

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

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In re:	)	Chapter 11
	)	
LIFE FUND 5.1, LLC, <i>et al.</i> , <sup>1</sup>	)	Case No. 09 B 32672
	)	
Debtors.	)	Jointly Administered
	)	<b><u>Hearing Date: August 18, 2010</u></b>
	)	<b><u>Hearing Time: 9:30 a.m.</u></b>

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**NOTICE OF HEARING ON TRUSTEE’S MOTION FOR ORDERS: (1) APPROVING (A) PROCEDURES FOR THE SALE OF LIFE POLICY ASSETS FREE AND CLEAR OF CLAIMS AND ENCUMBRANCES AND WITH CERTAIN FINDINGS AND (B) PROCEDURES TO REDEEM OR ALLOW LIFE POLICY ASSETS TO LAPSE; (2) DETERMINING ESTATES’ RIGHTS TO AND IN POLICIES; (3) PREVENTING INSURERS FROM TAKING CERTAIN ACTS WITH RESPECT TO POLICIES; AND (4) GRANTING RELATED RELIEF**

**TO: SEE ATTACHED SERVICE LIST**

**PLEASE TAKE NOTICE** that on **August 18, 2010, at 9:30 a.m.**, the undersigned shall appear before the Honorable A. Benjamin Goldgar, United States Bankruptcy Judge for the United States Bankruptcy Court, Northern District of Illinois, Eastern Division, or any other Judge who may be sitting in his place and stead, in Courtroom 613 of the Dirksen Federal Building, 219 S. Dearborn Street, Chicago, Illinois, 60604, and then and there present for hearing the **Trustee’s Motion for Orders: (1) Approving (A) Procedures for the Sale of Life Policy Assets Free and Clear of Claims and Encumbrances and With Certain Findings and (B) Procedures to Redeem or Allow Life Policy Assets to Lapse; (2) Determining Estates’ Rights to and in Policies; (3) Preventing Insurers From Taking Certain Acts With Respect to Policies; and (4) Granting Related Relief** (the “Motion”), a copy of which is enclosed herewith and hereby served upon you.

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<sup>1</sup> The Debtors in the cases are: (1) Life Fund 5.1, LLC; (2) Life Fund 5.2, LLC; (3) A&O Life Fund, LLC; (4) A&O Resource Management, Ltd.; (5) A&O Bonded Life Settlements, LLC; (6) A&O Bonded Life Assets, LLC; and (7) Houston Tanglewood Partners, LLC.

Dated: July 26, 2010

**LIFE FUND 5.1, LLC  
LIFE FUND 5.2, LLC  
A&O LIFE FUND, LLC  
A&O RESOURCE MANAGEMENT, LLC  
A&O BONDED LIFE SETTLEMENT, LLC  
A&O BONDED LIFE ASSETS, LLC; and  
HOUSTON TANGLEWOOD PARTNERS, LLC**

/s/ Jeremy T. Stillings

Jeff Marwil (ARDC # 06194054)  
Jeremy T. Stillings (ARDC# 06279868)  
PROSKAUER ROSE LLP  
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(312) 962-3529  
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*Counsel to the Trustee*

**CERTIFICATE OF SERVICE**

I, Jeremy T. Stillings, an attorney, hereby certify that on July 26, 2010, I caused copies of the enclosed **Trustee’s Motion for Orders: (1) Approving (A) Procedures for the Sale of Life Policy Assets Free and Clear of Claims and Encumbrances and With Certain Findings and (B) Procedures to Redeem or Allow Life Policy Assets to Lapse; (2) Determining Estates’ Rights to and in Policies; (3) Preventing Insurers From Taking Certain Acts With Respect to Policies; and (4) Granting Related Relief** to be served upon those parties on the attached service list in the manner indicated therein.

Dated: July 26, 2010

By: /s/ Jeremy T. Stillings

Served Via Court ECF System	
LANGLEY & BANACK INC. David S. Gragg Trinity Plaza II, 9 <sup>th</sup> Floor 745 E. Mulberry San Antonio, TX 78212-3166	PERKINS COIE LLP Brian A. Audette David M. Neff 131 S. Dearborn St. Suite 1700 Chicago, IL 60603
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UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

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LIFE FUND 5.1, LLC, <i>et al.</i> , <sup>1</sup>	)	Case No. 09 B 32672
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**TRUSTEE’S MOTION FOR ORDERS: (1) APPROVING (A) PROCEDURES FOR THE SALE OF LIFE POLICY ASSETS FREE AND CLEAR OF CLAIMS AND ENCUMBRANCES AND WITH CERTAIN FINDINGS AND (B) PROCEDURES TO REDEEM OR ALLOW LIFE POLICY ASSETS TO LAPSE; (2) DETERMINING ESTATES’ RIGHTS TO AND IN POLICIES; (3) PREVENTING INSURERS FROM TAKING CERTAIN ACTS WITH RESPECT TO POLICIES; AND (4) GRANTING RELATED RELIEF**

