlement. These hardcore adjusters will do or say anything to accomplish their objective, including indiscriminately placing the safety, health, and well being of unsuspecting individuals at risk. There is no doubt Colorado consumers have been systematically short changed through the orchestrated claims settlement practices of these hardcore adjusters.

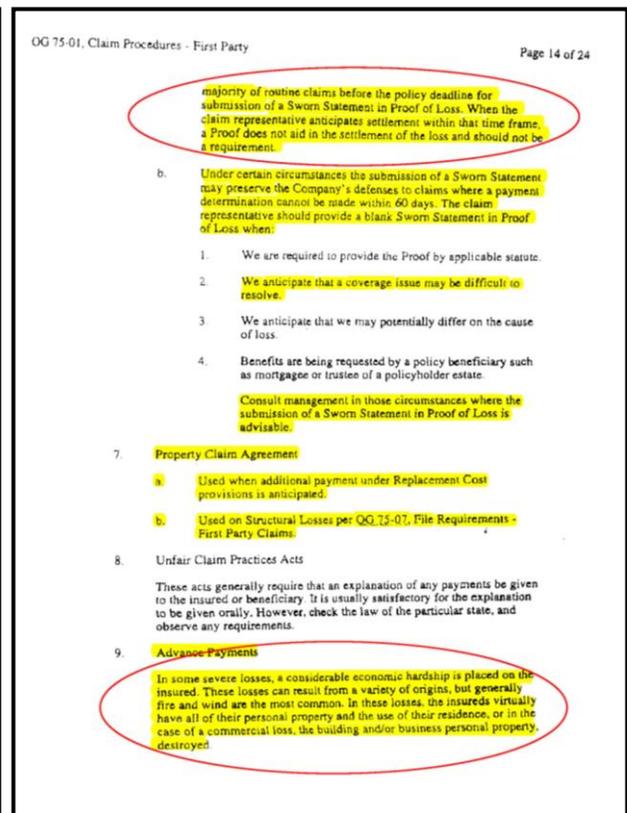
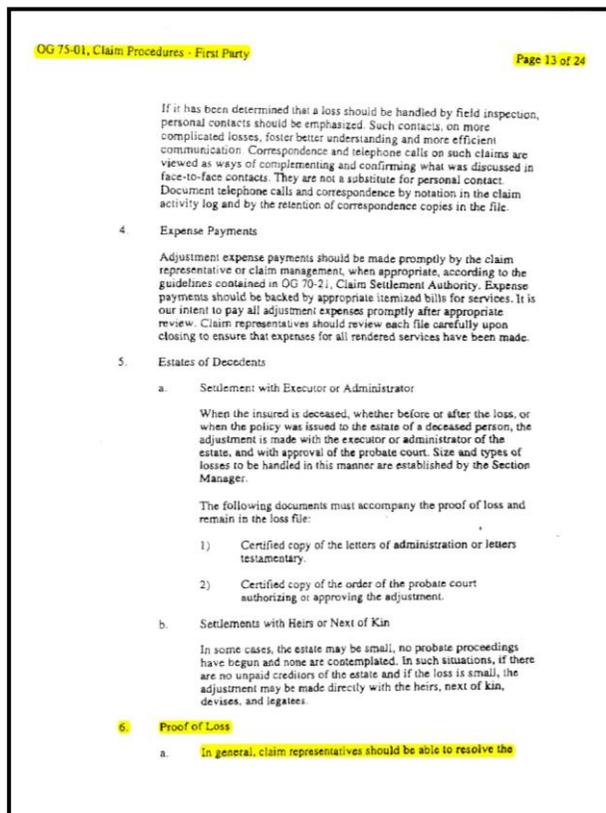


Figure 24: The State Farm Operations Guide empathically covers the issue of “Advance Payments”. The Operations Guide recognizes fire losses can result in “a considerable economic hardship is placed on the Insured.”..... “the insureds virtually have all of their personal property and the use of their residence...destroyed.”

As shown in Figure 25 (page 15 of 24), the State Farm Operations Guide recommends the claim representatives provide relief for the Insureds faced with this situation in the form of timely “Advance Payments”. The Operations Guide states:

“In addition to providing the best possible claim service, authority in a specified amount (as granted by the Team Manager) is extended to provide financial assistance to the insured in the form of an advance payment before the final settlement.”

Clearly State Farm recognized this claim involved a large loss as Large Loss Adjusters Thomsen and Egger were assigned. Adjusters Thomsen and Egger were cognizant the individual unit owners could not inhabit their units by the posted order of the Sheridan Building Department. Adjusters Thomsen and Egger were cognizant the unit owner lost the use of their personal property. Adjusters Thomsen and Egger were cognizant that many of the effected unit owners did not have personal insurance to cover their ALE expenses. PAC made repeated request for swift claims resolution, sensible advance claim payment and/or payment of undisputed claim amounts. State Farm failed to respond to PAC’s requests and remained insensitive to basic needs of the Insureds in duress.

Adjusters Thomsen and Egger in July 18, 2007 correspondence stated in true un-empathetic fashion:

“State Farm will review the “claim presentation” you submitted and will provide a detailed reply to your “claim presentation” within the contractually prescribed 30 days after receiving your completed Sworn Proof of Loss. State Farm will abide by the contract policy conditions concerning all timing aspects. State Farm will not comply with arbitrary deadlines imposed by Public Adjusters of Colorado.”“It is unfortunate if the individual unit owners failed to obtain insurance to pay for their additional living expenses in the result of loss, if they choose to be self-insured for this type of event, it was their decision, not the decision of our policyholder or State Farm Insurance. There is no coverage for the individual unit owners’ additional living expenses as the result of the loss.”

PAC did not ask for ALE coverage for the individual unit owners. PAC requested State Farm representatives expedite the claim settlement process in a period less than 30 days as specified in the contract. Our intension was to accelerate settlement and reconstruction efforts to shorten the hardship faced by the individual unit owners. Adjusters Thomsen and Egger failed to recognize the individual unit owners make up the small Association and pay the Association’s policy premiums. Adjusters Thomsen and Egger failed to provide a reasonable advance payment, timely pay “undisputed” liabilities when reasonably clear or reach sensible agreement in accordance with the policy and regulatory provisions. After 7 months, DRI generously agreed to fund reconstruction efforts on behalf of the Association to bring relief to the distressed unit owners.

Clearly State Farm Team Leader Whitworth had the discretionary authority to provide empathic relief; instead he chose to ignore State Farm’s Operation Guide and clear policy provisions. Team Leader Whitworth chose to institute demands for Sworn Proof of Loss documentation when the Insured had not yet received the Blu Sky damage estimates. Team Leader Whitworth’s decision to invoke a premature Proof of Loss requirement is clearly a departure from the State Farm Operations Guide.

Team Leader Whitworth’s subordinates, Adjusters Thomsen and Egger, when provided a sincere opportunity on September 5, 2007 to correct claim issues and reach swift claims resolution, deceptively strung out the claim settlement process another three months. Adjusters Thomsen and Egger effectively exhausted policy limit coverages through their delay tactics. After 7 months, DRI generously agreed to fund reconstruction efforts on behalf of the Association without a clear claim liability commitment from State Farm.

Adjusters Thomsen and Egger clearly acted in consort with State Farm Management to willfully ignore clear claim settlement practices established by State Farms Claims Operations Guide. PAC believes the collective actions of State Farm representatives involved in this claim constitute willful violations of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices. PAC calls for State Farm’s outrageous claims conduct to be thoroughly investigated by all appropriate Colorado Regulatory authorities.

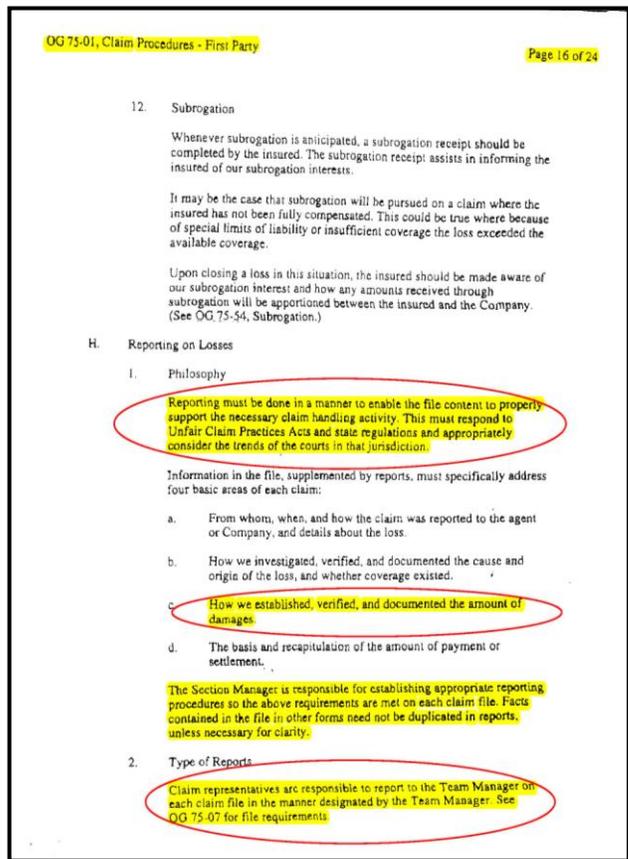
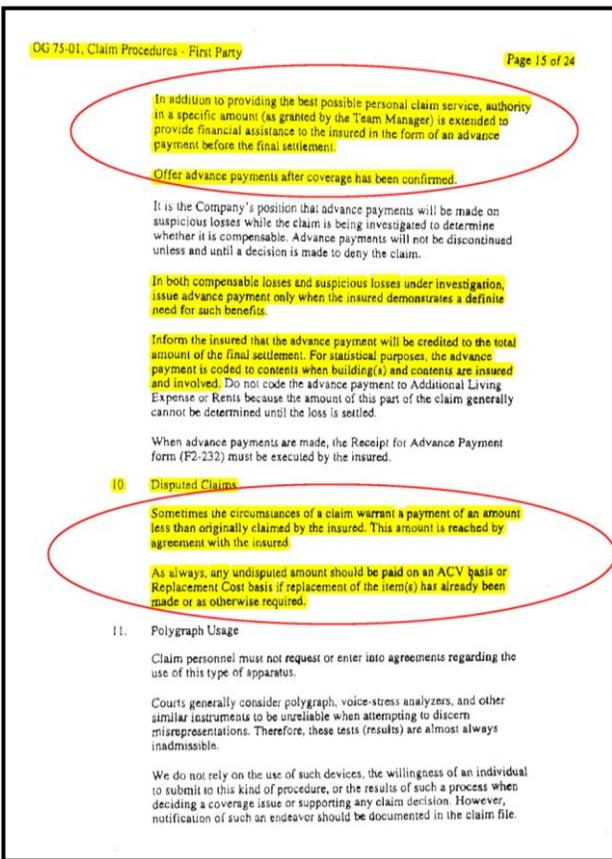


Figure 25: PAC calls attention to the State Farm Operation Guide expressed provision "As always, any undisputed amount should be paid on an ACV basis". Team Leader specifically ignored this provision. The repair work has been substantially completed; significant claim damages remain unpaid without adherence to this clear provision.

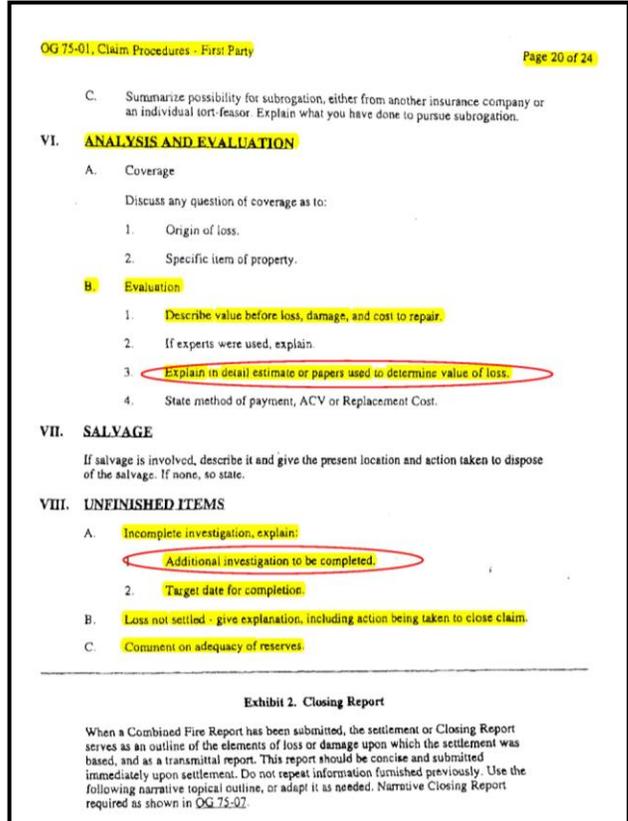
PAC also calls attention to the State Farm Operations Guide "Philosophy" concerning "Reporting on Losses":

"Reporting must be done in a manner to enable the file content to properly support the necessary claim handling activity. This must respond to Unfair Claim Practices Acts and state regulations and appropriately consider the trends of the courts in that jurisdiction."

PAC suggests such file documentation for this claim must start with "once upon a time". We believe Adjusters Thomsen and Egger would have to excel in creative writing to justify their claim settlement actions on behalf of State Farm.

PAC has serious concerns with the suggestion State Farm's claim handling activity would routinely require claims representatives to "appropriately consider the trends of the courts in that jurisdiction". We trust that the Colorado Division of Insurance will share our concern.

PAC wishes to apologize for the lengthy section concerning the State Farm First Party Claims Procedures, but we felt this analysis to be very insightful given the claim settlement transgressions involved in this case. Representatives of State Farm simply would not engage in such claim settlement practices in the State of Colorado unless they thought they could get away with it. PAC notes the claim settlement conduct involved is not an isolated case, but a serious pattern of practice routinely employed in many State Farm large losses. PAC is willing to meet with the DOI to substantiate our claims.



