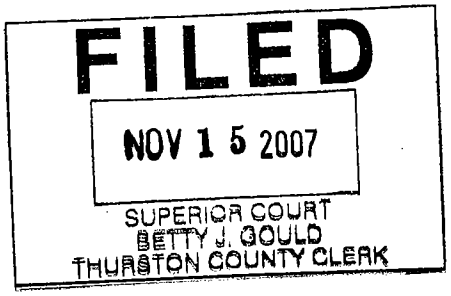
☐EXPEDITE
☑ No Hearing is Set
The Honorable Judge Gary Tabor



STATE OF WASHINGTON
THURSTON COUNTY SUPERIOR COURT

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

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

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

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2. *Accounting to the Court.* In accordance with the Order of Liquidation, the Receiver shall file a report with the Court quarterly. In order to ensure that the reports have the most recent financial information, the reports will be filed after the accounts from the prior month are closed. The estimated filing dates for the reports are: February 15, May 15, August 15, and November 15.

3. *Financial Report.* Attached hereto as Exhibits A, B and C, and D are Cascade's October 31, 2007 Balance Sheet, Statement of Receipts and Disbursements, Supplemental Claims Information, and Financial Statement Notes, respectively. The financial figures are derived from calculations made in accordance with the Receiver's Handbook for Insurance Company Insolvencies published by the National Association of Insurance Commissioners ("NAIC").

The enclosed financial statements have been prepared from available information. Certain assets and liabilities are estimates. Assets with uncertain realizable value have not been included. Additional assets resulting from legal and/or collection efforts may be recorded in the future when realized. The review of incoming claims is an ongoing process. The estate's largest creditors are various insurance Guaranty Associations. Current known Class 2 (Loss Claims) liabilities of $33,079,861 are estimated primarily based on the 10/31/05 loss reserves for automobile claims transferred to the Guaranty Associations and updated paid losses and loss reserves for Workers Compensation claims. Liabilities will be updated as the Guaranty Associations continue their ongoing evaluation of loss reserves.

As of October 31, 2007, known assets totaled $22,704,433 with 47% in cash and short-term investments. The estate's cash and short-term investment decreased dramatically as a result of early access distributions to the insurance guaranty associations totaling $6 million. Known liabilities totaled $34,532,445, resulting in a deficiency of assets over liabilities of ($11,828,012). For the eight quarters ending October 31, 2007, exclusive of the early access distribution of $6 million, cash disbursements exceeded cash receipts by $274,791. Cash

receipts were primarily from collection of loss recoverables from reinsurers, refund of state premium taxes and recovery of salvage and subrogation on paid loss claims. Operating expenses continue to be well within amounts budgeted by the Receiver. Based on electronic claims data received from the guaranty associations as of September 30, 2007, a total of $9,072,052 million of loss claims and allocated loss adjustment expenses have been paid. See the Supplemental Claims Information, Exhibit C for details.

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

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

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

The Office of the Insurance Commissioner ("OIC") initiated a license revocation action against K.I. Tobey for failure to pay and mishandling of trust funds, and K.I. Tobey has voluntarily accepted revocation. Settlement negotiations between OIC and K.I. Tobey failed,

and K.I. Tobey filed for bankruptcy in Atlanta, Georgia. A trustee was subsequently appointed by the bankruptcy court. The Receiver is pursuing the claim in the bankruptcy court, but the likelihood of recovery is unknown.

In an effort to marshal the assets of Cascade, the Receiver has initiated an adversarial claim for wrongfully withheld premiums against Statewide National Insurance Company and Marcel Matar. This adversarial claim has been filed with the receivership court. Statewide has been served, and its attorneys have filed notices of appearance. Despite Mr. Matar having avoided service, Statewide's attorneys have filed notices of appearance on behalf of Mr. Matar, as well. Counsel for Statewide and Mr. Matar have been contacted regarding resolution of the matter.

The Receiver is also pursuing amounts owed by Mainstay, one of Cascade's workers' compensation accounts in California, which include payment for premium, paid claims, and reserves. Cascade has requested payment and information required under the policy with Mainstay for Cascade to conduct a premium audit. Mainstay has not provided payment, but has provided some audit information. Currently, Mainstay and Cascade are communicating about these issues.

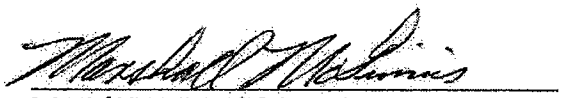
The Receiver, through counsel, continues to pursue various legal avenues that could result in recovery of assets to the receivership estate. The Receiver filed a complaint for damages in the Superior Court of the State of Washington for King County, Cause No. 06-2-13068-5-SEA, against various defendants, including Danny Pixler, Anthony Huff, American Staff Resources of California, Inc., Certified Services, Inc., and Midwest Merger Management, LLC. The complaint alleges that defendants failed to comply with the contract payment terms and failed to fund reserves while Cascade's obligation to provide workers' compensation coverage under the policies continued. Cascade's demands for compliance and payment went unanswered. The lawsuit also alleges that Cascade was victimized in a deceptive purchase scheme. The lawsuit seeks damages in excess of $19 million that arose from deceptive

practices, breaches and wrongful acts. This matter has been removed to the U.S. District Court for the Western District of Washington, No. C06-697 RSL. The Defendants have argued various motions and the case is in the discovery phase. The trial date tentatively has been scheduled for September 2008.

