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SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF LOS ANGELES

DAVE JONES, Insurance Commissioner of the State of California, Applicant, vs. MISSION INSURANCE COMPANY, a California corporation, Respondent.	Case No. C 572 724 Honorable John Shepard Wiley Jr. **THE INSURANCE COMMISSIONER'S STATUS CONFERENCE REPORT AND UPDATED CLOSING PLAN**
Consolidated with Case Numbers C 576 324; C 576 416; C 576 323; C 576 325; C 629709	Date: November 18, 2011 Time: 8:30 a.m. Department 50 Action Filed: October 31, 1985

Dave Jones, Insurance Commissioner of the State of California, in his capacity as Trustee of the Mission Insurance Company Trust, the Mission National Insurance Company Trust and the Enterprise Insurance Company Trust ("Insurance Commissioner"), hereby submits this Status Report and advises the Court as follows:

I. Developments in the Case

In the past status report, the Insurance Commissioner advised that the Conservation and Liquidation Office was notified of the following development by Covanta Holding Corporation. This quotation was from a securities filing made by Covanta:

> "Our net operating loss carryforwards ("NOLs"), which offset our consolidated taxable income, will expire in various amounts, if not used, between 2011 and 2028. The Internal Revenue Service ("IRS") has not audited any of our tax returns for any of the years during the carryforward period including those returns for the years in which the losses giving rise to the NOLs were reported. On November 10, 2010, we received a letter from the IRS indicating that the IRS has selected for examination our tax returns for the tax years 2004 to 2008. We cannot assure you that we would prevail if the IRS were to challenge the availability of the NOLs. If the IRS were successful in challenging our NOLs, it is possible that some portion of the NOLs would not be available to offset our future consolidated taxable income".

The issue of taxation is addressed in the Amendment to Agreement Regarding Closing which the Insurance Commissioner as Trustee entered into with Covanta, with this Court's approval, as of December 1, 2005. This agreement provides in pertinent part at Page 6, paragraph 8 that:

> "Parent shall indemnify and hold harmless the Trusts and the Trustee from any claims, demands, losses, liabilities, attorneys' fees, costs, incidental damges, actual damages or consequential damages imposed on the Trustee or the Trusts for Income Taxes the Trusts may be required to pay that are attributable to net income reportable in the Consolidated Return for taxable years beginning with the taxable year ending on December 31, 2004".

Covanta therefore is responsible to indemnify the Trusts for any tax matters relating to tax years 2004-2008, the years in issue in the IRS review.

The Mission estates are currently grantor trusts of subsidiaries of Covanta Holding Corporation ("Covanta"). As a result, the income or loss allocable to the Mission estates is included in the consolidated federal income tax return filed by Covanta. Under the Tax Sharing Agreement between the Mission estates and Covanta, Covanta is liable to pay for all federal income taxes allocable to the estates for taxable years beginning in 2004. The Insurance Commissioner awaits resolution of this outstanding issue.

Under 31 U.S.C. 3713(a)(1)(A), a claim of the United States Government shall be paid first when a taxpayer indebted to the government is insolvent and either (i) the debtor makes a voluntary assignment of property to some other party without retaining enough property to pay all debts or (ii) an act of bankruptcy is committed. Under 31 U.S.C. 3713(b), a representative of an insolvent taxpayer paying any part of a debt of a person or estate before paying a claim of the government is liable to the extent of the payment for unpaid claims of the Government. This statutory scheme is affected by the operation of the California Insurance Code and of the McCarran-Ferguson Act, 15 U.S.C. 1011 et seq. The Insurance Commissioner lacks notice of any claims, tax or otherwise, which could give rise to federal claims. The Insurance Commissioner believes that Covanta will be required to meet, and will meet, any unexpected contingencies associated with Covanta's primary obligation for taxes due. However, as a matter of conservatism, the Insurance Commissioner has maintained assets in reserve. Consequently, the Mission Insurance Company Trust and Mission National Insurance Company Trust are currently retaining assets on account of the possibility that additional federal income taxes will be owed by the estates. In general, the statute of limitations on assessment closes three years after the tax return was filed (whether or not such return was filed on the date prescribed by law). Internal Revenue Code Section 6501. Corporate returns generally can be filed no later than September 15th for the previous taxable year for a corporate taxpayer maintaining its tax records on the basis of a calendar year (which is the case for the parties involved). In general, tax returns must be filed, despite the liquidation process, for all years ending with the taxable year in which the final distribution is made. Internal Revenue Code Section 6012.