Special Note: State Farm is not the only major insurance carrier engaged in serious inappropriate claim practices. Simply review the published 2006 Loss Ratio data for the State of Colorado; we see a disturbing trend. We believe inappropriate claim practices should be thoroughly investigated and discouraged by proper regulatory authorities. Recently signed legislation (HB08-1407) is sorely needed to protect Colorado consumers. Sensible regulatory enforcement is an essential role in the delicate balance required to properly protect Colorado consumers. PAC supports sensible regulatory enforcement and remains an objective, fair minded, consumer advocate. The conduct we report needs regulatory attention.

- By August 12, 2007, State Farm representatives failed to properly investigate and respond to the Insured's complete claims within the 30 day policy and regulatory periods. The Insured had complied with State Farm's demand for complete claims submission under Sworn Statement in Proof of Loss. Team Leader Whitworth's August 9, 2007 correspondence clearly indicated State Farm representatives had little or no interest in sensibly resolving the Association's valid claims.
- On August 16, 2007, DRI and the CMCA initiated efforts to develop a proper AIA (American Institute of Architects) contract to facilitate sensible repair efforts at considerable expense to both parties. DRI owner, Mr. Michael Griggs, was willing to accept the business risk to fund the "fair market" repairs as the Association's "contractor of choice". The fair and balanced AIA contract was viewed as a sensible means to protect the mutual rights of the two parties.

Mr. Griggs has reportedly had (and continues to have) substantial experience with State Farm representatives deliberately attempting to undermine his restoration business efforts. State Farm representatives have reportedly utilized unfair PSP tactics and financial leverage to tortuously interfere with DRI client contracts. Mr. Griggs was sympathetic to the plight of the association. Mr. Griggs decided to take on the added CMCA financial repair risk through the AIA document for several reasons: 1) CMCA unit owners were in desperate need of relief; 2) DRI could not allow State Farm to undermine their legitimate business initiatives; 3) Newly enacted Colorado legislation (HB07-1104) was put into place to deter and remedy unfair insurance company restoration practices. DRI simply could not stand by and allow State Farm representatives to financially exhaust the Association in what was viewed as a deliberate attempt to undermine legitimate business efforts.

(Please note Adjusters Thomsen and Egger have utilized a broad range of misrepresentations, financial leverage, and unfair claim settlement practices to deliberately interfere with legitimate PAC client contracts; we share DRI's concern about State Farm's unfair market practices and the detrimental consumer consequences such practices foster.)

The AIA contract was structured in an effort to protect the rights and interests of both CMCA and DRI. This unique document was developed by DRI's attorney, Mr. Dale Coplan and the Association's attorney, Ms. Jeanne Toro. Both attorneys have considerable experience with insurance matters, construction law, and asbestos abatement regulations. The contract specifically recognizes the Association's right to select of a "contractor of choice" to complete damage repairs at a "fair market price" in view of protections afforded by HB07-1104. DRI holds the Association harmless for the completed repair payments, but receives full assignment of any unpaid policy benefits up to the full amount of the repairs. If State Farm fails to pay the proper claim payments, DRI has the ability to seek reasonable judgments for the unpaid, assigned policy repair amounts, including the pursuit of bad faith remedies available through Colorado AAA (American Arbitration Association) proceedings. The Association agrees to support all AAA efforts in the event State Farm fails to make appropriate claim payments. The contract also embodies Colorado construction defect remedies as an added protection for the Association's benefit.

This AIA document was intended to get State Farm to step-up and dutifully handle the Insured's valid claims. The AIA document serves as a secondary means of protection designed to provide an alternative remedy should State Farm fail to responsibly settle valid claims and the Colorado Division of Insurance fail to support complaints relating to the protections established by HB07-1104.

(Note: PAC believes the AIA document to be sensibly constructed; this document is superior to all open ended TBD (To Be Determine) restoration contracts routinely being forced upon unsuspecting Insured's by "preferred" insurance company contractors. The typical TBD contracts being systematically used by "preferred" restoration contractors do not protect the rights and interest of the Insured consumers.

The AIA contract involved in this claim was well intentioned, but has not achieved the desired results intend to date. On September 6, 2007, State Farm representatives showed up in force (Claim Management, SIU, Large Loss Adjusters, Preferred Contractors and Consultants) at the loss site demanding that work be immediately stopped to facilitate a late inspection process. State Farm then requested additional time to work out a sensible claim resolution. State Farm became fully cognizant the DRI damage repair estimates were based on a sensible scope of work. However, State Farm representatives refused to make claim settlement due to broad and unspecific excessive pricing complaints (DRI "custom" Xactimate pricing issue previously discussed).

State Farm no doubt had their legal counsel securitize this document. Since the AIA document was presented, PAC asserts State Farm has systematically delayed claim resolution to intentionally exhaust the Insured's coverage benefits. State Farm redacted clear additional coverage afforded under endorsement FE-6587 as previously discussed. Repair efforts are concluded and State Farm has failed to make substantial claim payments, undisputed or otherwise. PAC has clearly documented the damage repair amounts to no avail. PAC questions why any Insured should have to go to such extents to get valid covered claims fairly settled. PAC believes the collective actions of State Farm representatives involved in this claim constitute willful violations of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices. PAC calls for State Farm's outrageous claims conduct to be thoroughly investigated by all appropriate Colorado Regulatory authorities.)

08/17/2007 14:54 3837956377 TOBEY & TORO, P.C. PAGE 02/10

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GARY H. TOBEY
JEANNE M. TORO

C-0449-01

August 17, 2007

BY TELEFAX ONLY

Dale J. Coplan, Esq.
Burg Simpson Eldredge Hersh & Hardine, P.C.
40 Inverness Dr. E
Englewood, CO 80112-5402

Re: **Colonial Manor Condominiums Association, Inc./Disaster Restoration, Inc. contract**

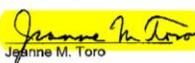
Dear Dale:

Thank you for preparing a fair and equitable agreement. I certainly appreciate your willingness to do so. I am enclosing the pages of the contract you prepared on which I have made proposed changes. Please let me know if the proposed changes are acceptable. If so, please incorporate them into the written contract. If you have any question as to the reason for the changes, I will be happy to discuss them with you.

As we discussed regarding Section 18.3.1, my client would like to have DRI obtain the builder's risk policy and add the amount of the premium to the contract price. We also discussed whether adding your client as an additional Insured on the Association's insurance policy would resolve the matter. I suggest we talk about this further early next week. My client is willing to do what is necessary to make sure both sides are protected.

I look forward to talking to you next week.

Very truly yours,
TOBEY & TORO, P.C.

By: 
Jeanne M. Toro

JMT:kmd
Enclosure
cc: Colonial Manor Condominiums Association, Inc.

Figure 26: Copy of correspondence dated August 17, 2007 from CMCA Attorney Toro to DRI Attorney Coplan suggesting transmitted changes to the draft AIA repair contract.

The AIA contract specifically recognizes the Association's right to select of a "contractor of choice" to complete damage repairs at a "fair market price".

This AIA document was intended to get State Farm to step-up and dutifully handle the Insured's valid claims. The AIA document serves as a secondary means of protection designed to provide an alternative remedy should State Farm fail to responsibly settle valid claims and the Colorado Division of Insurance fail to support complaints relating to the protections established by HB07-1104.

PAC questions why any Insured or legitimate restoration contractor should have to resort to such extreme measures to get valid covered claims fairly settled.

- On August 24, 2007, CMCA president Nolan and DRI owner Griggs signed the mutually agreed AIA contract at Attorney Toro's office.

AIA Document A107™ - 1997

Abbreviated Standard Form of Agreement Between Owner and Contractor for Construction Projects of Limited Scope
where the basis of payment is a STIPULATED SUM

AGREEMENT made as of the 17th day of August in the year 2007
(By word, indicate day, month and year)

BETWEEN the Owner:
(Name, address and other information)
Colonial Manor Condominiums Association, Inc.
Attn: Robert Nolan, President
4104 South Inver Drive, Unit 1
Sterling, CO 80110
(The Owner does not own the Project, but, pursuant to the Condominium Declaration for The Colonial Manor Condominiums, the Owner is obligated to repair the Project on behalf of the actual owners of the condominiums.)

and the Contractor:
(Name, address and other information)
Disaster Restoration, Inc.
4275 Forest Street, Denver, CO 80216

The Project is:
(Name and location)
Colonial Manor Condominiums and Recreation

The Architect is:
(Name, address and other information)

Not applicable. There is no Architect. References to the Architect shall be deemed a reference to Owner. However, in such contract, the Owner is not to be interpreted to have final decision-making power on disputes and all such Owner rights and obligations shall be qualified by a reasonableness standard exercised in good faith.

The Owner and Contractor agree as follows.

ARTICLE 1 THE WORK OF THIS CONTRACT
The Contractor shall fully execute the Work described in the Contract Documents, except to the extent specifically indicated in the Contract Documents to be the responsibility of others.

ARTICLE 1.1 DATE OF COMMENCEMENT AND SUBSTANTIAL COMPLETION
The date of commencement of the Work shall be the date of this Agreement unless a different date is stated below or provision is made for the date to be fixed in a notice to proceed issued by the Owner.
(Insert the date of commencement, if it differs from the date of this Agreement or, if applicable, state that the date will be fixed in a notice to proceed.)

1.2 The Contract Time shall be measured from the date of commencement.

1.3 The Contractor shall achieve Substantial Completion of the entire Work not later than N/A days from the date of commencement, or as follows:
(Insert number of calendar days. Alternatively, a calendar date may be used when coordinated with the date of commencement. Unless stated elsewhere in the Contract Documents, insert any requirements for earlier Substantial Completion of certain portions of the Work.)

Substantial completion shall be deemed to have occurred when a Certificate of Occupancy for the Project has been issued or the property can be accepted by a Owner otherwise earlier determined. Substantial Completion has been achieved. There shall be no specified completion date. Contractor shall be required to continuously prosecute the work on the Project in an efficient manner, calculated to complete the Project as expeditiously as possible, considering all surrounding factors including, but not limited to, weather, scheduling of trades, trade cooperation and manpower constraints. It is understood and agreed that the Contract Sum is based upon regular time labor rates. Contractor shall not be required to provide labor on an overtime basis.

subject to adjustments of this Contract Time as provided in the Contract Documents.
(Insert provisions, if any, for liquidated damages relating to failure to complete on time or for bonus payments for early completion of the Work.)

N/A

ARTICLE 3 CONTRACT SUM
3.1 The Owner shall pay the Contractor the Contract Sum in current funds, as set forth in Section 3.1.1 only, for the Contractor's performance of the Work. The Contract Sum shall be Six Hundred and Thirty-Nine Thousand, Nine Hundred and Ninety-Four Dollars and Forty-Eight Cents (\$639,994.48), subject to additions and deductions as provided in the Contract Documents.

3.1.1 Insurance Company Special Directions to Pay. Upon execution of this Agreement, Contractor will deliver the Agreement to Owner's Insurance Carrier who is hereby irrevocably directed to issue the credited Agreement, under a(n), as an authorization and direction to pay Contractor directly, for the Scope of Work performed and/or to be performed, but only to the extent that the insurance policy proceeds are on account of that Scope of Work performed pursuant to this Agreement. Owner has no obligation to pay Contractor hereunder except by means of Owner's insurance policy proceeds.

3.2 The Contract Sum is based upon the following alternates, if any, which are described in the Contract Documents and are hereby accepted by the Owner:
(State the numbers or other identification of accepted alternates. If decisions on other alternates are to be made by the Owner subsequent to the execution of this Agreement, attach a schedule of such other alternates showing the amount for each and the date when that amount expires.)

N/A

3.3 Unit prices, if any, are as follows:

N/A

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4 otherwise in equity of substantial breach of a provision of the Contract Documents.

18.22 When any of the above reasons exists, the Owner, without prejudice to any other remedy the Owner may have and after giving the Contractor seven days' written notice, terminate the Contract and take possession of the site and of all materials, equipment, tools, and construction equipment and machinery then owned by the Contractor and may finish the Work by whatever reasonable method the Owner may deem expedient. Upon request of the Contractor, the Owner shall furnish to the Contractor a detailed accounting of the costs incurred by the Owner in finishing the Work.

18.23 When the Owner terminates the Contract for one of the reasons stated in Section 18.2.1, the Contractor shall not be entitled to receive further payment until the Work is finished.

18.24 If the unpaid balance of the Contract Sum exceeds costs of finishing the Work, and other damages incurred by the Owner and not expressly waived, such excess shall be paid to the Contractor. If such costs and damages exceed the unpaid balance, the Contractor shall pay the difference to the Owner. The amount to be paid to the Contractor or Owner, as the case may be, shall survive termination of the Contract.

ARTICLE 20 OTHER CONDITIONS OR PROVISIONS

20.1 Owner hereby certifies that it is a Repair Business, in accordance with Colo. Rev. Stat. § 10-14-120, to accomplish the Scope of Work, as set forth herein.

20.2 Owner represents and warrants that it has reviewed the Scope of Work and the Contract Sum therefor and has concluded that the Contract Sum is based upon a prevailing competitive price reflecting generally accepted industry-based methodology (Estimate) and that the same represents a fair and reasonable market value price for similar services.

20.3 In the event that Mediation does not result in a resolution of the dispute, in addition to the other provisions of Article 19, Owner hereby assigns to Contractor any and all right Owner has under its policy of insurance with the Insurance Carrier providing coverage for the Scope of Work against the Contractor. Owner agrees to cooperate with Contractor to the fullest extent possible in pursuing Owner's claims against its Insurance Carrier and in furtherance of recovering all sums that may be due hereunder for the Scope of Work repairs. In such event of actual assignment of these rights, Contractor agrees not to execute upon any judgment it may obtain against Owner's Insurance Carrier and look only to Owner's Insurance Policy and coverage for payment.