The above-captioned debtors (collectively, the “Debtors”), by and through Jeff Marwil, not individually, but solely in his capacity as chapter 11 trustee (the “Trustee”) to the Debtors’ bankruptcy estates (the “Estates”), hereby move the Court (the “Motion”), pursuant to sections 105(a), 363 and 365 of title 11 of the United States Code (11 U.S.C. §§ 101 *et seq.*, the “Bankruptcy Code”) and Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) 2002, 6004, 6006, and 9014, for entry of an order or orders: (1) approving Competitive Sale Procedures for the Life Policy Assets; (2) approving Lapse Procedures and Redemption Procedures; (3) upon subsequent notice to the Court, authorizing the sale and/or assumption and assignment of Life Policy Assets free and clear of liens, claims and encumbrances; (4) finding that the Estates are the owners of the Policies and that Insurers cannot contest the validity or

<sup>1</sup> The Debtors in the cases are: (1) Life Fund 5.1, LLC; (2) Life Fund 5.2, LLC; (3) A&O Life Fund, LLC; (4) A&O Resource Management, LLC; (5) A&O Bonded Life Settlement, LLC; (6) A&O Bonded Life Assets, LLC; and (7) Houston Tanglewood Partners, LLC.

enforceability of the Policies; and (5) granting related relief. In support of the Motion, the Trustee states as follows:

**JURISDICTION**

1. This Court has jurisdiction to consider the Motion pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2)(A), (N) and (O).

2. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

3. The statutory and rule-based predicates for the relief requested herein are sections 105, 363 and 365 of the Bankruptcy Code and Bankruptcy Rules 2002, 6004, 6006, and 9014.

**SUMMARY OF RELIEF REQUESTED**

4. The Motions seeks approval of, among other things, the following procedures, as set forth in greater detail below:

a) Competitive Sale Procedures, which authorize the Trustee to, among other things: (i) market Life Policies Assets for sale, (ii) incur and be reimbursed for costs related thereto, (iii) grant Break-Up Fees in amounts no greater than 4% of the purchase price of any asset to be sold, and (iv) seek final authority of this Court to sell Life Policy Assets after a hearing and upon no less than 10 days' notice to parties with an interest in the asset to be sold.

b) Redemption Procedures, which authorize the Trustee to redeem Policies for their cash surrender value upon 7 days' notice to certain parties in interest.

c) Lapse Procedures, which authorize the Trustee to allow Policies to lapse upon 7 days' notice to certain parties in interest.

5. The Trustee requests that the Proposed Order bind Insurers as to the Estates' ownership of the Policies and, in part because the contestability period of the Policies has passed, determine that the Insurers cannot contest the validity or enforceability of the Policies for any reason other than non-payment of premiums due under the Policies.

### **INTRODUCTION**

6. On September 2, 2009 (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code, commencing the above-captioned chapter 11 cases (the "Chapter 11 Cases"). On September 16, 2009, the Court granted a motion of the office of the United States Trustee (the "UST") requesting appointment of a chapter 11 trustee under section 1104(a) of the Bankruptcy Code. On September 21, 2009, the Court approved the appointment of Patrick Collins as chapter 11 trustee. On March 8, 2010, after Mr. Marwil was elected Trustee by creditors of the Debtors, the Court entered an order certifying Mr. Marwil's election as Trustee.

7. Prior to the Petition Date, the Debtors operated in the "life settlement" industry, soliciting funds from individual investors in order to use such funds to acquire ownership or beneficial interests in life insurance policies on third party insureds. The Debtors' interests in such policies (collectively, the "Policies"), as well as the asserted interests of others in the Policies, are identified in **Exhibit 1** to the proposed order granting the Motion (the "Proposed Order"). The Debtors also acquired bonds (also as identified on **Exhibit 1** to the Proposed Order, each a "PCI Bond" and PCI Bonds together with Policies, "Life Policy Assets") issued by Provident Capital Indemnity, Ltd. ("PCI") on certain Policies. Each PCI Bond matures on a date certain and obligates PCI to pay to the Debtors at maturity of the PCI Bond an amount typically

equal to the death benefit of a corresponding Policy, which payment would monetize such Policy at a known date if the insured remained alive.