IRS' selection of the 2004 through 2008 returns for review may affect the timing of closing. The Trustee will await information from Covanta as to the status of the review prior to making a further recommendation about distributions.

Since the last status conference, the Insurance Commissioner's counsel has been in touch with counsel for the United States Department of Justice. The Insurance Commissioner's counsel sent a letter dated September 1, 2011 to an attorney with the civil division of the United States Department of Justice. This letter sought a release of the Insurance Commissioner and the special deputy insurance commissioner from any potential civil liability under 31 U.S.C. 3713(b) arising from the Mission matters. An initial conference telephone call has been held to follow up on this matter. The Insurance Commissioner has provided additional information on this matter, and is in the process of assembling additional information to provide in the near future. The Insurance Commissioner hopes to obtain this release on non-tax matters, even as the audit, it is hoped, result in a closing of the tax years under review.

A new lawsuit has been filed relating to the Mission Insurance Company Trust. The plaintiffs Victoria Klein and Ashley Swadley, filing individually and as class representatives of the e-ferol class action, and alleging they are the assignee of CVS Revco D.S., Inc. and Retrac, Inc., joined Mission Insurance Co. and Mission Insurance Company Trust in that lawsuit captioned *Victoria Klein and Ashley Swadley v. Federal Insurance Co., et al*, Case Number CA 7-03-CV-102-D, pending in the United States District Court for the Northern District of Texas, Wichita Falls Division. Plaintiffs allege in that suit that they were provided a substance called "E-ferol" by alleged insureds of Mission Insurance Company. They seek declaratory relief that due process prevents application of the claims bar date to their claims. In fact, the proofs of claims filed by the insured were rejected without challenge, the bar dates are long expired, and the matter is closed. If the plaintiffs continue to insist upon pursuing this matter, then appropriate motions will be filed in the Wichita Falls federal action to seek dismissal of this suit. The Insurance Commissioner contends that the claims are barred; even if an issue existed, then this Court, not a court in Wichita Falls, Texas, should resolve that issue.

II. The Remaining Wind-up Tasks: Collection of the Sums due to the Trusts and Distribution of the Sums Collected to the Claimants

The case is in final wind-up pursuant to a closing order. This report will update status on what will be required, when it will be required, and how it will be accomplished to complete the winding-up.

A. The Collection of Sums due to the Trusts

In this case, substantial litigation to collect assets for the trusts has been completed. The Trusts now are owed sums by a number of insolvent entities, which are themselves subject to various proceedings throughout the world.

1. Holland-America Insurance Company Trust Claim

This Missouri company is one of the affiliates of the Mission Insurance companies, and is in Receivership proceedings in Missouri. Mission Insurance Company Trust has a substantial approved claim in the Missouri receivership proceeding. A substantial interim payment was received thus far in 2010, but further payments are anticipated, assuming everything occurs as projected.

Reinsurance Debtors Owe Sums to Mission Insurance Company Trust

The Mission Insurance Company Trust is owed money by insurers in rehabilitation or liquidation. This report will provide an update on the status of these collections.