20.4 In the event that the Contractor is not the designated contractor for the Project, the Contractor shall be deemed to be a subcontractor and shall be bound by the terms and conditions of the subcontract. The Contractor shall be deemed to be a subcontractor and shall be bound by the terms and conditions of the subcontract. The Contractor shall be deemed to be a subcontractor and shall be bound by the terms and conditions of the subcontract.

20.5 Contractor agrees that all work shall be performed in accordance with HUD standards, local Building Codes and regulations.

This Agreement entered into as of the day and year first written above:
COLONIAL MANOR CONDOMINIUMS ASSOCIATION, INC. DISASTER RESTORATION, INC.

By:  Robert Nolan, President
 Disaster Restoration, Inc. President

(None deleted)

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Figure 27: Excerpts from the CMCA / DRI AIA contract mutually agreed and signed on August 24, 2007. The contract specifically recognizes the Association's right to select of a "contractor of choice" to complete damage repairs at a "fair market price in accordance with Colorado Revised Statute § 10-4-120. Please note the stipulated Contract Sum shown on page 2 was \$639,994.48. This sum was based on incurred containment costs, and anticipated abatement & repair costs with work commencing on September 4, 2007. The documents supporting the Contract Sum were based on Xactimate determinations to the fullest extent practical and thoroughly reviewed by PAC to affirm "fair market" suitability.

- On August 27, 2007, PAC prepared detailed correspondence directed to State Farm. This correspondence included the AIA repair contract and 4 detailed invoices with supporting estimates from Disaster Restoration, Inc. (DRI) which clearly defined board up, asbestos containment set up, and containment maintenance charges invoiced through September 4, 2007 (\$82,133.49).

Please find attached the incurred invoices from DRI for board up, containment, and containment maintenance to date. These invoices are as follows:

o Board up Services	\$ 1,153.13
o Containment Set up & Maintenance 5/27 to 6/30	\$ 34,075.06
o Containment Maintenance 7/1 to 7/31	\$ 22,370.22
o Containment Maintenance 8/1 to 9/3 (Performa)	\$ 24,535.08

Total Incurred Invoices (Anticipated through 9/3)	\$ 82,133.49
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Figure 26: Excerpt from August 27, 2007 PAC correspondence to State Farm.

The incurred charges presented were believed to be fair and reasonable. Adjuster Egger orally discussed, and was fully aware, Xactimate allows of \$120.00 per day per negative air machine (NAM); DRI has charged \$168.75 per day for 3 NAMs (A daily project cost saving to State Farm of \$151.25 plus O&P.). PAC researched the other daily containment rate charges shown in Figure 27 and determined these charges to be at or below prevailing fair market rates.

(Note: State Farm has not officially challenged any specific aspect of these incurred charges in writing. Adjusters Thomsen and Egger continue to make broad and unpecific statements suggesting these charges are excessive as a means to avoid payment. Certainly State Farm could have paid the undisputed portion, but has chosen not to do so. These charges have been fully paid by the Insured. The \$82,133.49 was paid via the \$102,548.36 undisputed building reconstruction claim payment made by State Farm on September 27, 2007. This claim payment was a condition to hold the September 27, 2007 meeting with the Sheridan Building Department and did not consider the incurred asbestos containment & maintenance costs. Prior to September 27, 2007 State Farm had not made any claim payment despite clear and obvious large loss liability.)

Figure 28: (Lower Right) Excerpt from PAC correspondence sent to State Farm addressing the AIA contract agreement between CMCA and DRI to complete repairs as the Associations "contractor of choice" at a "fair market" value.

The 124 page fax was sent to State Farm's fax claim link on August 28, 2007, August 31, 2007 and September 4, 2007. The excerpt shown expresses the desperate plight of the displaced Association members and fully details the incurred and anticipated repair costs.

To date, State Farm has not recognized or issued appropriate claim payment for the \$82,133.49 of incurred containment costs (Through September 4, 2007) as shown in Figure 26. State Farm's delays after this point in time added another \$79,494.64 in avoidable containment charges before work commenced on November 28, 2007 without a reasonable State Farm commitment.

	Disaster Restoration, Inc. 4275 Forest Street Denver, CO 80216 303.637.1400 - 24 Hours 303.637.9310 - FAX Tax ID# - 84-1105219			
236905MAINTENANCE				
Room: MAINTENANCE				
				
DESCRIPTION	QNTY	REMOVE	REPLACE	TOTAL
Asbestos daily maintenance - 5/27/07 - 9/4/07	100.00 DA	0.00	601.35	60,135.00
<i>Future maintenance will be billed as incurred at the daily rate of \$601.35</i>				
<i>Daily costs include the following:</i>				
<i>Neg Air machines - 3 @ \$168.75 ea</i>				
<i>Safety Shower 1 @ \$110.00</i>				
<i>PPE 1 @ \$31.18</i>				
<i>Small HEPA filters 3 @ \$11.85</i>				
<i>Manometer 1 @ \$35.00</i>				
<i>Misc Consumables 1 @ \$15.00 (Tape, poly, fasteners, Periodic Lg HEPA Filters, Spray Adhesive, Disposal bags)</i>				
<i>Time 3hr @ \$177.78</i>				
<i>Mileage \$3.06 per mile x 40mi = \$37.20</i>				
<i>Pollution Ins. CGL 1 @ \$25.00</i>				
Total = \$601.35				
Room Totals: MAINTENANCE				60,135.00
Line Item Totals: 236905MAINTENANCE				60,135.00
 Grand Total Areas:				
0.00 SF Walls	0.00 SF Ceiling	0.00 SF Walls and Ceiling		
0.00 SF Floor	0.00 SY Flooring	0.00 LF Floor Perimeter		
0.00 SF Long Wall	0.00 SF Short Wall	0.00 LF Ceil. Perimeter		
0.00 Floor Area	0.00 Total Area	0.00 Interior Wall Area		
0.00 Exterior Wall Area	0.00 Exterior Perimeter of Walls			
0.00 Surface Area	0.00 Number of Squares	0.00 Total Perimeter Length		
0.00 Total Ridge Length	0.00 Total Hip Length			
236905MAINTENANCE			08/24/2007 Page: 3	

Figure 27: (Above) DRI containment maintenance breakdown from May 27, 2007 through September 4, 2007 excluding GC overhead & Profit. Paid by Insured and never officially contested by Sate Farm.

a first party contract between the Insured and their selected contractor. State Farm has no business engaging in such inappropriate actions. I simply call your attention to this matter as Mr. Thomsen and Mr. Egger have not handled this matter properly in past and other current claim matters.

As you can see, the asbestos spill containment monitoring charges are quickly eroding the prevailing policy coverage. Your Insured's are rightfully concerned that the total damages may extend beyond all coverage limits. Your Insured's, the association as a whole, are also rightfully concerned about their primary living situation. These real and expressed concerns have not compelled State Farm claim representatives, Mr. Thomsen and Mr. Egger to settle their Insured's real claims in any manner consistent with their duty of good faith and fair dealing. Your Insured has elected to hire DRI as its contractor of choice and complete the damage repairs necessary to restore the property to an inhabitable condition. Please find a copy of the AIA construction agreement between DRI and the Colonial Manor Condominium Association. Your Insured is going to move forward with the necessary repairs without further delay. Public Adjusters of Colorado, LLC believes the Insured's are fully justified to move forward with the reasonable and necessary repairs; they should not be held hostage by State Farm's non-responsive claims personnel. The Insured's attorney has fully reviewed the AIA contract with DRI and given appropriate legal advice. Please let this correspondence serve as notice that repairs to the damaged property will proceed immediately.

The information attached to this correspondence sets forth the original damage determination, all incurred charges to date and the added cost of builder's risk insurance coverage. These costs are supported by the attached documentation and summarized as follows:

o Base Damage Repair Estimate (Previously Presented)	\$ 565,651.96
o Repair Estimate: Includes Board Up, Containment Set Up, Physical Abatement & Appliance Replacements	
o Containment Maintenance 5/27 to 6/30	\$ 25,256.70
o Containment Maintenance 7/1 to 7/31	\$ 22,370.22
o Containment Maintenance 8/1 to 9/3 (Performa)	\$ 24,535.08
o Builder's Risk Property Coverage	\$ 2,180.52

Total Projected Damage Repair Costs	\$ 639,994.48
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As indicated in the claim presentation supplied to State Farm on July 13, 2007, additional charges such as containment maintenance would accrue. These charges are now fully documented through September 3, 2007. The builder's risk coverage was added at the insistence of the Insured's attorney and is viewed as a sensible reconstruction cost. Please consider this document, including all attachments, to fully amend the Insured's "Proof of Loss" supplied with the Insured's claim presentation to State Farm on July 13, 2007. This correspondence and all associated documentation should be considered part of said "Proof of Loss". State Farm was fully advised of the nature of the additional costs being amended. The only issue that preventing submission of the added costs (principally containment maintenance charges) in the July 13, 2007 claim presentation was simply no

(Note: PAC faxed the 124 page August 27, 2007 correspondence to State Farm three times: August 28, 2007, August 31, 2007 and September 4, 2007. All three times the entire fax document properly scanned through in its entirety. However, the transmission confirmation reports for the first two fax events showed a confirmation status of NG (No Go). PAC personnel thought we were having fax machine problems. The third fax event went through when another phone line was used. PAC secured a valid 124 page confirmation report from the September 4, 2007 fax transmission at 7:38 AM. PAC has since discovered that State Farm has placed "blocking" provisions on PAC's fax number. We believe State Farm received all three fax transmissions, but their electronic fax system failed to acknowledge receipt to the PAC blocked fax number. This situation has been confirmed on several claim files. PAC simply uses alternative phone lines (Numbers not programmed to be blocked) as a means to deliver client documentation to State Farm.

PAC calls attention to this issue only to point out the means and methods State Farm representatives will employ to avoid appropriate claim settlement. State Farm does not allow outside emails because this mode of correspondence creates a well established documentation trail which is not in State Farm's claim handling interest. State Farm is the only major carrier who prohibits claim correspondence sent through email. State Farm does routinely correspond with PSP contractors through XactNet and possibly direct email. State Farm's procedures are set up to place the Insured claimant at a distinct disadvantage. PAC calls for appropriate Colorado regulatory authorities to thoroughly investigate State Farm's aggressive and unfair claim handling practice.)

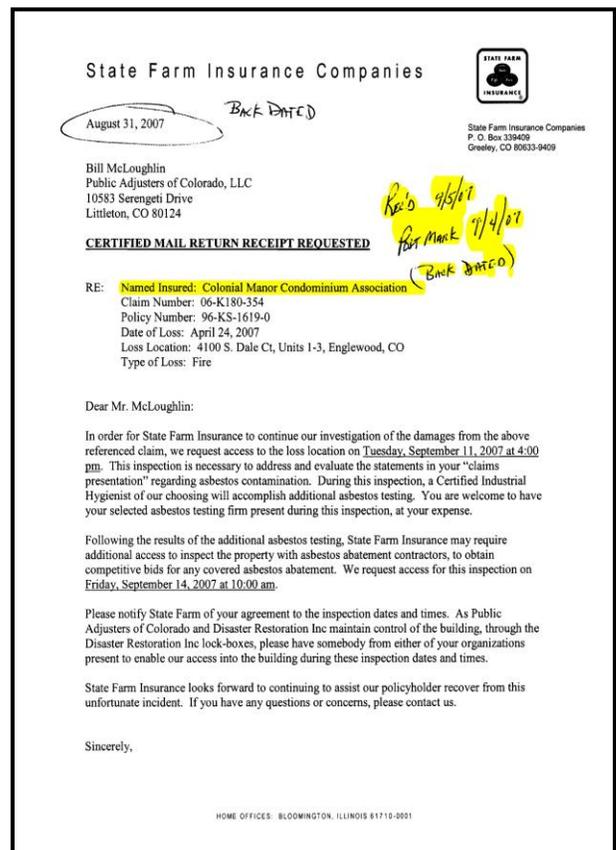
- On September 5, 2007 at 2:30PM, PAC received State Farm correspondence dated August 31, 2007 from Adjusters Thomsen and Egger. PAC notes the certified correspondence was post marked September 4, 2007. The back dated correspondence suggested State Farm was intending to actively investigate the asbestos spill damages. The State Farm correspondence fully ignored the existence of the PAC August 27, 2007 correspondence (Faxed three times: August 28, 2007, August 31, 2007 and 7:38 AM September 4, 2007) indicating work would commence on September 4, 2007. PAC asserts the State Farm correspondence was deliberately back dated in an effort to cover up State Farm's failure to timely respond to the Association's claims. The correspondence attempted to lay the foundation to establish the "major asbestos spill" as a second occurrence unrelated to the fire. Such an occurrence would not be a covered damage claim.

Figure 29: The backed dated correspondence was sent by State Farm on September 4, 2007. This correspondence was received by PAC on September 5, 2007.

PAC believes Adjusters Thomsen and Egger sent this correspondence to somehow justify their failure to timely respond to the Association's claims. Adjusters Thomsen and Egger were trying to establish a false occurrence basis concerning the major asbestos spill damages at the loss site. PAC believes Adjusters Thomsen and Egger were hoping to deny coverage for the asbestos damage repairs in an effort to stymie the Association's reconstruction efforts.

State Farm representatives were not yet aware of the Sheridan Fire Investigation photos that fully refuted their allegations that DRI or PAC was somehow responsible for the "major asbestos spill" situation occurring after the fire loss.

As previously discussed, Adjusters Thomsen and Egger have one clear objective: minimize State Farm's loss expose. These adjusters will do or say anything to accomplish their clear objective, including back dating of correspondence to build a false coverage position.



