

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In re:) Chapter 11
)
LIFE FUND 5.1, LLC, et. al.,) Case No. 09-32672
) (Jointly Administered)
)
Debtors.) Hon. A. Benjamin Goldgar

TRUSTEE'S SECOND STATUS REPORT

Patrick M. Collins, not individually, but solely in his capacity as chapter 11 trustee (the “Trustee”) of the above-captioned Debtors’ estates¹ provides the following as a second status report on his investigation, activities, and plans for this matter moving forward. This follows the Trustee’s Initial Status Report, which was filed on October 14, 2009 and which is available to interested parties at the Trustee’s website, www.lifefundtrustee.com. The Trustee is submitting this report in order to provide the Court and investors additional information regarding the Trustee’s activities. Although the Trustee’s activities have involved a wide range of issues, thus far his activities have focused on two principal priorities: (1) analysis and preservation of assets (primarily insurance policy assets); and (2) investigation and evaluation of potential claims of the Debtors’ estates.

I. ANALYSIS AND PRESERVATION OF INSURANCE POLICY ASSETS.

Since the Initial Status Report on October 14, 2009, the Trustee has continued his efforts to evaluate and preserve the life insurance policies (generally, the “Policies”). Among other things, the Trustee has: (1) worked with outside consultants to evaluate the Policies and

¹ The Debtors are Life Fund 5.1, LLC (Case No. 09-32672) (“5.1”); Life Fund 5.2, LLC (Case No. 09-32674) (“5.2”); A&O Life Fund, LLC (Case No. 09-32678) (“LF”); Houston Tanglewood Partners, LLC (Case No. 09-32676) (“HTP”); A&O Resource Management, Ltd. (Case No. 09-32677) (“AO”); A&O Bonded Life Assets, LLC (Case No. 09-32679) (“Assets”); and A&O Bonded Life Settlement, LLC (Case No. 09-32681) (“LS”).

determine the best way to maximize the values of the Policies;² (2) obtained Court authority to borrow against the cash value of one policy to make certain other premium payments; (3) submitted payments in order to continue, in-force, a policy for which payments had been missed; (4) made claims to Provident Capital Indemnity with respect to two policies for which Provident appears to have immediate obligations; (5) worked to confirm the status of the insureds; and (6) continued to evaluate other issues that may impact the value of the Policies.

In close consultation with industry experts, the Trustee continues to evaluate each individual Policy. Based on information received by the Trustee to date, it appears that the best way to maximize the value of the Policies to the Debtors' estates and, ultimately, investors is to undertake an orderly process of selling the Policies, or some subset of the Policies, in the tertiary market.³ The Trustee has been informed by every expert he has conferred with on this matter, however, that the Policy files and information should be updated in several respects prior to exposing the Policies to the market. In fact, this may be a virtual necessity prior to any sale, and obviously the cash status of the Debtors creates various hurdles to this process.

The Trustee has sought to retain Melville Capital as its broker in connection with these activities. Melville Capital has significant experience in brokering transactions involving life insurance policies, particularly in the context of bankruptcy proceedings, and has already begun the process of evaluating the files and determining what steps need to be taken to prepare Policies for sale. The Trustee intends to avoid, if at all possible, a quick "firesale" of the Policies and intends to work with Melville Capital to collect the information necessary to maximize the

² The Trustee has negotiated a compensation structure with Melville Capital, an experienced life settlement broker, that creates significant incentives for Melville Capital to maximize the value of any Policy that is sold by the Debtors estates.

³ Certain investors have inquired about the possibility of purchasing Policies from the estates so that they can be maintained in force. The Trustee expects that this option will be available to investors, at market prices.

policy values. Although each policy will be evaluated individually, the following list provides some examples of issues that Melville Capital and the Trustee expect to work through:

- Some files are missing underlying documentation that customarily form part of a life settlement transaction;
- Updated Life Expectancy reports for the insureds would in most cases improve the marketability of the Policies;
- For some policies there are conflicting ownership claims and/or multiple owners, which will complicate the process of taking any steps with respect to such Policies; and
- Some of the Policies have contractual provisions, premium structures, or other issues that may make them less attractive to potential buyers.

Based on further discussions with experts and evaluation of underlying documentation obtained from the Debtors, the Trustee has questions about the continued propriety of the Debtors' estates making payments on certain Policies identified as in-force in the Initial Status Report dated October 14, 2009. In particular, the Trustee expects to discontinue premium payments and allow policies to lapse in cases where, after investigation and discussions with consultants, it appears that either: (i) it is highly unlikely, due to the premium structure or other market considerations, that the Policy could be sold; and/or (ii) the market is highly unlikely to accept a particular Policy as having value (and the insurance company may object to any payment in the event of a death of the insured) due to questions about whether any of the Debtor entities hold a proper insurable interest in a given Policy. Currently, it appears that this latter issue impacts only a minority of the Policies identified as in-force. The Trustee continues to evaluate potential claims the Debtors' estates may have with respect to the Policies.