8. The Debtors' purported business model was to collect either death benefits (if there was no PCI Bond on a Policy or if the Policy matured prior to the maturity of the PCI Bond) or proceeds of the PCI Bonds (if the PCI Bond matured before maturity of the Policy on which it was issued). Under the latter circumstance, the Debtors would tender to PCI the Policy subject to the PCI Bond in exchange for payment on the PCI Bond. This business model requires the Debtors to satisfy premiums necessary to maintain Policies until they are monetized.

9. Prior to the Petition Date, the Debtors paid in advance premiums on some, but not all, of the Policies. If a Policy has an accrued cash value, Policy premiums (or the Policy cost of insurance) may be satisfied by the insurance provider (as identified on **Exhibit 1** to the Proposed Order, each an "Insurer" and together, the "Insurers") reducing the account value of the Policy by the amount due. As set forth on **Exhibit 1** to the Proposed Order, many of the Policies require significant premium payments on a regular basis. Failure to satisfy required premiums for a Policy (or at least pay the cost of insurance, which typically is a lower amount than the premium) ultimately results in the lapse of the Policy, in which case the Policy and any PCI Bond on the Policy lose all value to the Estates. Premiums paid for a Policy that subsequently lapses are sunk, unrecoverable costs. The Trustee believes that many Policies lapsed due to nonpayment of premiums prior to the Petition Date. To the Trustee's knowledge, no Policies have lapsed since the Trustee's election.

10. Policies in force can be sold by the Trustee to third parties to bring value to the Estates. Alternatively, some Policies have an accrued account value that can be used to, among other things, satisfy premium obligations. As noted above, the account value of a Policy will

decrease as premium payments are deducted from it. Depending on the Policy terms, the Trustee may be able to redeem such Policy in exchange for its cash value (in some cases less fees or other contractual charges). Policies redeemed for their cash value effectively are cancelled and turned over to the issuing Insurer and would cease being an asset of the Estates.

11. In an effort to maximize and monetize assets of the Estates, the Trustee, with the advice and guidance of his counsel and other professionals retained by the Estates prior to the Trustee's election (including Melville Capital, LLC ("Melville") and Lewis & Ellis, Inc., life policy experts and actuaries, respectively), has conducted a comprehensive analysis of the Policies and the PCI Bonds. With respect to each Policy, the Trustee and his professionals considered, among other things, the life expectancy of the insured(s), the amount and frequency of premium payments required to maintain such Policy, the net cash value and the estimated sale price in the open market. Prior to and as part of this process, Melville preliminarily marketed for sale several of the Policies.

12. Also as part of this process, the Trustee conferred with principals of PCI to determine, among other things, PCI's ability to satisfy future obligations under the PCI Bonds. Under an agreement with the Estates that was approved by the Court, PCI is required to satisfy over time its obligations under two PCI Bonds that previously matured. As of the date of the Motion, PCI had failed to make two payments each in the amount of \$833,333 required by the settlement agreement. PCI is not a U.S. entity and it remains under consideration how the Trustee will, if at all, seek to enforce PCI's obligations to the Estates in the event of a continuing breach by PCI. The Trustee has met with and remains in regular correspondence with PCI and requested that PCI provide the Trustee with evidence of its ability to satisfy PCI Bond obligations as they now exist and are expected to come due.

13. The Trustee has concluded that all of the Policies (and, if there is sufficient interest, any corresponding PCI Bond) should be marketed for sale to determine their market value. Once a market value is determined for a Policy, the Trustee will compare that market value to the results of his analysis and decide whether to sell, hold or redeem the Policy. In certain circumstances, for example where a policy (a) has no net market value, (b) has no cash value (net of fees and costs of redemption, if any), and (c) is projected to require future premium payments that have a present value greater than the expected present value of the related death benefit, the Trustee may allow a Policy to lapse. The procedures set forth below are designed to allow the Trustee to publicly market the Life Policy Assets and make and execute a decision on whether to sell (or assume and assign, if necessary), redeem, hold or allow to lapse each Life Policy Asset, all in compliance with the Bankruptcy Code and the Bankruptcy Rules.

**RELIEF REQUESTED**

14. By the Motion, the Trustee seeks approval of: (a) Competitive Sale Procedures; (b) Lapse Procedures; and (c) Redemption Procedures, which collectively seek authority to sell (free and clear of liens, claims and encumbrances and with specific findings of fact, conclusions of law and directions), redeem or allow to lapse the Life Policy Assets according to the following timelines. The Trustee also seeks related relief described below, including authority to incur expenses related to the Competitive Sale Process and findings binding on the Insurers that the Estates are owners of the Policies and that Insureds cannot contest the validity or enforceability of the Policies.