- On September 5, 2007 at 5PM, PAC forwarded correspondence to State Farm Team Leader Whitworth concerning the "back dated" August 31, 2007 correspondence received earlier that day. The three page correspondence is presented in its entirety (without attachments) as this document captures the gravity of the claim situation at that time. Team Leader Whitworth was fully apprised of all claim settlement concerns; PAC calls for State Farm Team Leader Whitworth, as a management figure, to intercede to remedy the serious claims handling errors. Team Leader Whitworth chose not to reply.

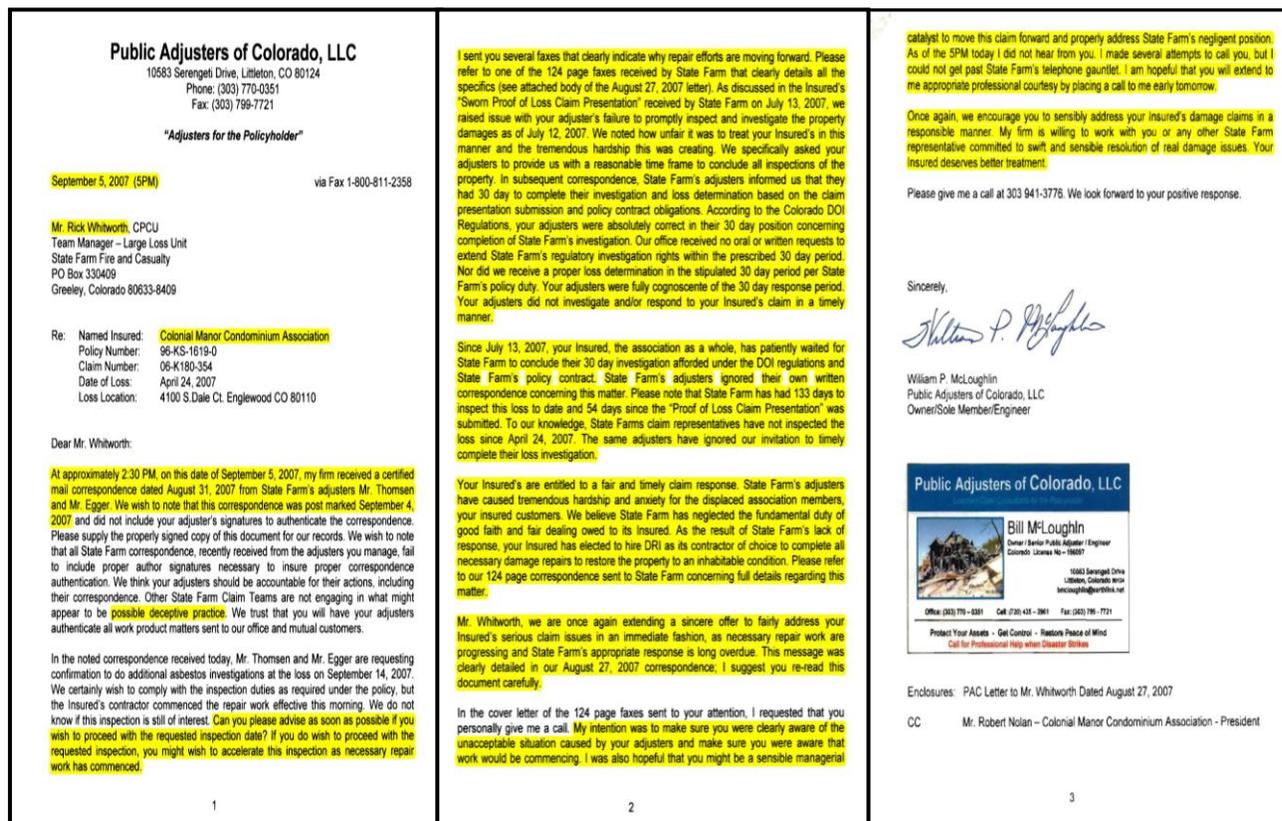


Figure 30: PAC correspondence dated September 5, 2007 as sent to State Farm Team Leader Whitworth. PAC summarizes State Farm's inappropriate claim practices; PAC requests Team Leader Whitworth act as a "sensible managerial catalyst to move this claim forward and properly address State Farm's negligent position". Team Leader ignored PAC's calls for him to get directly involved in efforts to sensibly resolve serious issues. We again point out that Adjusters Thomsen and Egger could not carry out their clear objective to minimize State Farm's loss exposure without the full support and of State Farm Claims Management representatives.

- During the morning of September 6, 2007, Adjuster Thomsen left several frantic voice mails demanding that abatement work be stopped immediately. PAC has saved these voice mails as audio file records. PAC made reasonable efforts to halt job progress and notify the appropriate parties of State Farm's demand to investigate the loss.
- At approximately 2 PM on September 6, 2007, PAC representatives met with a large contingent of State Farm representatives at the loss site. Notable State Farm attendees: Team Leader Whitworth, Adjusters Thomsen, Adjuster Egger, State Farm SIU representatives (refused to identify themselves), Mr. Andre Gonzalez owner of Foothills Environmental, and a representative from Diamond Hills (State Farm PSP abatement contractor). Other notable attendees included: Mr. Jeff Adams of CDPHE and Mr. Ted Blanchard head of the Sheridan Building Department. During the hastily arranged meeting, the following key issues were discussed:
 1. Photographic data taken by the Sheridan Fire Investigator on April 24, 2007 (Immediately after the fire) clearly showed damages to asbestos containing materials occurred as the result of the fire. This documentation refuted inappropriate allegations made by Adjusters Thomsen and Egger in their July 18, 2007 correspondence as to the cause of the "major asbestos spill" situation. This documentation fully supported the "major spill" determination made by Koch Environmental Health based on their May 18, 2007 inspection and evaluation of the loss site.
 2. Team Leader Whitworth claimed Foothills Environmental was fully authorization to conduct a comprehensive asbestos evaluation. Team Leader Whitworth suggested any liability associated with exposing unsuspecting owners and workers to the asbestos hazard was solely the responsibility of Foothills Environmental and not State Farm.

(Note: PAC has thoroughly documented other State Farm losses where selective asbestos testing and potential violations of Regulation 8B have taken place. One such loss involves Adjusters Thomsen and Egger using Foothills Environmental to selectively asbestos test and issue a false report in a similar manner. Adjusters Thomsen and

Egger placed the health, safety, and well-being of the insured family at risk to minimize State Farm's loss exposure. PAC is attaching detailed documentation concerning the asbestos handling involved in this other claim to support our allegation that State Farm is engaging in a serious pattern of deceptive claims handling practices. CDPHE official, Mr. Tom Bain, has agreed to meet jointly with the Colorado DOI representatives to discuss this serious matter of public concern. PAC calls for State Farm's outrageous claims conduct to be thoroughly investigated by all appropriate Colorado Regulatory authorities.)

3. Mr. Gonzalez openly stated he selectively asbestos tested the loss on April 25, 2007 and again on April 30, 2007 at the direction of State Farm's Large Loss Adjuster Thomsen.
4. State Farm's representatives could not investigate the loss on September 4, 2007 since the abatement preparation activities had disturbed friable asbestos. DRI's abatement subcontractor, Custom Environmental, could not certify the PEL and MAAL until the next day. This issue was concurred with by Mr. Adams and Mr. Gonzalez.
5. State Farm was extended unfettered access to investigate the loss as soon as it was deemed safe to do so. PAC offered to work with State Farm representatives to reach a swift and acceptable resolution of the damage claim issues. (Note: This offer was orally accepted by Adjuster Egger in a phone conversation early the next morning.)
6. Mr. Ted Blanchard offered to meet with the parties to review Sheridan Building Department reconstruction requirements as soon as State Farm's investigation efforts were complete.
7. At State Farm's request, DRI and their abatement subcontractor, Custom Environmental, were asked to suspend further work pending additional investigation and clarification by State Farm. These parties wanted to resume work due to project schedules, man power allocations, and other work commitments. They reluctantly agreed to stop work pending clarification of State Farm's position in writing.

(Note: The displaced unit owners were unhappy about the new efforts to delay work since they had already endured substantial hardship (Two unit owners did not have ALE coverage.). State Farm had missed the appropriate 30 day regulatory and policy response periods to investigate the Insured's Sworn Proof of Loss claims. State Farm had unfettered access to the damaged property since the date of loss (136 days). Efforts to grant additional access were believed to be a sincere act of cooperation intended to facilitate swift resolution of the claims. State Farm chose to ignore this opportunity and instead strung out fair reasonable claim resolution. After nearly three months, DRI was compelled to start abatement actions on November 28, 2008 without a clear claim commitment from State Farm. PAC asserts State Farm's claim settlement actions between September 6, 2007 and November 27, 2007 were orchestrated in a deceptive manner so as to provide a false sense that efforts were being made to facilitate resolution without any intention to do so.)

- On September 7, 2007 at 8AM, PAC received a phone call from Adjuster Egger requesting that Mr. Gonzalez be allowed to re-inspect the loss. Immediate arrangements were made to facilitate and meet Mr. Gonzalez at the loss that day (11AM September 7, 2007). Mr. Gonzalez and his associate took a large number of samples throughout the three units. PAC representatives witnessed the Foothills sample collection efforts.
- On September 7, 2007 at 5PM, PAC received a call from Mr. Gonzalez requesting access to the loss site to complete additional asbestos sampling. Immediate arrangements were made to facilitate his additional sampling effort for Monday, September 10, 2007 per his request.
- On September 8, 2007, PAC again received back dated correspondence marked September 5, 2007 from State Farm Adjusters Thomsen and Egger. State Farm's correspondence recites policy language requesting the Insured comply with the "Duties in the Event of Loss". Adjusters Thomsen and Egger failed to acknowledge State Farm's receipt of the Insured's comprehensive "Claim Presentation" on July 13, 2007 which contained the complete Sworn Statement in Proof of Loss and fully satisfied all the Insured's policy duty requirements. Conspicuously absent from the correspondence supplied by Adjuster Thomsen and Egger was any reference to State Farm's failure to comply with the policy "Loss Payment" obligations as shown in Figure 31.

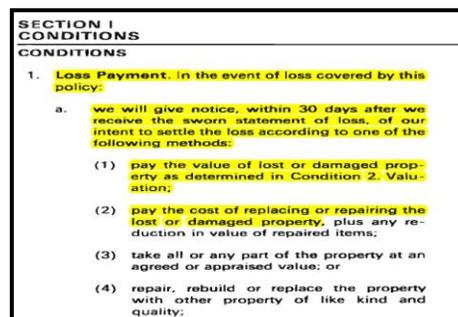


Figure 31: Excerpt from State Farm coverage policy showing failed "Loss Payment" contractual obligations.

Please note comments concerning the excerpt shown from the back dated September 5, 2007 correspondence:

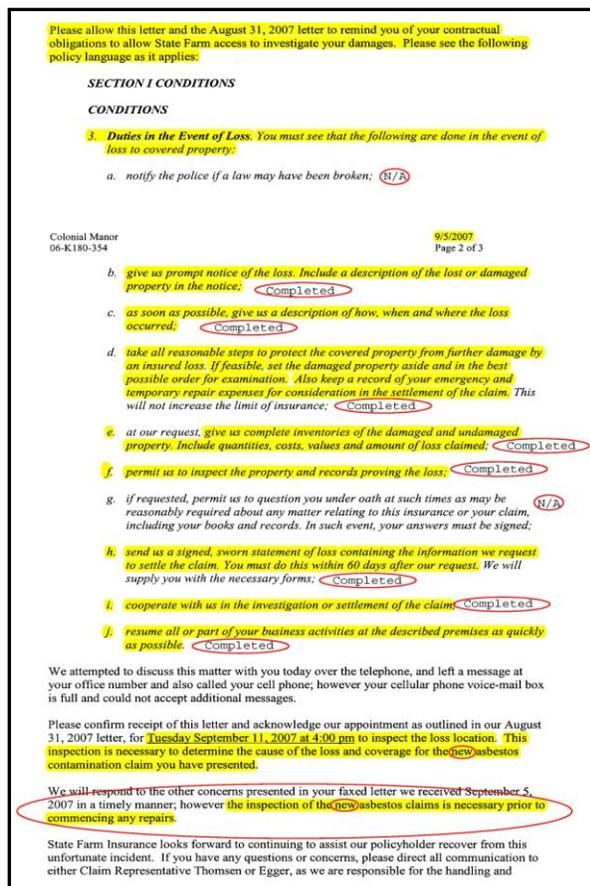


Figure 32: Excerpt from State Farm's correspondence of Sept. 5, 2007. Document makes clear demand for cessation of repair work for inspection and coverage determination.

1. State Farm's correspondence fails to recognize the Insured's comprehensive "Claims Presentation" supplied on July 13, 2007 that fully complied with all requested policy duties. State Farm instead asks the Insured to make redundant efforts to settle fully documented claims.
2. State Farm's correspondence does not acknowledge unfettered access to inspect the property at any time from the date of loss (April 24, 2007) up to the date work was to commence (September 6, 2007). State Farm fails to explain why it did not properly investigate this loss.
3. State Farm's correspondence did not properly acknowledge the Insured's Proof of Loss documentation supplied on July 13, 2007 that accurately characterized the initial loss as a "major asbestos spill" hazard and detailed the proper repair treatments. The State Farm correspondence attempts to falsely classify asbestos damages as some kind of "new" claim.
4. State Farm's correspondence ignores repeated requests made to timely investigate and fairly settle damage claims to assist displaced unit owners facing substantial hardships.
5. State Farm's correspondence ignores PAC fax correspondence of August 27, 2007 and September 5, 2007 which raises concerns about ongoing asbestos containment maintenance costs eroding the Insured's policy coverage benefits due to State Farm's claims procrastination.
6. State Farm's correspondence ignores PAC correspondence of August 27, 2007 which supplied the Insured's AIA contract with DRI to proceed as their contractor of choice with necessary repairs at a fair market price.
7. State Farm's correspondence demands the right to make a late inspection and coverage determination "prior to commencing any repairs".
8. DRI repair work (preparation for abatement) was immediately stopped when requested on September 6, 2007 despite State Farm failure to timely investigate its Insured's damage claims. Mr. Gonzalez and any other State Farm representative were offered full access to investigate the loss site between September 7, 2007 and November 28, 2007. This action was taken to facilitate a swift resolution of claims. State Farm representatives effectively stonewalled efforts to settle damage claims. CMCA and DRI were compelled to initiate repair work on November 28, 2007 without a proper coverage commitment from State Farm. State Farm's aggressive claim tactics were grossly unfair to the Insured and caused unnecessary hardship for the displaced homeowners. DRI repair efforts are complete, yet State Farm has failed to pay substantial damage claim amounts.