After filing suit against the Defendants, the Receiver learned that Certified HR Services, a subsidiary of Defendant Certified Services, Inc. ("Certified Services"), had entered into bankruptcy proceeding in the U.S. District Court, Southern District of Florida, Case No. 05-22912-BKC-RBR. The Receiver ultimately entered into an agreement with the bankruptcy trustee and obtained a Court order establishing that none of Cascade's claims against the Defendants in the Washington litigation were affected by the Florida bankruptcy action, and preserving the possibility of recovery against the Certified HR Services. The Receiver has subsequently filed a $2 million dollar claim against the subsidiary. The Receiver cannot anticipate when or if there will be any payment on the claim.

The Receiver has also filed a civil action in King County Superior Court, No. 06-2-34413-8-SEA, to recover damages for officer/director actions that harmed Cascade. A mediation meeting is scheduled for December 11, 2007.

RESPECTFULLY SUBMITTED this 15th day of November, 2007.



MARSHALL MCGINNIS,
Deputy Receiver

Presented by:
ROB MCKENNA
Attorney General

CHRISTINA GERSTUNG BEUSCH
WSBA # 18226
Assistant Attorney General
Attorneys for the Insurance Commissioner

Cascade National Insurance Company in Liquidation
Balance Sheet
As of October 31, 2007

		10/31/2007	
ASSETS			
Operating cash		49,201	
ST investments		10,524,708	
Cash & ST Investments	(1)		10,573,910
Advances to Guaranty Associations		6,000,000	
Reinsurance recoverable (net)	(2)	6,124,241	
Rental deposit		6,282	
Total Other Assets			12,130,523
TOTAL ASSETS	(3)		**22,704,433**
LIABILITIES			
Secured Claims		-	
Class 1	(4)	1,244,661	
Class 2	(5)	33,079,861	
Class 3		-	
Class 4		-	
Class 5		55,284	
Class 6		138,863	
Class 7		13,777	
Class 8		-	
Class 9		-	
TOTAL LIABILITIES			**34,532,445**
Excess (Deficiency) of Assets Over Liabilities			**(11,828,012)**
TOTAL			**22,704,433**

Note: The information contained in this report is prepared by the receiver from information available to, known or estimated by the receiver as of the date of the report. The receiver makes no warranty as to the accuracy of the information or of the opinions or evaluations contained in this report and expressly disclaims any liability arising from the statements of fact, evaluation or opinion contained in the report.

(1) Cash & ST investments include $431,100 of restricted state deposits.

(2) Reinsurance recoverable includes $6.1 million of ceded loss, loss adjustment expense and related incurred but not reported losses estimated for Company's automobile business.

(3) Assets reported in this statement do not include all possible recoveries that may result from various legal and/or collection efforts.

(4) This concludes reporting for the current two-year operating budget. The receiver is in the process of preparing the estate's operating budget for the next two years.

(5) The receivership is in the process of analyzing auto claims information from the guaranty associations on paid losses or loss reserves. Therefore, loss reserves including reserves for incurred but not reported claims as of 10/31/05 immediately prior to the liquidation date are used as the basis for estimating Class 2 auto liabilities. The receivership, with the help of a consulting actuary, updated its Class 2 liabilities on workers' compensation policies using paid losses and loss reserves data from the California Guaranty Association as of 3/31/07. Additionally, the Class 2 liabilities exclude $2.7 million of reserves for reimburseable workers' compensation losses for which the receivership is currently holding a standby letter of credit.

Cascade National Insurance Company in Liquidation
Statement of Receipts and Disbursements
Period Ending October 31, 2007

	12 Months Ending 10/31/07	Since Date of Liquidation Order
RECEIPTS		
Reinsurance recoveries	59,814	1,034,031
Agents balances	51,324	142,718
Salvage & subrogation recoveries	32,746	265,199
Recovery of taxes previously paid	-	283,221
Other receipts	4,990	260,196
Receipts Before Investment Activities	148,874	1,985,363
Investment receipts	523,780	1,124,938
Proceeds from sales & maturity	310,000	613,000
Receipts from Investment Activities	833,780	1,737,938
TOTAL CASH RECEIPTS	**982,654**	**3,723,301**
DISBURSEMENTS & DISTRIBUTIONS		
Claims processing expenses	63,267	503,994
Legal fees	415,072	650,539
Audit fees	-	-
Consulting fees	75,192	172,903
Salaries	364,079	882,033
Employee benefits	22,918	41,896
Payroll & other taxes	22,706	56,466
Rent & related expenses	39,942	85,145
Equipment expenses	12,652	70,116
Office expenses	23,950	74,578
Other disbursements	11,613	27,434
Disbursements	1,051,391	2,565,103
Early Access Distributions	-	6,000,000
Disbursements Before Investment Activities	1,051,391	8,565,103
Investment Expenses	2,715	5,330
Purchase of Investments	833,780	1,427,659
Disbursements for Investment Activities	836,496	1,432,988
TOTAL CASH DISBURSEMENTS & DISTRIBUTIONS	**1,887,886**	**9,998,092**
Net Cash Disbursements over Receipts	**(905,233)**	**(6,274,790)**
Cash at beginning of period	364,434	773,413
Net Cash Disbursements over Receipts	(905,233)	(6,274,790)
Cash transferred from ST investment to fund distributions	590,000	5,550,579
Cash at end of period	49,201	49,201