II. INVESTIGATION AND EVALUATION OF POTENTIAL CLAIMS.

In connection with the Trustee's continued investigation into potential assets of the Debtors' estates and this matter generally, the Trustee has issued subpoenas for documents and Rule 2004 deposition examinations of: (i) Adley Wahab; (ii) Brent Oncale; (iii) Chris

Allmendinger; (iv) David White; (v) John Spalding; and (vi) Laura Spalding. The Trustee has also issued a subpoena to Bayou City Escrow. Wahab, Oncale, and Allmendinger were former principals of the A&O funds. White had a leadership role with the A&O funds for a period of time in or around 2007 and early 2008. The Trustee is further informed and believes that John and Laura Spalding were owners or officers of a business formerly known as Bayou City Escrow, and that over \$31 million in investor funds were deposited into or passed through accounts of Bayou City Escrow in connection with A&O investment transactions. According to information received by the Trustee, many investors were informed that Bayou City Escrow would perform various escrow services (payment of premiums, holding of policy interests, etc.) that were not actually performed by that entity. The Trustee plans to work with the deponents to schedule the depositions in November and December 2009.

In addition, after extensive discussions with regulatory agencies (including the Texas State Securities Board, as well as federal agencies) and the Receiver in a case in Texas titled *Securities & Exchange Commission v. W Financial et al.*, the Trustee negotiated a proposed settlement with the W Financial Receiver that would allow a portion of the funds recovered in the Texas case to be transferred to the Debtors as recovered assets. Based on financial analysis, the Trustee believes that some A&O investor funds were transferred to W Financial and/or accounts that ultimately were intermingled with assets seized or sought by the W Financial Receiver. On October 29, 2009, the Trustee filed a motion with the Court seeking approval of the compromise reached with respect to the W Financial Receiver, and the Receiver similarly is seeking approval of the settlement from the court in the Texas case. A copy of the motion filed by the Trustee is available at www.lifefundstrustee.com. If approved by the Court, the settlement has the potential to infuse over \$900,000 into the Debtors' estates and greatly improve their liquidity, which will allow the Trustee to maximize the value of the Policies. Prior to

accepting the settlement, which was supported by the Texas State Securities Board, the Trustee worked closely with the Texas State Securities Board to evaluate information related to the connections between W Financial and the A & O funds.

The vast majority of A&O investor funds were used for other purposes,⁴ including but not limited to:

- Purchase of Policies;
- Payments to other insiders and principals;
- Policy Premium payments;
- Payments to sales agents;
- Provident Capital Indemnity payments; and
- “Fees” to various individuals and entities (such as “escrow” fees);

The Trustee continues to evaluate the nature of these transfers and the circumstances under which they are made, and intends to use his authority under the bankruptcy process to pursue appropriate claims. Most recently, the Trustee has filed a motion seeking authority to issue a subpoena and conduct a Rule 2004 examination of Ideal Settlements, through which the majority of Policies were purchased by A&O. The Trustee has also requested and received multiple boxes of documents from Turn Key Hedge Funds, an entity that provided services in launching several A&O entities and then subsequently provided certain administrative and office services to A&O. In addition, the Trustee also expects to continue working with the Texas State Securities Board to evaluate historical financial transactions between and from various A&O accounts in order to determine appropriate claims.

The Trustee will continue to provide information to interested parties through the website www.lifefundtrustee.com. Among other things, the website provides access to the bankruptcy docket and filings in this matter to interested individuals. The phone line set up by the Trustee

for questions or other information is 1-877-841-2346. The Trustee plans and hopes to continue to provide appropriate updates about his activities, plans, and the status of his investigation, and welcomes investors' input.

Dated: November 12, 2009

Respectfully submitted,

PATRICK M. COLLINS, not individually,
but solely in his capacity as chapter 11
Trustee of the Debtors' estates

By: /s/ Brian A. Audette

PERKINS COIE LLP

David M. Neff (ARDC #6190202)

Brian A. Audette (ARDC #6277056)

131 S. Dearborn St., Ste. 1700

Chicago, IL 60603

Tel: (312) 324-8400

Fax: (312) 324-9400

dneff@perkinscoie.com

baudette@perkinscoie.com

Counsel to the Trustee

⁴ This information is based primarily on analysis performed by the Texas State Securities Board, which has continued to work with the Trustee closely in connection with this matter.

CERTIFICATE OF SERVICE

Brian A. Audette, an attorney, certifies that on November 12, 2009 he caused a copy of the *Trustee's Second Status Report* to be served on the parties registered or requested to receive notice as indicated on the attached Service List.