- On September 21, 2007, our office received correspondence from State Farm dated September 19, 2007 which included the release of the follow-up asbestos testing report from Foothills Environmental dated September 12, 2007. This report characterized the loss site as a "major asbestos spill" requiring negative air containment, operation & maintenance, and abatement in accordance with Colorado asbestos Regulation 8B. Please note this correspondence supports continuation of State Farm's written and oral requests to stop abatement work to permit additional efforts to reach an agreed repair scope.

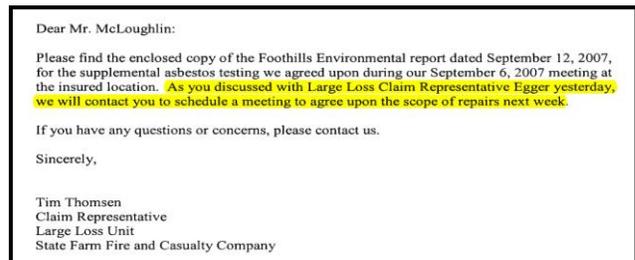


Figure 33: Excerpt from September 19, 2007 State Farm correspondence requesting to "schedule meeting to agree on scope of repairs". Adjusters Thomsen and Egger knew repair work was halted to facilitate a claim resolution.

(Note: State Farm Adjusters Thomsen and Egger later falsely represent they never requested a stoppage of repair work to investigate and reach a claim settlement. PAC notes State Farm made this false representation because all coverage policy limits were effectively exhausted by State Farm's claim settlement delay tactics.)

- On September 24, 2007, Adjuster Egger contacted PAC to establish a meeting on September 27, 2007 with Mr. Ted Blanchard, Head of the Sheridan Building Department. This planned meeting was intended to work out sensible repair scope details to guide structure abatement and reconstruction estimates. Since State Farm had made no claim payments to date and liability was reasonably clear, Adjuster Egger reluctantly agreed that this meeting was conditional on State Farm providing an undisputed structure claim payment of \$102,548.38. This claim payment was based on the initial Blue Sky damage repair estimate supplied to State Farm on May 14, 2007. We discussed and mutually agreed that the Blue Sky estimate in question was grossly deficient because it did not consider asbestos abatement issues and major structure repair dynamics (electrical replacement, major structural repairs, firewall construction issues, attic draft stops, etc.).

- On September 27, 2007, a meeting was held at the Sheridan Building Department to discuss the scope of damage repairs. In attendance were Mr. Tim Thomsen (State Farm Large Loss Adjuster), Mr. Tom Egger (State Farm Large Loss Adjuster), Mr. Andy Bakker (VP Blue Sky/State Farm PSP contractor), Mr. Michael Griggs (DRI Owner), Mr. Chip Sharp (DRI COO), Mr. Dan Meyer (DRI Project Manager), Mr. Ted Blanchard (Head of the Sheridan Building Department), Ms. Robin Cavinder-Nash (PAC Representative) and Mr. Bill McLoughlin (PAC Owner and Engineer). During this meeting the following key issues were addressed:
 1. State Farm provided the first claim payment for the undisputed damage amount of \$102,548.38 as requested (A full 5 months after the loss).
 2. All units required complete rewiring (circuits burned off at panel entries, GFIs, arc faults, new panel placements, etc) which would necessitate removal of all sheetrock walls. The textured walls on the first and second floors would have to be removed as ACM (asbestos containing material) due to testing results. Mr. Bakker agreed this reconstruction action was a necessary repair requirement.
 3. Adjuster Thomsen wanted to salvage second floor ceilings through an elaborate approach (scraping back 6 in. of texture from the corner joint during abatement). OSHA concerns were expressed suggesting this approach would not be cost effective. Mr. Blanchard expressed reconstruction codes would require attic fire stops between units. Concerns were raised that shallow attic clearances, two-sided fire rated construction requirements, and cost effectiveness would necessitate removal of second floor ceilings as ACM. Mr. Bakker agreed the sensible reconstruction effort would require removal of the second floor ceilings as ACM.
 4. Adjuster Thomsen indicated the ceiling and wall materials in the basements of units 1 and 2 were not ACM and felt this material could be removed and disposed of as ordinary debris by a sensible abatement plan. PAC proposed to include the salvage of stair case finishes in unit 3 (The construction dynamics did not involve party firewall issues). Mating of the new to the old could be done over doorways to stay under the OSHA 10 sq. ft. regulation. DRI agreed to revise abatement and repair scopes as noted in an effort to reduce repair costs. Concern was expressed that additional containment costs due to project delays would potentially erode the small cost savings initiative. Adjusters Thomsen and Egger understood this concern and agreed to come to a swift resolution concerning the abatement and reconstruction repairs costs so work could commence.
 5. Adjuster Thomsen expressed concerns about the repair scope for kitchen and bathroom in unit 3 due to the unit owner renovations. Adjuster Thomsen agreed to abate these rooms, but did not want to put back the sheetrock. Mr. Bakker advised taped ceiling sheetrock would be required to insulate the attic. Mr. Blanchard indicated he would grant a certificate of occupancy (CO) for units 1 and 2 as long as unit 3 was properly wired, mechanically complete, and fully finished with taped sheetrock. Adjuster Thomsen agreed to cover the kitchen and bathroom with taped sheetrock as an endpoint. The balance of unit 3 areas would be restored to pre-loss condition meeting applicable code requirements. DRI agreed to revise their repair estimate accordingly.
 6. PAC initiated discussions concerning the burnt ceiling/floor assembly in unit 2 and complicated repair issues. The 19 charred joists were contiguous members running through units 1 & 2 with a splice located on the bearing wall between units 2 & 3. Awareness was raised that structural joist damages in several cases extended on the unit 1 side of the bearing wall between units 1 & 2. Photographs of this damage were examined by all. Mr. Blanchard indicated he would require a stamped PE report for the proposed repair method. All parties agreed this would be a significant repair issue that would involve work efforts in all three units. Our discussion pointed out this significant repair matter was fully addressed in the current DRI scope but was not addressed in the initial Blue Sky scope.
 7. PAC raised awareness that the party firewalls were of a fluted construction containing HVAC ductwork. Photographs were reviewed that highlighted this issue. Mr. Blanchard indicated the party wall construction was of significant safety concern and would have to meet a proper one hour fire rating. He requested these issues be addressed in the reconstruction effort with a stamped PE design conforming to applicable codes. The duct work would have to be removed from the common walls. Mr. Meyer indicated these issues were already addressed in the current DRI estimate.

8. Mr. Bakker questioned Mr. Blanchard about requirements for basement egress. Mr. Blanchard indicated that one basement egress windows would be required in all units. All parties agreed the rear wall would be the best and most cost effective location. Mr. Meyer indicated he had included the appropriate costs in the current DRI estimate.
9. Mutual agreement was reached that all units would be gutted via asbestos abatement with the exception of basement finishes in units 1 and 2 and the staircase finishes in unit 3. Basement finishes in units 1 & 2 would be removed as standard debris after air clearance of the property. PAC provided Adjusters Thomsen and Egger an independent asbestos abatement proposal obtained from Equinox Environmental to totally gut the property for \$183,233.00. This proposal also included \$14,000.00 in transition costs to mobilize and replace Custom Environmental. This proposal did not consider the agreed cost savings initiatives reached at this meeting. PAC indicated Equinox would be asked to revise their proposal to consider the change in scope. Adjuster Egger indicated he would get additional abatement proposals.
10. All major reconstruction issues and code requirements were thoroughly discussed with Mr. Blanchard.
11. Mr. Meyer expressed the need to move swiftly toward resolution of issues in order to realize any potential cost savings. Mr. Meyer advised that containment charges were higher since September 6th because of added abatement staging costs. Adjuster Thomsen indicated that no work should be done until an agreement was reached on the repair scope and costs. A follow-up meeting was set for Tuesday, October 2, 2007 at State Farm's Meridian office to finish review of detailed reconstruction matters.

(Note: During the September 27, 2007 meeting with the Sheridan Building Department, Adjusters Thomsen and Egger discovered the DRI repair estimate (full abatement / gut reconstruction) was based on sound fundamentals. Meeting participants were surprised that Large Loss Adjusters Thomsen and Egger had a very low level understanding of technical reconstruction fundamentals and proper application of basic building code requirements. State Farm's adjusters relied heavily on technical input from Blu Sky representative Mr. Andy Bakker; he affirmed the DRI estimate scope through sensible dialog. Adjusters Thomsen and Egger became cognizant the Blu Sky repair estimates failed to address serious structural, electrical, mechanical, and HVAC repair issues necessary to satisfy basic construction requirements. Adjusters Thomsen and Egger were apprised of significant code compliance issues not adequately addressed in the Blu Sky determination.

- On October 2, 2007, a follow-up meeting was held at State Farm's Meridian office to discuss the detailed Xactimate reconstruction scope (i.e. finishes). This meeting was attended by Mr. Tim Thomsen (State Farm Large Loss Adjuster), Mr. Tom Egger (State Farm Large Loss Adjuster), Mr. Andy Bakker (VP Blue Sky/State Farm PSP contractor), Mr. Dan Meyer (DRI Project Manager), and Mr. Bill McLoughlin (PAC Owner and Engineer). Key elements discussed were as follows:
 1. Adjuster Thomsen and Mr. Meyer reviewed dimensions and finishes on a room by room basis. Other parties provided constructive comments about kitchen cabinetry quality, flooring materials, and painting requirements.
 2. A significant portion of the meeting time was spent discussing approaches to sensibly salvage the second floor hardwood flooring which, by construction, serves as an exposed main floor hardwood ceiling and a structural hardwood floor for the upper level. Mutual agreement was reached to utilize reasonable efforts to salvage the existing upper level flooring assemblies in all units.
 3. The meeting was ended after two plus hours due to prior appointment commitments. Approximately 75% of the detailed scope issues had been addressed. All parties agreed Mr. Bakker and Mr. Meyer would get together and reach agreement on all remaining scope items.
- On October 22, 2007, PAC contacted Adjuster Egger to discuss progress (or lack of progress) toward reaching an agreed repair scope and cost. Adjuster Egger indicated Mr. Bakker had made several attempts to reach Mr. Meyer without success. Adjuster Egger was advised that PAC would check on this matter.

(Note: PAC was discussing the scope agreement issues with Mr. Meyer weekly. PAC knew Adjuster Egger was misrepresenting Mr. Bakker's efforts to contact the DRI project manager. PAC felt it was State Farm's duty to respond to the DRI repair scope and not that of PSP contractor Blu Sky. PAC decided to apply gentle pressure to determine if State Farm was just stringing the effort along.)

Adjuster Egger was notified of the revised asbestos abatement proposal from Equinox Environmental (\$158,256.96 plus the \$14,000.00 transition costs) which was higher than DRI's revised amount. Adjuster Egger indicated he had not obtained independent subcontractor abatement pricing and would promptly address this matter. Adjuster Egger was again advised daily containment maintenance costs might erode the potential cost savings efforts. We mutually agreed to move the resolution forward as quickly as possible.

- On October 24, 2007, PAC contacted Adjuster Egger and advised Mr. Meyer had made numerous calls to Mr. Bakker since the October 2, 2007 meeting to work out the remaining repair scope details. Mr. Bakker was reportedly away for two weeks during this time period. Adjuster Egger was asked to have Mr. Bakker contact Mr. Meyer to finish the scope issues and immediately advise if there were any problems. Adjuster Egger was clearly advised PAC was available to resolve any issue necessary to help facilitate the scope review effort.
- On October 30, 2007, PAC contacted Adjuster Egger concerning the need to reach a resolution so repair efforts could commence.