Report on the Situation with Centaur Insurance Company

Mission Insurance Company Trust holds an approved claim against Centaur Insurance Company, an Illinois insurance company in rehabilitation. The amount of the proof of claim approved is $ 48,000,000 on behalf of the Mission Trusts:

The following historical data about Centaur Insurance Company is taken from the Illinois Office of the Special Deputy Receiver's website, www.osdchi.com:

"Historical Data:

Centaur Insurance Company, an Illinois domestic property and casualty insurance company, consented to an Agreed Order of Rehabilitation issued by the Circuit Court of Cook County, Illinois on September 4, 1987. The Rehabilitator's Second Revised Plan of Rehabilitation was entered and approved by the Supervisory Court on December 8, 2000. Centaur wrote general liability, as well as general property and casualty lines of business on a primary or excess basis. In addition, Centaur wrote assumed reinsurance. Centaur was licensed in D.C. and all states except AZ, CT, HI, KS, NH, SD, VT and WY, in which it wrote on a surplus line or non-admitted basis.

The Rehabilitator has paid $116,294,637 in direct claims and related loss adjustment expenses since the inception of the receivership proceedings.

On August 16, 1999, the Supervisory Court approved a plan for the Rehabilitator to pursue policy buy-backs with insureds. The plan has been completed; agreement was reached with 20 insureds for total settlements of $12,076,099. This resulted in a reduction in case reserves to Centaur of $20,102,432.

The Rehabilitator has engaged in negotiations with Centaur's reinsurers and reinsureds, both domestic and international, resulting in numerous commutations which were approved by the Supervisory Court. On November 13, 2006, the Supervisory Court entered an order approving a one hundred percent (100%) first dividend on all claims allowed and approved by the Supervisory Court for distribution at statutory priority level 215 ILCS 5/205(1)(e). The Supervisory Court further authorized the Rehabilitator to make distributions of estate assets necessary to effectuate the first dividend on allowed and court approved claims. The Supervisory Court's approved dividend and distribution of estate assets applies to claims which have, to date, been allowed and approved in the rehabilitation proceedings as well as to claims which may in the future be allowed and approved at statutory levels 215 ILCS 5/205(1)(d) and 215 ILCS 5/205(1)(e)".

This report indicates that Centaur Insurance Company has paid 100 percent of its policyholder-level claims thus far. The Third Quarter 2010 Rehabilitator's Statement of Changes in Cash and Invested Asets for the period of July 1, 2010 through September 30, 2010 reflect the following assets in the hands of the Centaur rehabilitation:

"Total unencumbered cash and assets: At book value: $ 80,275,271 at market value: $ 80,883,497". Centaur's financial statement for year-end 2009 reflects the following text in Note F LITIGATION/SETTLEMENTS:

"2. Federal Priority Issues

The United States government has previously asserted that insurance companies may be directly liable to the U.S. government where it has incurred a loss. The U.S. government has asserted that its right to distribution of the estate's assets in these situations is superior to that of other creditors, although that position was rejected, in part, by the United States Supreme Court in the case Department of Treasury v. Fabe, decided in June 1993. The United States Government or any of its agencies may be eligible for a claim distribution on an allowed claim under the statutory asset distribution schedule, 215 ILCS 5/205(1).

The amount of the liability, if any, cannot be determined at this time.

The Receiver is reviewing federal priority claims and has undertaken discussions with the U.S. Department of Justice, or will at the appropriate time".

The Trustee is unaware of any progress on this federal issue at Centaur since this report, and is advised by Centaur that this issue remains outstanding.

Another reinsurer, Universal Ruckversicherungs, is a foreign insolvency in its final stages, is expected to make a dividend in the future, but its timing is uncertain. Future reinsurance collections could exceed ten million dollars, including a possible further collection from Holland-America Insurance Company Trust.