/s/ Brian A. Audette

SERVICE LIST

	Delivery Method		Delivery Method
Sandra Rasnak Richard Friedman Office of the U.S. Trustee 219 S. Dearborn St., Room 873 Chicago, IL 60604-1702 sandra.rasnak@usdoj.gov richard.c.friedman@usdoj.gov	Email	Brian M. Graham Bryan Minier SMITHAMUNDSEN LLC 150 N. Michigan Ave., Suite 3300 Chicago, IL 60601 bgraham@salawus.com bminier@salawus.com	Email and Court's ECF notice
David T. B. Audley Carly Jones Chapman & Cutler 111 W. Monroe Street, Suite 1600 Chicago, IL 60603 audley@chapman.com cmjones@chapman.com	Email and Court's ECF notice	Michael L. Gesas Thomas P. Yardley Miriam R. Stein Kevin H. Morse Arnstein & Lehr LLP 120 S. Riverside Plaza, Suite 1200 Chicago, IL 60606 mlgesas@arnstein.com mrstein@arnstein.com tpyardley@arnstein.com khmorse@arnstein.com	Email and Court's ECF notice
Deborah J. Fritsche Lori A. Hood Johnson, Trent, West & Taylor, LLP 919 Milam, Suite 1700 Houston, TX 77002 dfritsche@johnsontrent.com lhood@johnsontrent.com	Email and Court's ECF notice	Tony L. Visage Deana F. Tillotson Bracewell & Giuliani LLP 711 Louisiana St., Suite 2300 Houston, TX 77002-2770 tony.visage@bgllp.com deana.tillotson@bgllp.com	Email
Arlene N. Gelman Michael M. Eidelman Vedder Price P.C. 222 N. LaSalle St., Suite 2600 Chicago, IL 60601 agelman@vedderprice.com meidelman@vedderprice.com	Email and Court's ECF notice	David S. Gragg Langley & Banack, Inc. Trinity Plaza II, 9th Floor 745 E. Mulberry San Antonio, TX 78212-3166 dgragg@langleybanack.com	Email
Zala Forizs Forizs & Dogali, P.A. 4301 Anchor Plaza Pkwy., Ste 300 Tampa, FL 33634 zforizs@forizs-dogali.com	Email	Janet Douvas Chafin Jackson Walker LLP 1401 McKinney, Suite 1900 Houston, TX 77010 jchafin@jw.com	Email

	Delivery Method		Delivery Method
Daniel T. Graham Neil M. Rosenbaum Funkhouser, Vegosen, Liebman & Dunn, Ltd. 55 W. Monroe, Suite 2300 Chicago, IL 60603 dgraham@fvldlaw.com nrosenbaum@fvldlaw.com	Email and Court's ECF notice	Gordon E. Gouveia Shaw Gussis Fishman Glantz Wolfson & Towbin 321 N. Clark Street, Suite 800 Chicago, IL 60654 ggouveia@shawgussis.com	Email and Court's ECF notice
Patricia A. Navin 32 Mill Road Hampton, NH 03842 navin32@comcast.net	Email	Nancy J. Groppi 5837 Electric Avenue Berkeley, IL 60163-1522 ngroppi@adt.com	Email
Edith Stuart Phillips Assistant Attorney General Bankruptcy & Collections Division P.O. Box 12548, MC-008 Austin, TX 78711-2548 stuart.phillips@oag.state.tx.us	Email and Court's ECF notice	Hal F. Morris Assistant Attorney General Bankruptcy Regulatory Section P.O. Box 12548, MC-008 Austin, TX 78711-2548 hal.morris@oag.state.tx.us	Email
Emily S. Gottlieb The Garden City Group, Inc. 190 S. LaSalle St., Suite 1520 Chicago, Illinois 60603 emily.gottlieb@gardencitygroup.com	Email and Court's ECF notice	Mary Fabre LeVine Blalock Walters Held & Johnson PA 802 11th Street West Bradenton, FL 34205 mlevine@blalockwalters.com	Email
David E. Grochocinski David P. Lloyd Ariane Holtschlag Grochocinski, Grochocinski & Lloyd 1900 Ravinia Place Orland Park, IL 60462 lawyers@ggl-law.com	Email and Court's ECF notice	Erin E. Jones Barron, Newburger & Sinsley PLLC 5718 Westheimer, Suite 1755 Houston, TX 77057 ejones@bns-law.com	Email
Judith T. Romano Phelan Hallinan & Schmieg, LLP 1617 John F. Kennedy Blvd. #1400 Philadelphia, PA 19103 judith.romano@fedphe.com	Email	Toby Galloway U.S. Securities & Exchange Comm. Fort Worth Regional Office 801 Cherry Street, 19th Floor Fort Worth, TX 76102	U.S. Mail
Paige E. Barr Katten Muchin Rosenman LLP 525 W. Monroe Street Chicago, IL 60661 paige.barr@kattenlaw.com	Email and Court's ECF notice	Russell E. Mackert Russell E. Mackert 5555 West Loop South, Suite 605 Houston, TX 77401 rmackert1@aol.com	Email