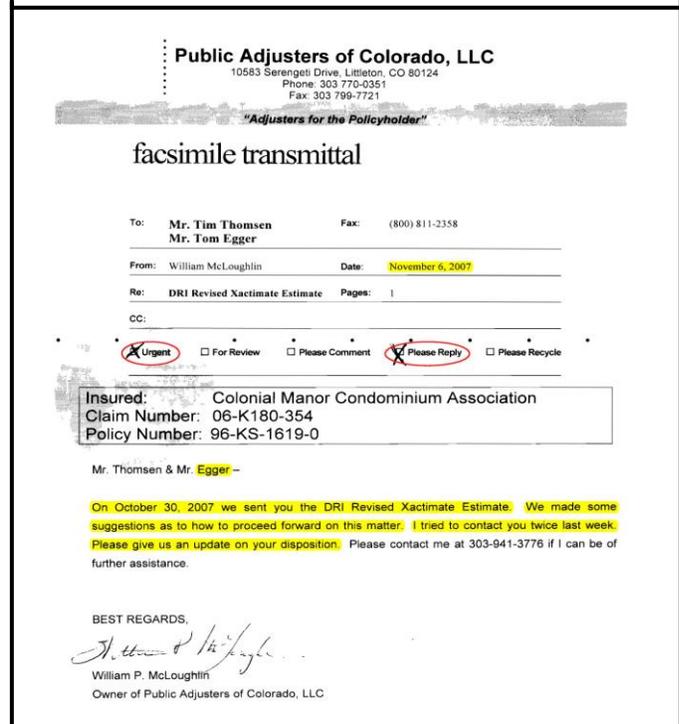
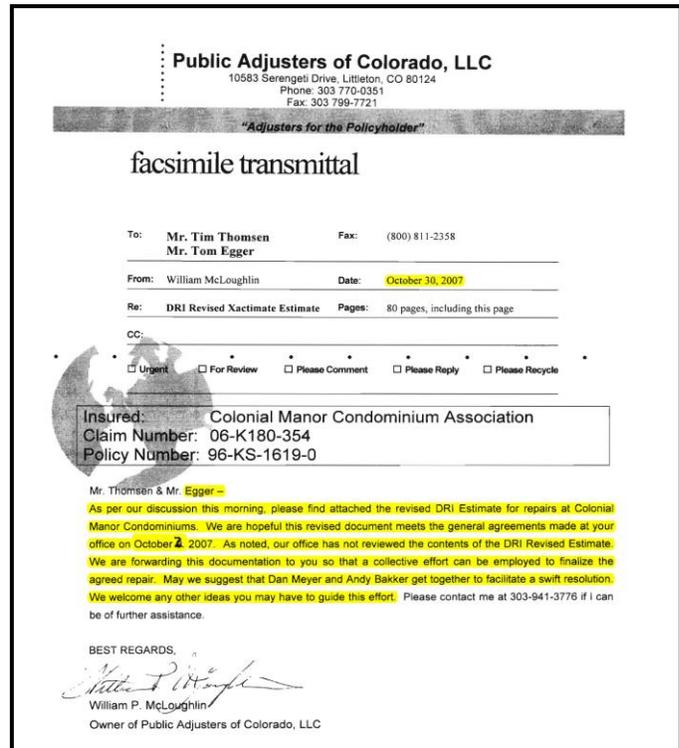
Following this conversation, PAC sent to Adjusters Thomsen and Egger an 80 page fax containing DRI's revised reconstruction repair scope (\$554,866.73; included: \$159,432.62 abatement cost; excluding: containment maintenance costs). This document was forwarded because Mr. Meyer was unsuccessful in reaching Mr. Bakker to finish the reviewing the remaining scope matters. The revised DRI reconstruction scope was viewed as a reasonable effort to address the agreed and open scope issues. PAC thought forwarding this document would help State Farm and Mr. Bakker quickly reach a resolution or expose their deception.

Figure 34: Fax cover from Oct. 30, 2007 correspondence which shows efforts to reach an agreed claim resolution with State Farm claim representatives.

- On November 6, 2007, PAC again sent fax correspondence to Adjusters Thomsen and Egger marked "Urgent" in an attempt to reach an agreed scope so work could commence. Adjusters Thomsen and Egger did not respond as requested.

(Note: At this point in time, we were reasonably sure State Farm's efforts were not directed to sensible resolution of the claims. State Farm claim representatives were clearly aware that damage repairs were halted at their request pending a mutually agreed claim resolution. State Farm claim representatives were clearly aware that mounting asbestos containment maintenance costs were eroding policy benefits. State Farm claim representatives were clearly aware the displaced unit owners were distressed. We had every reason to believe State Farm efforts were deceptively orchestrated to paralyze the situation.)

Figure 35: Fax from November 6, 2007 showing continued efforts to follow-up with State Farm's prior requests and agreements to reach an agreed claim resolution.



- On November 19, 2007, Adjuster Egger finally contacted PAC. We discussed DRI's revised Xactimate reconstruction estimate dated October 30, 2007. Adjuster Egger indicated the estimate contained only a few minor flaws. Adjuster Egger indicated he would address these flaws directly with Mr. Meyer.

We also discussed the additional containment maintenance charges that accrued since September 6, 2007, due to State Farm's request to suspend repair efforts to reach a mutual repair agreement. Our discussion centered on the fact that the added containment charges had caused damage claims to exceed the Coverage A – Building renewal policy limit of \$613,000.00. Adjuster Egger was asked to forward the inflation index factor so PAC could determine the total inflation adjusted Coverage A – Building policy limits. We also discussed endorsement FE-6587 (Entitled "Increased Cost and Demolition Coverage Endorsement") provided 10% additional coverage or \$61,300.00 which would most likely cover the increased damage claims due to the additional containment maintenance incurred since September 6, 2007. Adjuster Egger felt there was most likely sufficient coverage under the policy and endorsement, but he would determine the precise coverage limits. Adjuster Egger requested PAC provide updated DRI containment maintenance charges for his review.

- On November 20, 2007, PAC faxed "urgent" correspondence to Adjuster Egger. This document contained the requested DRI containment maintenance charge information, as well as a serious November 19, 2007 letter from DRI expressing their frustration with project delays and mounting costs. The two page PAC fax cover letter clearly addresses the problems associated with State Farm's endless procrastination:

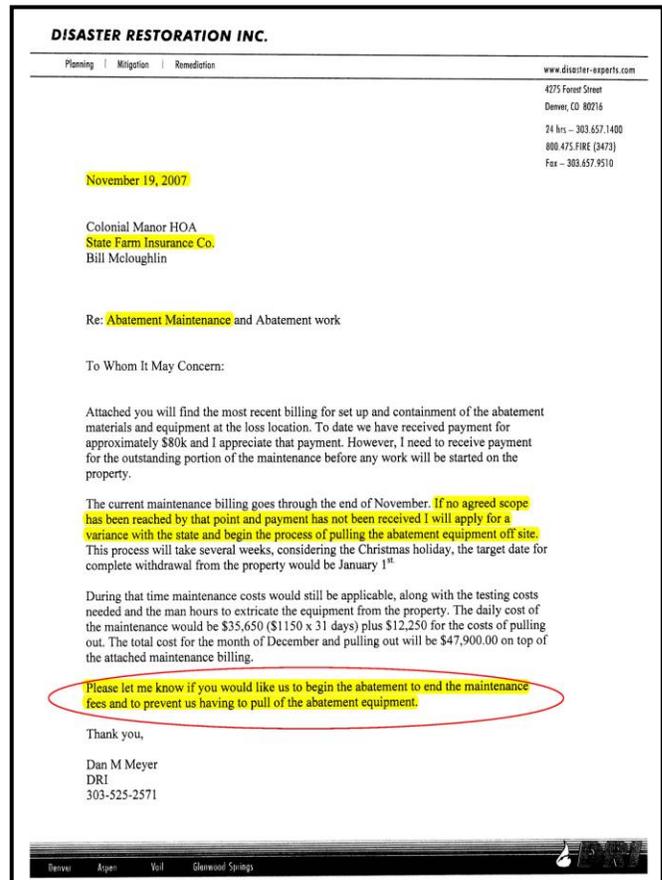
<p>Public Adjusters of Colorado, LLC 10583 Serengeti Drive, Littleton, CO 80124 Phone: 303 770-0351 Fax: 303 799-7721</p> <p><i>"Adjusters for the Policyholder"</i></p> <p>facsimile transmittal</p> <p>To: Mr. Tom Egger Fax: (800) 811-2358 From: William McLoughlin Date: November 20, 2007 Re: DRI Revised Xactimate Estimate Pages: 9 CC:</p> <p><input checked="" type="checkbox"/> Urgent <input type="checkbox"/> For Review <input type="checkbox"/> Please Comment <input checked="" type="checkbox"/> Please Reply <input type="checkbox"/> Please Recycle</p> <p>Insured: Colonial Manor Condominium Association Claim Number: 06-K180-354 Policy Number: 96-KS-1619-0</p> <p>Mr. Tom Egger -</p> <p>Please find attached the DRI letter and containment information discussed yesterday that you requested.</p> <p>I also took a look at the policy and believe that endorsement FE-6587 affords 10% additional coverage. I will try to call you latter today to discuss the the additional coverage matter. Can you please supply the inflation index coverage information that applies to this loss.</p>		<p>Tom, I am a bit concerned that repair efforts were stopped by State Farm on 9-4-07 with the understanding that State Farm would come to a swift agreement on the repair costs. At the time DRI started full repair work (9-4-07), we believe there was sufficient coverage to complete the work and pay all the bills. Now 2-1/2 months have passed and we still do not have a commitment from State Farm. The added containment costs since the 9-4-07 stoppage of work threatens to leave the Insured with an uncovered liability. What is State Farm going to do with this issue? I am sure you are concerned about your Insured's well being, so you must appreciate that a resolution is time sensitive. If State Farm provides assurance that all repair cost will be covered in full (regardless of limits), then I guess that another two weeks to complete your assessment is something I can sell to all parties. Please remember that all effected unit owners are experiencing some sort of personal and/or financial hardship as the result of this loss. TIME IS CRITICAL.</p> <p>Can you please provide some written feed back</p> <p>BEST REGARDS,  William P. McLoughlin Owner of Public Adjusters of Colorado, LLC</p>
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Figure 36: The two page fax cover letter sent to Adjuster Egger's attention on November 20, 2007. State Farm was clearly made aware that mounting containment charges threatened to exceed policy coverages. PAC again calls attention to the hardships being faced by the effected unit owners. Concerns are raised about State Farm's failure to reach claim resolution to facilitate repair efforts. State Farm was advised that "TIME IS CRITICAL". PAC simply does not know how much clearer the message could have been.

The nine-page November 20, 2007 fax contained the five-page DRI Xactimate estimate dated November 19, 2007 which detailed the containment maintenance charges projected through November 31, 2007 in the amount of \$185,322.00.

As noted, PAC's correspondence contained a letter from DRI dated November 19, 2007. The DRI correspondence addressed to the Colonial Manor HOA, State Farm Insurance Co., and PAC expresses serious frustration with State Farm's lack of resolution and timely payment of obvious claim liabilities. DRI clearly requests permission to initiate abatement operations to end mounting containment maintenance costs. DRI threatens to apply for a CDPHE containment variance to pull off the job without a timely resolution. Adjusters Thomsen and Egger were cognizant the work was stopped to facilitate State Farm's request to further investigate with the expectation that reasonable efforts would be made to reach an agreed claim determination in a timely manner. Through this correspondence State Farm was once again informed that containment maintenance charges were mounting and threatening to overrun policy coverage; once again DRI makes a request for claim resolution to initiate sensible repair efforts.

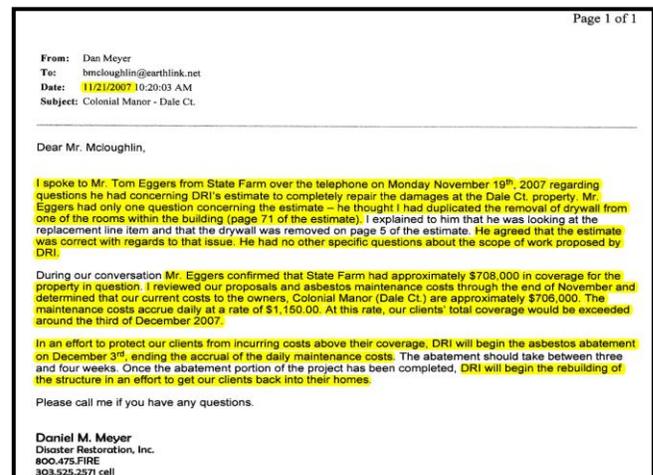
Figure 37: Annotated DRI letter contained in 9 page fax PAC fax sent to Adjuster Egger on November 20, 2007. PAC asserts Adjusters Thomsen and Egger were skillfully delaying claim resolution in an effort to create adverse financial pressures intended to interfere with the DRI's AIA contract with the Association.



- On November 20, 2007, PAC contacted DRI owner Grigg's to discuss their threatened departure from the job. Mr. Grigg's was advised CDPHE would most likely not grant a variance to "cocoon" the loss site so the contractor could pull off the job; if CDPHE were to grant such a variance, it would most likely not be for 60+ days. DRI would most likely have to find another licensed GAC willing to take over the containment operations to pull off the job. Finding another GAC willing to take over the containment operations was viewed as an unlikely scenario. Mr. Griggs then indicated his company would begin full abatement operations on December 3, 2007 with or without a resolution from State Farm. Mr. Griggs felt Adjusters Thomsen and Egger had unfairly strung everyone along. Mr. Griggs was annoyed by State Farm's actions; the endless delays had disrupted DRI's business planning and caused unnecessary project expenses. The conversation was concluded with the understanding that PAC would notify State Farm of the December 3, 2007 hard start date.
- On November 21, 2007, Mr. Meyer forwarded an email documenting conversations he had with Adjuster Egger on November 19, 2007 as shown:

Figure 38: The annotated email from Mr. Meyer reports a similar conversation with Adjuster Egger concerning the DRI agreed scope issue. Adjuster Egger had expressed only minor scope concerns which were quickly resolved. Mr. Meyer suggests Adjuster Egger had reached an agreed scope; one would expect that State Farm should be able to respond with a quick price agreement. Subsequent events proved otherwise.