B. The Timing Issues Posed by the Tax Concerns

The Insurance Commissioner projected that the most substantial portion of these assets will be released by the estates and distributed to creditors no later than year-end 2011, and that most of the remaining amounts will be distributed in 2012 through 2014. As of year-end 2014, the statute of limitations on assessment for federal income taxes will remain open for 2011 and later taxable years. Some assets will still need to be available in the event there is additional tax liability until the statute of limitations for 2014 has expired, but the Insurance Commissioner believes he can develop a solution whereby the assets in question can be held, so as not to prevent the estates from being closed as of year-end 2014, and hopefully even earlier.

Therefore, it is anticipated that the Mission and Mission National estates can be closed by year-end 2014, although as described above, it may be necessary to retain a minimal amount of assets in the unlikely event that there is additional federal income tax liability until all of the taxable years are closed for purposes of assessment by the Internal Revenue Service.

One unknown contingency is whether the IRS review of Covanta's tax returns for the years 2004 through 2008 may render advisable a further delay in the disbursement of reserves. The Trustee cannot recommend distribution until this issue is resolved. This review could delay the next projected distribution. Similarly, the Trustee has applied for a release from the Department of Justice from all non-tax issues. If the release is delayed, or an issue arises, this will affect the distribution date.

The Insurance Commissioner will set the anticipated distribution date for the bulk of the remaining assets by one year in light of these concerns.

III. Insurance Commissioner's Time Line for Wind-up

3. April 22, 2009 [re-set from March 31, 2009 to permit expanded notice of a motion] Motion to approve an Enterprise distribution—Enterprise Insurance Company Trust has paid all of the principal amount of its policyholder claims.

4. June 30, 2009: Actual distribution to the Enterprise creditors set forth in the April motion.

4. October 31, 2009—Approval will be sought to distribute all sums collected in 2009 above tax and closing reserves: completed.

5. October 31, 2010: Approval will be sought to distribute all sums collected in 2009 above tax and closing reserves: completed.

6. October 31, 2012 (reset from October 31, 2011): Approval of the Court to distribute the vast majority of the remaining assets of the trusts shall be sought, as the tax contingencies will in the main have expired. The tax review by the Internal Revenue Service may affect the timing of the projected distribution. The Commissioner will report to the Court on the timing of the IRS matters.

7. Final reserve distribution: Assuming that no tax or other unforeseen issues arise, a small sum will be required to be reserved for potential tax issues as to which the statute of limitations has not yet expired. This is projected to be a small fraction of the funds now being held, and current projections are that this small fraction will be distributed either to claimants or to a trust for the benefit of claimants by 2014.

IV. Financial Status of the Trusts

Attached as Exhibit "A" is a statement of assets and liabilities for the Trusts. The Trustee continues to hold a substantial sum of money in reserve for unknown and unexpected contingencies.

Conclusion:

The wind-up of this case is continuing, with the continued factor of an IRS review of the Covanta tax situation, a request to get clearance in light of the lack of any other federal claims, and a new lawsuit filed by a set of late claimants. The Court is requested to set a May 2012 status conference.

Respectfully submitted,

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 Conservation & Liquidation Office

Mission Ins Co

STATEMENT OF ASSETS AND LIABILITIES
As of June 30, 2011

	(Opening Balance) Jan 1 1998	Jun 30 2011	Change
ASSETS			
Cash and cash equivalents:			
Unrestricted	217,610	-	*(217,610)*
Restricted	16,455,223	580,792	*(15,874,431)*
Participation in pooled investments, at market	480,851,923	102,465,450	*(378,386,473)*
Accrued investment income	-	482,263	*482,263*
Statutory deposits held by other states	16,677,901	-	*(16,677,901)*
Recoverable from reinsurers	63,758,552	21,586,435	*(42,172,117)*
Receivable from affiliates, net of allowances	91,265,656	24,027,176	*(67,238,480)*
Deposits and other assets	256,437	-	*(256,437)*
Total Assets	669,483,302	149,142,116	*(520,341,186)*
LIABILITIES			
Unclaimed Funds and Other Secured Claims	-	1,758,693	*1,758,693*
Reserve for Federal Income Tax Liability	-	77,581,132	*77,581,132*
Claims against policies, including guaranty associations, before distributions	784,277,837	846,832,561	*62,554,724*
Policyholder distributions	-	(846,832,560)	*(846,832,560)*
California and Federal claims having preference	-	-	-
All other claims	1,024,261,559	198,438,478	*(825,823,081)*
Total Liabilities	1,808,539,396	277,778,303	*(1,530,761,093)*
NET ASSETS (DEFICIENCY)	**(1,139,056,094)**	**(128,636,187)**	***1,010,419,907***