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Cascade National Insurance Company in Liquidation
Supplemental Claims Information
Claims and Adjusting Expenses Paid by Insurance Guaranty Funds
As of September 30, 2007

	Auto	Workers Compensation	Total
Alaska	648,599	-	648,599
California	520,577	5,890,315	6,410,892
Oregon	946,587	-	946,587
Washington	1,065,974	-	1,065,974
	3,181,737	5,890,315	9,072,052

Notes:
- The above amounts do not include reserves established by the insurance guaranty associations for outstanding claims.

Cascade National Insurance Company in Liquidation
Supplemental Claims Information
Claim Counts by Loss Event
As of September 30, 2007

	Auto		Workers Compensation		Total	
	Transferred to IGF	Closed by IGF	Transferred to IGF	Closed by IGF	Transferred to IGF	Closed by IGF
Alaska	6	5	-		6	5
California	186	149	218	80	404	229
Oregon	56	47	-		56	47
Washington	168	89	-		168	89
	416	290	218	80	634	370

Note:

A substantial number of closed auto claims are claims closed by the insurance guaranty associations without loss payment. These claims may have been settled by the claimants' own insurance carrier. As a result, these insurance carriers may have recovery rights against the estate of Cascade. It is not possible to estimate the number or amount of these subrogation claims against the estate at this time.

Financial Statement Notes

The enclosed financial statements have been prepared from available information. Certain assets and liabilities are estimates. Assets with uncertain realizable value have been excluded. Additional assets resulting from legal and/or collection efforts may be recorded in the future when realized. The review of incoming claims is an on-going process. The estate's largest creditors are various insurance guaranty associations. Current known Class 2 (primarily loss claims) liabilities of $33.1 million is a combination of estimates. For auto policies, the liabilities are based on the 10/31/05 loss reserves transferred to the guaranty associations. For workers' compensation policies, the liabilities are based on an independent actuarial study performed using loss claims statistics as of 3/31/07. These liabilities are updated as the guaranty associations and the estate continue with their ongoing evaluation of loss reserves.

As of October 31, 2007, known assets totaled $22.7 million with 47% in cash and short-term investments. The estate's cash and short-term investment decreased dramatically since the date of liquidation order as a result of early access distributions to the insurance guaranty associations totaling $6 million. Known liabilities totaled $34.5 million, resulting in a deficiency of assets over liabilities of $11.8 million. For the eight quarters ending Octobery 31, 2007, exclusive of the early access distribution of $6 million, cash disbursements exceeded cash receipts by approximately $274.8 thousand. Cash receipts were primarily from collection of loss recoverables from reinsurers, refund of state premium taxes and recovery of salvage and subrogation on paid loss claims. Operating expenses continue to be well within amounts budgeted by the receiver. Based on electronic claims data received from the guaranty associations as of September 30, 2007, a total of $9.1 million of loss claims and allocated loss adjustment expenses have been paid. See the Supplemental Claims Information exhibit for details.

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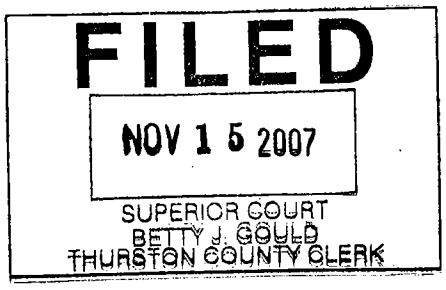

STATE OF WASHINGTON
THURSTON COUNTY SUPERIOR COURT

MIKE KREIDLER, INSURANCE COMMISSIONER, Petitioner, v. CASCADE NATIONAL INSURANCE COMPANY, Respondent.	NO. 04-2-02427-4 CERTIFICATE OF SERVICE

This will hereby certify that on the 15th day of November, 2007, I mailed a true and correct copy of the Insurance Commissioner's Eighth Quarterly Report of Receiver in this matter via the U.S. Mail, first-class postage prepaid, in sealed envelopes, from Olympia, WA, to the following interested parties:

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Majority Shareholder

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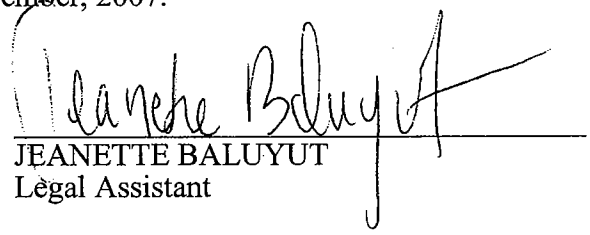
DATED this 15th day of November, 2007.



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