Adjuster Egger informed Mr. Meyer that the Insured had \$708,000.00 in applicable coverage (Coverage Indexed + End. FE-6587). Mr. Meyer calculates the available coverage will be exhausted on December 3, 2007 and reaffirms DRI's commitment to start repairs by that date to avoid overrunning the clients coverage. Adjuster Egger later disavows the \$708,000.00 stated coverage figure to PAC. State Farm has since refused to confirm in writing the available coverage and coverage limits at issue



- On November 21, 2007, Adjuster Egger advises State Farm received correspondence from Ms. Mikus (owner of unit 3) dated November 16, 2007 indicating she would withdraw from the Association and handle her own claims with State Farm. With agreement on the DRI repairs near, Adjuster Egger suggests State Farm will have to delay claims resolution until the matter is reviewed by their legal counsel. Adjuster Egger suggests this could take some time to resolve. PAC reminds Adjuster Egger the Association dutifully filed a formal Proof of Loss so Mr. Mikus has no standing for such action. PAC has the Attorney Toro immediately forward correspondence to Adjusters Thomsen and Egger on behalf of the Association indicating Ms. Mikus cannot take such action. This effort quickly removes another reason for State Farm to procrastinate as shown:

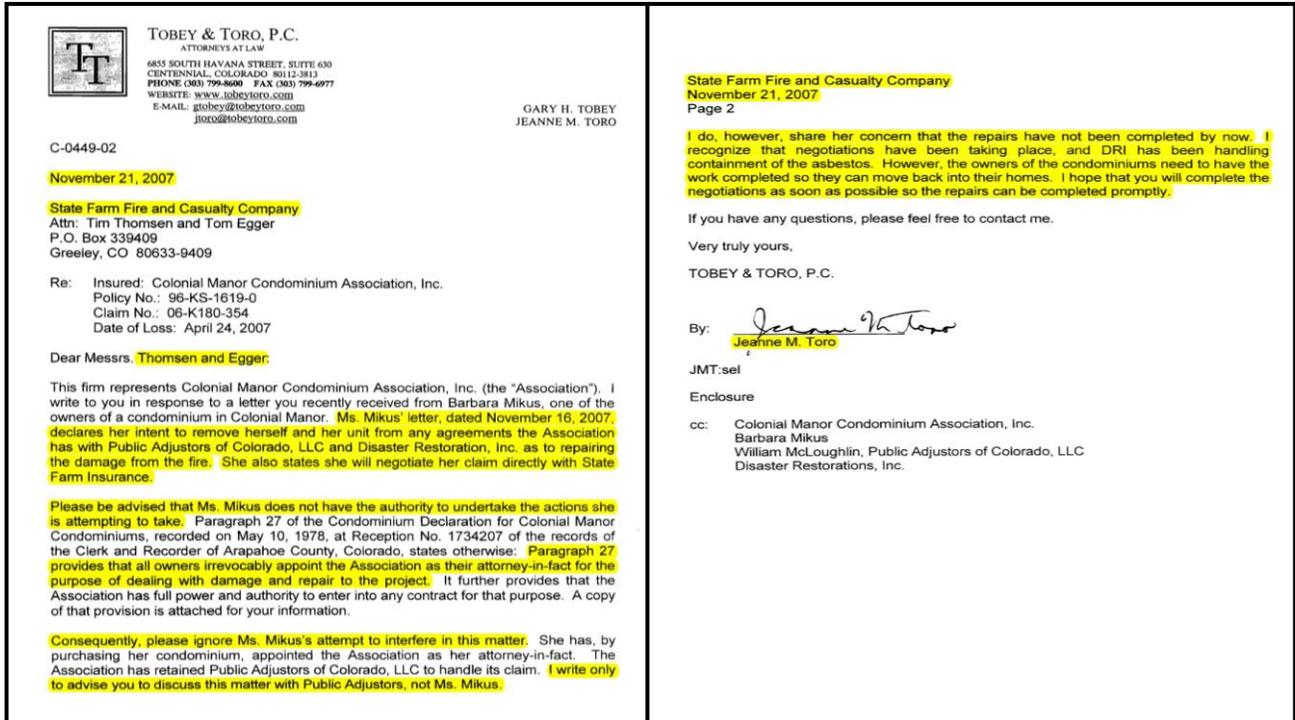


Figure 39: Attorney Toro's correspondence quickly removes grounds for State Farm to continue procrastination on claims resolution. However, Attorney Toro correctly calls attention to the unfair hardship being placed on the displaced unit owners (including Ms. Mikus) caused by State Farm's endless negotiations. Attorney Toro calls for State Farm to promptly conclude negotiations so repairs can commence

PAC shares the opinion of Attorney Toro. Ms. Mikus' correspondence was inappropriate and poorly timed, but State Farm's aggressive, deceptive, and unfair tactics caused unreasonable hardship for the displaced unit owners. PAC calls for State Farm's outrageous claims conduct to be thoroughly investigated by all appropriate Colorado Regulatory authorities. PAC believes no Colorado consumer should be subjected to such inappropriate claim handling practices.

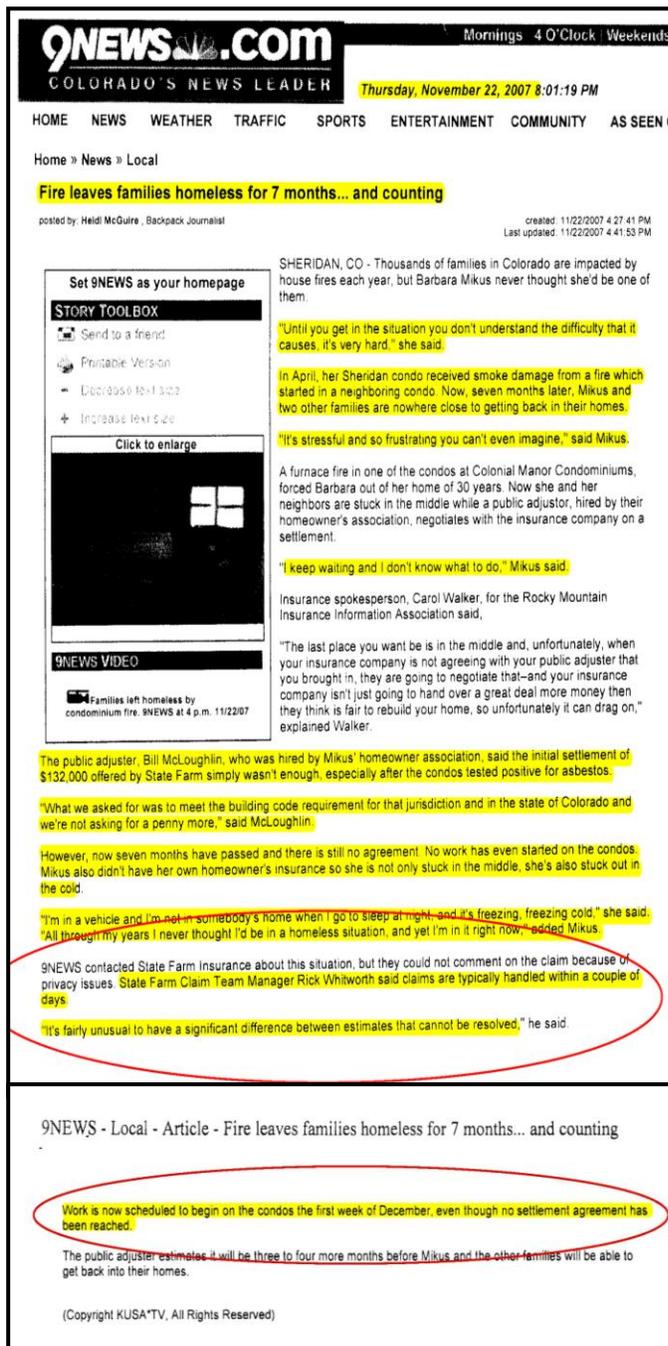
- On November 21, 2007, PAC contacted Adjuster Egger to speak about the 9 page fax sent the prior day and other issues. Adjusters Egger was advised the resolution process was taking entirely too long. Adjuster Egger was informed that DRI would initiate full abatement operations starting December 3, 2007 with or without a State Farm resolution as the unit owners were distressed and needed to return to their repaired units in a timely manner. We also discussed DRI had calculated the aggregate structure damage coverage of \$708,000.00 (A coverage figure orally supplied by Adjuster Egger to Mr. Meyer in discussions on November 19, 2007) was going to be exhausted by the continuing containment maintenance charges on or about December 3, 2007. Adjuster Egger was advised everyone involved was trying to cooperate with State Farm, but this matter simply needed to be resolved before December 3, 2007.

Adjuster Egger then indicated he had misspoken when he supplied Mr. Meyer with the \$708,000.00 coverage limit figure. Adjuster Egger indicated the Coverage A – Building, with the inflation index applied, plus the \$5,000.00 debris removal coverage in the base policy was approximately \$620,000.00. Adjuster Egger also suggested the 10% additional coverage afforded by endorsement FE-6587 did not increase the coverage limit. Adjuster Egger was advised State Farm was relying on the language of paragraph 4 of the endorsement which did not apply to this loss; the language of paragraph 5 clearly indicates the endorsement provides an additional 10% of the Coverage A limit (See Figure 7 on Page 8.); State Farm had clearly extended this coverage in prior correspondence dated May 21, 2007.

Adjuster Egger then indicated this determination was not his, but was being directed by Team Leader Whitworth. Adjuster Egger was reminded State Farm was duty bound to find for coverage in favor of the Insured. Team Leader Whitworth's position made no sense. PAC's opinion was reinforced, State Farm has a clear responsibility for all repair costs since company representatives failed to timely investigate, stopped repairs, and delayed timely claims resolution. Adjuster Egger was asked to provide PAC with a clear coverage determination from State Farm's underwriters.

(Note: State Farm to date has not provided PAC with a proper underwriting coverage determination on coverage matters at issue, despite repeated requests to do so. PAC believes this intentional conduct constitutes a willful violation of C.R.S § 10-3-1104 concerning unfair and deceptive claim practices and should be thoroughly investigate by the Colorado Division of Insurance.)

- On, November 22, 2007, Thanksgiving Day, Channel 9 News ran a feature segment detailing the frustration of the displaced unit owners after 7 months of endless delays. State Farm Team Claim Manager Whitworth was quoted as saying, "claims are typically handled within a couple of days. It's fairly unusual to have significant differences between estimates that cannot be resolved." In the interview, Team Leader Whitworth failed to mention a number of key issues:



- State Farm's Adjuster Thomsen arranged to have a selective asbestos testing performed by his contracted consultant. The deceptive report placed unsuspecting owners, their family members, well intentioned friends, and repair personnel at unnecessary health risk exposure.
- The State Farm PSP repair estimates (dated May 14, 2007) supplied by Blue Sky totaling approximately \$122K, failed to address serious structural, electrical, mechanical, HVAC and proper asbestos abatement repair issues. PSP contractor Blu Sky systematically shaved estimate pricing to help minimize State Farm's loss exposure at the expense of the displaced unit owners.
- State Farm failed to timely investigate sensible Proof of Loss damage claims in a manner consistent with the 30 day policy and state regulatory requirements.
- State Farm demanded abatement work be stopped on September 6, 2007 to permit a late investigation of the loss dynamics.
- State Farm's asbestos testing firm on September 12, 2007 confirmed the loss site was in fact a major asbestos spill hazard and required complete gut interior abatement in accordance with Colorado Regulation 8B.
- Adjusters Thomsen and Egger essentially learned during a September 27, 2007 meeting with the Sheridan Building Department that the Insured's Proof of Loss claims documentation were fully substantiated and supported by reasonable fair market cost dynamics.
- State Farm's efforts since September 6, 2007 to proactively investigate and settle the Insured's qualified claims had taken more than 2.5 months without a sensible resolution even though damage liability was reasonably clear.
- State Farm's Colorado claim representatives knowingly ignored clear claim settlement practices spelled out in the company "Operations Manual". Whitworth's claim team knowingly engages in aggressive, deceptive, and unfair pattern of claim settlement practices intended to minimize real loss exposure at the expense of Colorado consumers.

Figure 40: Channel 9 article relating to video report featuring displaced unit owners at Colonial Manor Condo Association. Report failed to motivate un-empathetic State Farm Management to step-up and responsibly settle embarrassing claim liability issues.

- On November 27, 2007 (3PM), PAC contacted Adjuster Egger to again discuss the lack of claim resolution and a wide array of issues.

Mr. Blanchard of the Sheridan Building Department had contacted PAC to report water was running down the exterior of the damaged building from the second floor. Custom personnel reportedly responded to the frozen water line breaks. Ms. Mikus, accompanied by a Channel 9 News camera team, had come to his office asking what action the City of Sheridan was going to take. Mr. Blanchard indicated he would investigate.

Discussions with DRI and Custom personnel indicated the situation was under control. Someone had broken into the site and turned on the water to units 1 & 2 but not unit 3. We suspected this was done by Ms. Mikus. We had no verifiable proof to support this position, but the whole event was well staged and unit 3 was untouched. Ms. Mikus had broken in with the Channel 9 News crew for the November 22, 2007 piece; it had become impossible to keep her out of the building.

Adjuster Egger was informed the leaks had most likely not caused any new visible damages provided the abatement work started the next day. Since the building was scheduled to be gutted and all the abatement debris required wetting before waste packaging, we felt immediate abatement action to remove the wet materials would protect against further damages. Adjuster Egger was informed DRI had made a commitment to Mr. Blanchard that abatement work would start the next day, November 28, 2007.