Conservation & Liquidation Office

673 **Mission Ins Co**

STATEMENT OF CHANGES TO NET ASSETS

As of June 30, 2011

	1998 to 2010	Jun 30 ytd 2011	Jan 1998 to Jun 2011
Income			
Reinsurance Recoveries	17,019,505	-	17,019,505
Litigation Recoveries	2,633,791	-	2,633,791
Premiums and Other Collections	7,736,713	15,974	7,752,687
Salvage/Subrogation Recoveries	773,701	-	773,701
Net Investment Income	242,255,131	1,320,023	243,575,154
	270,418,841	1,335,997	271,754,838
Operating Expenses			
Legal and Professional	8,853,704	32,999	8,886,703
General and Administrative	13,857,855	102,518	13,960,374
Allocated Expenses	7,693,728	115,218	7,808,946
Loss (Gain) on Disposition of Assets	(2,975,024)	-	(2,975,024)
	27,430,263	250,735	27,680,999
Losses and Other Expenses			
Incurred Losses and Claims Expense	76,379,310	-	76,379,310
Court-ordered Debt Forgiveness	(915,746,819)	-	(915,746,819)
Provision for Federal Income Taxes	78,933,754	-	78,933,754
	(760,433,755)	-	(760,433,755)
NET INCOME (LOSS)	1,003,422,333	1,085,262	1,004,507,595
Adjustments to assets and liabilities	5,911,248	1,064	5,912,311
Changes to Net Assets	1,009,333,581	1,086,325	1,010,419,907

Conservation & Liquidation Office

Mission National Ins Co

STATEMENT OF ASSETS AND LIABILITIES

As of June 30, 2011

	(Opening Balance) Jan 1 1998	Jun 30 2011	Change
ASSETS			
Cash and cash equivalents:			
Unrestricted	102,520	-	*(102,520)*
Participation in pooled investments, at market	232,119,932	22,616,531	*(209,503,401)*
Accrued investment income	-	106,262	*106,262*
Statutory deposits held by other states	1,947,958	-	*(1,947,958)*
Recoverable from reinsurers	13,739,903	5,119,864	*(8,620,039)*
Receivable from affiliates, net of allowances	(23,054,953)	-	*23,054,953*
Other receivable	-	76,474	*76,474*
Total Assets	224,855,360	27,919,131	*(196,936,229)*
LIABILITIES			
Unclaimed Funds and Other Secured Claims	-	1,886,786	*1,886,786*
Reserve for Federal Income Tax Liability	-	15,867,034	*15,867,034*
Claims against policies, including guaranty associations, before distributions	354,972,480	596,098,477	*241,125,997*
Policyholder distributions	-	(499,851,864)	*(499,851,864)*
All other claims	14,177,008	16,838,096	*2,661,088*
Total Liabilities	369,149,488	130,838,528	*(238,310,960)*
NET ASSETS (DEFICIENCY)	(144,294,128)	(102,919,397)	*41,374,731*