In addition to the noted points discussed, PAC addressed many other issues which were fully documented in correspondence directed to Adjuster Egger on November 28, 2007 as shown:

<p style="text-align: center;">Public Adjusters of Colorado, LLC Adjusters for the Insured 10583 Serengeti Drive Littleton, CO 80124 Phone: 303 770-0351 Fax: 303 799-7721</p> <p style="text-align: right;">Via Facsimile: (800) 811-2358</p> <p>November 28, 2007</p> <p>Mr. Tom Egger Claim Representative State Farm Fire and Casualty Company PO Box 339409 Greeley, Colorado 80633-9409</p> <p>RE: Insured: Colonial Manor Condominium Association Loss Location: 4100 S. Dale Court, Englewood, Colorado 80110 (Units 1, 2, & 3) Policy Number: 96-KS-1619-0 Claim Number: 06-K180-354 Date of Loss: April 24, 2007</p> <p>Dear Mr. Egger:</p> <p>Hope you had a great Thanksgiving. This correspondence is to document our phone conversations of November 21, 2007 and November 27, 2007. I informed you that DRI was going to start full abatement of the building on December 3, 2007. I am enclosing correspondence from DRI that addresses a number of issues. As discussed, the rationale for moving forward was to:</p> <ol style="list-style-type: none"> a) Return the displaced unit owners to their repaired property b) Avoid exhausting coverage limits by overrunning the coverage due to continuing asbestos containment costs. <p>On September 4, 2007, State Farm asked that the Insured's reconstruction efforts be stopped to facilitate swift resolution of the damage claim. We appreciate that your efforts have been directed towards a resolution, although we believe this process has taken entirely too long. This is simply unfair to all parties involved.</p> <p>As discussed in our conversation yesterday, a frozen water pipe between Units 1 & 2 required the immediate attention of DRI and their subcontractors. The property was winterized following our discussion with Ted Blanchard of the Sheridan Building Department during the last week of September. We do not know how the water feeding the three condominium units was turned on. We do know Ms. Mikus has been entering the units against appropriate advice not to do so. As we discussed, you are aware that her actions cannot be reasonably controlled. The good news is we believe the broken pipe has not extended damages to the units and there appears to be no need to file additional claims. DRI and their abatement subcontractor have agreed to remove the basement finish materials in Units 1 & 2 as ACM without added cost to the revised repair estimates supplied to you on October 31, 2007. Because ACM must be removed through a "wet method" the contractors have decided the best course of action would be to immediately proceed with abatement. As discussed, whole abatement is commencing effective today.</p> <p>In an effort to insure clarity of claim issues, we will note the following matters:</p>	<p>Policy Coverage – In your discussion with Dan Meyer, Project Manager for DRI, you indicated State Farm had a structural policy coverage limitation of \$708,000. In our discussion of November 21, 2007 you indicated you may have misspoken concerning the \$708,000 structural coverage limit. Specifically you felt Endorsement FE-6587 did not afford 10% additional coverage for your Insured. I indicated that I was fully aware of that coverage endorsement and told you Section 4 (which does not expand the coverage limit) does not apply. Your Insured is not rebuilding the structure at a new location and removing the existing structure. I informed you that it is the opinion of PAC that Section 5 applies, which does supply the 10% Additional Coverage Limit. PAC's determination of the structure coverage limit is as follows: (\$613,000 blanket coverage + Inflation index adjusted to date of first substantial payment) X 10% additional coverage FE-6587 + \$5000.00 debris removal = Total Structural Coverage Limit. We believe your representation of \$708,000 would appear to be an appropriate valuation for the total building structure coverage limit as outlined. We request that you supply us with clear documentation confirming the available structure coverage limit.</p> <p>Structure Abatement – Based on the additional work of Foothill's Environmental in September 2007, we (PAC, Insured, DRI) have constructively worked with State Farm in an effort to reduce the abatement scope. Specifically, DRI supplied revised contractor pricing to remove materials in the basements of Unit 1 & 2 as standard non-ACM debris. We wish to note that State Farm's delay in accepting this resolution resulted in the entire cost saving being eroded by ongoing daily containment costs. I clearly raised this issue in our meeting with Ted Blanchard in September 2007 and our follow-up meeting with State Farm during the first week of October 2007. At our meetings we agreed to obtain competitive abatement costs based on the reduced work scope. Please find attached a revised abatement proposal from Equinox Environmental for \$158,256.96 dated October 22, 2007. We believe that the revised Equinox Environmental evaluation is in line with DRI's price revision. We believe DRI's price represents a fair market value to perform this work. Now, due to the broken pipe incident yesterday, DRI and their abatement subcontractor are going to remove the materials in the basements of Units 1 & 2 as ACM. Once again, they will maintain the revised pricing to facilitate this effort. I wish to note their efforts demonstrate a high level of cooperation and significant reduction in loss exposure cost for State Farm. We trust that you will recognize the merits of this situation and move forward with the same spirit of cooperation.</p> <p>Daily Containment Costs – On several occasions I have detailed the DRI daily containment charge to State Farm as \$721.62/day. Please note this was from the containment period from May 27, 2007 through September 4, 2007. I am enclosing the DRI documentation for your benefit. On November 19, 2007, Dan Meyer informed you that the daily containment cost from September 5, 2007 to present is \$1150.00/day. On November 20, 2007 I forwarded you documentation supplied to me by DRI that reflects this information. As indicated in our discussions, the abatement contractor has had two asbestos containers onsite since that time. The contractor has also had additional equipment and a specialized decontamination trailer onsite for a period of time. The contractor has incurred delay costs due to cessation of work on September 4, 2007 at State Farm's request. I have asked DRI to provide detailed information supporting the \$1150.00/day daily containment sum. I insist that DRI properly support this charge or make an appropriate adjustment. I will keep you apprised of the situation. Clearly the containment costs from September 5, 2007 to November 27, 2007 are no less than \$721.62/day. I suggest you treat it as this sum until you receive additional documentation from me.</p> <p>Rebuild Scope – You have orally acknowledged to Dan Meyer and me that you are in full agreement with the rebuilding scope and Xactimate price. We trust you will release immediately payment reflecting this undisputed sum. We also trust you will include payment for 184 days of containment at</p>
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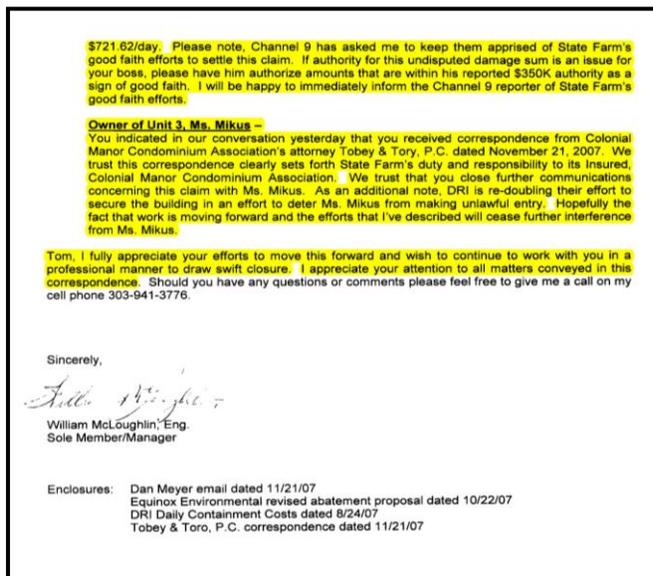


Figure 41: PAC November 28, 2008 letter to State Farm Large loss Adjuster Egger memorializing phone conversations of November 21st and 27th 2007. This letter documents frozen pipe situation and desperate plight of the displaced unit owners. GC DRI and GAC Custom Environmental agreed to commence abatement work without a single claim dollar being committed by State Farm. The contractor's felt there was no other alternative to address the deteriorating containment situation other than to proceed with full abatement. This situation was simple outrageous by any and all claim handling standards.

- On November 28, 2007, Custom Environmental started full abatement of the property. Work was initiated without a clear claim liability commitment from State Farm.

Nearly three months had passed since State Farm demanded the work be stopped (September 6, 2007) to facilitate their late claim investigation. State Farm had promised swift claims resolution. Adjusters Thomsen and Egger became fully aware the DRI repair scope was based on sensible dynamics, but systematically stonewalled sensible claim resolution. State Farm representatives refused to make timely claim payments for clear and undisputed loss exposure. State Farm representatives failed to make appropriate claim payments for incurred containment maintenance charges. Tremendous efforts and sacrifices were made to facilitate a fair State Farm resolution.

DRI was compelled proceed with the repair work without assurance of proper payment due to a frozen water line break at the loss. State Farm's endless procrastination had created a sense of general frustration for the Association members, DRI, and Custom Environmental. The displaced unit owners and their families had to endure unnecessary hardship due State Farm's unreasonable delays tactics. The contractors tied up equipment, resources, and incurred avoidable project expenses due to the unreasonable claim handling practices. State Farm's delays unfairly eroded and exhausted the Association's policy coverage benefits.

- On November 29, 2007, Adjuster Egger faxed deceptive correspondence dated November 21, 2007. This **back dated** correspondence attempts to establish a number of responses to defense inappropriate claims handling issues raised by PAC after November 21, 2007. The correspondence was positioned ahead of the Channel 9 News segment that aired on Thanksgiving (November 22, 2007). Adjuster's Egger's dating of the letter tries to give the perception State Farm was somehow behaving in a sensible manner; State Farm was out-in-front of the claim issues in fair manner. Adjuster Egger's correspondence completely ignores the current (waterline breaks/immediate abatement) claim issues. One can read the PAC correspondence of November 28, 2007 and quickly determine that Adjuster Egger's response attempts to address matters raised by PAC without acknowledging receipt of the correspondence. PAC believes State Farm is attempting to position the claim file for litigation; their actions show deliberate effort to create deceptive correspondence. PAC questions why an Insured in the State of Colorado should have to endure such efforts to get real claims settled in a manner consistent with good faith and fair dealings.

11/29/2007 08:10 FAX STATEFARMWORKCOMP 001/004

State Farm®
Providing Insurance and Financial Services
Home Office, Bloomington, Illinois 61710

November 21, 2007

via Certified Mail and facsimile

Greely Operations Center
P. O. Box 339409
Greely, CO 80633-9409

BILL MCLOUGHLIN
PUBLIC ADJUSTERS OF COLORADO LLC
10583 SERENGETI DR
LITTLETON CO 80124

RE: Our Insured: Colonial Manor Condominium Association
Claim Number: 06-K180-354
Policy Number: 96-KS-1619-0
Date of Loss: April 24, 2007
Loss Location: 4100 South Dale Court, Unit 1 - 3, Englewood, Colorado
Type of Loss: Fire

Dear Mr. McLaughlin:

This letter follows our telephone conversation on Friday, November 16, 2007.

We received the revised estimate from Disaster Restoration Inc on Oct. 30, 2007. I subsequently provided a copy of the estimate to Andy Bakker of Blue Sky Restoration for his review. I met briefly with Andy on Friday, November 16 and we visited about his review of the estimate. **Per our agreement, I spoke with Dan Meyer of Disaster Restoration Inc on Nov. 19, 2007 to discuss the revised estimate he prepared. I communicated some additional necessary revisions which need to be completed on his part based on Mr. Bakker's review. Dan agreed to delete from his estimate the allowance for \$8,730.00 under "Generals" area of his estimate. I will continue to review the estimate and communicate with Dan in an effort to agree on the amount of the loss. Fails to acknowledge repair agreement**

Disaster Restoration Inc. has made an entry in their estimate for all of the asbestos abatement. As you are aware, Disaster Restoration did not provide State Farm with a copy of the abatement estimate from their subcontractor Custom Environmental Services, even though we requested it. **For me to properly review the abatement figures from DRI, I need to consult with another abatement contractor for the abatement and containment allowances. I will do that as soon as possible. Once that is complete I will be able to visit with Dan Meyer at DRI about this matter. Avoids agreement to abatements and containment costs**

As we also discussed, Barbara Mikus has communicated to State Farm and all other parties her intent to separate herself from the claim being made by Colonial Manor Condominium Association. **I am not sure of the legal ramifications of her request; we will review her request and may need to obtain a legal opinion as to what her rights are. Even if we seek a legal**

Corrects delays concerns expressed in PAC 11/28/07 Correspondence

11/29/2007 09:10 FAX STATEFARMWORKCOMP 002/004

BILL MCLOUGHLIN
06-K180-354
Page 2

opinion on that matter, we will continue to proceed to work towards a timely resolution on the claim that has been made by our insured.

I received your Nov. 20, 2007 fax and the following is in response.

Endorsement FE-6567 in part says:
Leaves out part of language about relocation issue the lesser of:
which does not apply

- the amount you actually spend to demolish and clear the site of the undamaged portion of the building plus the increased cost to repair or rebuild the building but not for more than a building of the same height, floor area and style on the same premises as the covered building; or
- 10% of the Coverage A limit of insurance on the building at the time of loss.

This coverage does not increase the limit of insurance applicable to the building.

The above language is clear. **There is no additional coverage beyond the actual policy limits.**

I also reviewed #5 of this endorsement and it stipulates 10% is the limit of insurance and this does not increase the limit of insurance beyond the actual coverage A limits. **I reviewed this matter with my manager and he is in agreement. Forgot State Farm OP Manual - Underwriting Makes Coverage Determination**

Regarding your question on the inflation index coverage, I confirmed with our underwriting department the Coverage A limits in place on the date of loss have been paced up for the inflation factor. We have provided you with a certified policy previously and the limits noted on that take into account the inflation coverage. The coverage A limits total \$614,226.00. I reviewed the policy and believe the only other applicable coverage is under Section I Extensions of Coverage, #1 Debris Removal. This coverage gives a potential additional coverage of up to \$5000.00.

Barbara Mikus called me today and was checking on the status of State Farm considering a separate claim for her condo unit only and separating herself from the overall claim. She indicated her unit has not been winterized and specifically said the water supply had not been turned off nor had the water heater been drained. **She has since completed those things. Water issue did not occur until 11/27/07**

Your contention that State Farm stopped the repair efforts is incorrect. The following is a general timeline overview:

After you notified us the building was affected by asbestos, we made immediate arrangements to meet with you at the building to inspect. On Sept. 6, 2007, we and our expert met with you at the risk and it was our intent and agreement with you to inspect the building to evaluate for asbestos

Oral Notification June 07 and Proof notification July 07?

Figure 42: State Farm Large Loss Adjuster Egger constructs false and misleading back dated correspondence in an attempt to somehow justify State Farm's bad faith claims handling conduct. The back dated letter of November 21, 2007 was mailed and faxed to PAC on November 29, 2007.