Conservation & Liquidation Office

Mission National Ins Co

STATEMENT OF CHANGES TO NET ASSETS

As of June 30, 2011

	1998 to 2010	Jun 30 ytd 2011	Jan 1998 to Jun 2011
Income			
Reinsurance Recoveries	(2,348,254)	-	**(2,348,254)**
Litigation Recoveries	943,000	-	**943,000**
Premium and Other Collections	205,509	15	**205,524**
Salvage/Subrogation Recoveries	236,868	-	**236,868**
Net Investment Income	111,686,634	291,147	**111,977,781**
	110,723,758	291,162	**111,014,920**
Operating Expenses			
Legal and Professional	1,388,119	12,201	**1,400,320**
General and Administrative	122,996	149	**123,145**
Allocated Expenses	5,923,448	28,256	**5,951,704**
Loss (Gain) on Disposition of Assets	(7,868,879)	-	**(7,868,879)**
	(434,316)	40,606	**(393,710)**
Losses and Other Expenses			
Incurred Losses and Claims Expense	130,446,976	-	**130,446,976**
Court-ordered Debt Forgiveness	(75,397,352)	-	**(75,397,352)**
Provision for Federal Income Taxes	17,442,781	-	**17,442,781**
	72,492,405	-	**72,492,405**
NET INCOME (LOSS)	**38,665,669**	**250,556**	**38,916,225**
Adjustments to assets and liabilities	2,458,506	-	**2,458,506**
Changes to Net Assets	41,124,176	250,556	41,374,731

Conservation & Liquidation Office

Enterprise Ins Co

STATEMENT OF ASSETS AND LIABILITIES

As of June 30, 2011

	(Opening Balance) Jan 1 1998	Jun 30 2011	Change
ASSETS			
Cash and cash equivalents:			
Unrestricted	29,771,800	-	*(29,771,800)*
Participation in pooled investments, at market	-	7,053,510	*7,053,510*
Accrued investment income	-	33,100	*33,100*
Recoverable from reinsurers	299,581	-	*(299,581)*
Receivable from affiliates, net of allowances	40,108,050	-	*(40,108,050)*
Other receivable	848,164	-	*(848,164)*
Total Assets	71,027,595	7,086,610	*(63,940,985)*
LIABILITIES			
Unclaimed Funds and Other Secured Claims	-	661,189	*661,189*
Reserve for Federal Income Tax Liability	341,083	579,336	*238,253*
Claims against policies, including guaranty associations, before distributions	75,391,507	120,573,416	*45,181,909*
Policyholder distributions	-	(120,573,414)	*(120,573,414)*
All other claims	18,008,695	30,780,906	*12,772,211*
Total Liabilities	93,741,285	32,021,434	*(61,719,851)*
NET ASSETS (DEFICIENCY)	**(22,713,690)**	**(24,934,823)**	***(2,221,133)***

Conservation & Liquidation Office

540 **Enterprise Ins Co**

STATEMENT OF CHANGES TO NET ASSETS

As of June 30, 2011

	1998 to 2010	Jun 30 ytd 2011	Jan 1998 to Jun 2011
Income			
Litigation Recoveries	205,000	-	**205,000**
Premium and Other Collections	2,105,701	-	**2,105,701**
Salvage/Subrogation Recoveries	7,402	-	**7,402**
Net Investment Income	8,333,443	90,891	**8,424,334**
	10,651,547	90,891	**10,742,437**
Operating Expenses			
Legal and Professional	507,439	4,454	**511,893**
General and Administrative	16,386	464	**16,849**
Allocated Expenses	1,685,623	14,934	**1,700,557**
Loss (Gain) on Disposition of Assets	(594,494)	-	**(594,494)**
	1,614,954	19,852	**1,634,806**
Losses and Other Expenses			
Incurred Losses and Claims Expense	10,649,839	-	**10,649,839**
Provision for Federal Income Taxes	672,454	-	**672,454**
	11,322,293	-	**11,322,293**
NET INCOME (LOSS)	**(2,285,700)**	**71,039**	**(2,214,661)**
Adjustments to assets and liabilities	(6,472)	-	**(6,472)**
Changes to Net Assets	(2,292,171)	71,039	**(2,221,133)**