15. Arguably, the Trustee does not need authority of this Court to perform many of the foregoing acts because they would likely fall within the ordinary course of the Debtors' alleged pre-petition business. However, because of the alleged fraud perpetrated on investors by

the Debtors' prior management, there may not be an "ordinary course" of the Debtors' prepetition business. Accordingly, the Trustee is seeking the relief requested in the Motion in order to provide notice to investors and other interested parties and provide transparency to the Chapter 11 Cases and the controlled disposition of assets of the Estates. The relief requested by the Motion is also necessary in order to establish clear, concise and understandable procedures for the marketplace in order to attract the highest quality bidders at the highest and best values for the Life Policy Assets.

### **Marketing and Proposed Competitive Sale Procedures**

16. Since shortly after the Petition Date, the Trustee (including his predecessor, trustee Collins) and Melville have marketed for sale certain of the Policies to investors seeking to buy one or perhaps multiple Policies ("Policy Investors"). Melville has contacted several Policy Investors that purchase and/or hold assets similar to the Policies as part of their business or investment model. Some Policy Investors received due diligence information on some Policies. Although Melville's marketing efforts have generated offers to purchase certain of the Policies, (a) the Estates need authority of the Court to effectuate any such sale, and (b) the Trustee desires to expose all such offers to a competitive sale process that will benefit from (i) a mechanism that provides for the actual sale, with timely Court approval, of the Policies, and (ii) the sale of Policies free and clear of liens, claims and encumbrances and with findings of fact, conclusions of law and directions that the Trustee requests in the Motion.<sup>2</sup>

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<sup>2</sup> For purposes of the Motion, the terms "sale" or "sell" shall include any transaction in which the Estates divest their interest in a Policy or in the beneficiary of a Policy in exchange for consideration. Such transactions may, but need not, involve a change of ownership or change of beneficiary recognized by the issuing insurance company.

17. The Trustee believes that some purchasers may prefer to purchase all of the Policies in one transaction (“Portfolio Investors”) and will actively seek such purchasers. The Trustee will compare the total value that can be obtained by aggregating potential sales to Policy Investors and compare such offers to the value of offers made by any Portfolio Investors before making any sale decision.

18. Melville already has received indications of interest from prospective Policy Investors on the purchase of certain of the Life Policy Assets. Upon approval of the Motion, Melville will approach those and other prospective Policy Investors and Portfolio Investors with relevant information about each of the Policies and attempt to obtain further purchase offers with respect thereto. Melville will, through this marketing process, determine the market value of the Life Policy Assets and, at the Trustee’s direction, work with prospective purchasers on appropriate sale documentation in order to consummate purchases of the Life Policy Assets following final Court approval. As part of this process, Melville will contact current investors in certain Life Policy Assets and otherwise respond to inquiries and/or offers made by those and other of the Debtors’ investors. The Trustee will work with Melville to determine the combination of sales that will maximize the value of the Life Policy Assets.

19. In addition to Melville’s marketing process, the Debtors: (a) have already issued correspondence inquiring as to the interest in purchasing Policies of certain third parties known to assert an economic or other identified interest in such Policies; and (b) will solicit through the web site dedicated to the Estates and the Chapter 11 Cases inquiries from investors of the Estates and others. The Trustee is taking these additional steps in order to obtain offers from non-traditional potential purchasers who may desire to purchase a Policy because they assert an existing interest in such Policy or a portion of the death benefit of a Policy.

20. The Trustee believes that the marketing efforts described above will be complimented most effectively by allowing the Estates to conduct one or more competitive sales of Life Policy Assets, individually and as a portfolio, to obtain the highest or otherwise best offer for each Policy and, if desired, corresponding PCI Bond. To determine the highest or otherwise best offer for the Life Policy Assets, the Trustee proposes the following Competitive Sale Procedures, which are also attached as **Exhibit 2** to the Proposed Order.

### **Competitive Sale Procedures**

#### ***Participation Requirements and Initial Due Diligence***

21. The Trustee, in his sole discretion, may require from any party seeking to investigate or consummate a purchase of a Life Policy Asset: (a) an executed confidentiality agreement in form and substance satisfactory to the Trustee, and (b) evidence satisfactory to the Trustee of such party's financial wherewithal to consummate any proposed purchase of any Life Policy Asset, which may include, in the sole discretion of the Trustee, that a potential purchaser provide the Trustee a deposit or escrow all or a part of a purchase price. After executing a confidentiality agreement and providing the Trustee evidence of financial wherewithal, the Trustee may afford any such party access to the Life Policy Assets and related documents.

#### ***Competitive Sale Process***

22. Taking into account indications of interest already received for any Life Policy Asset, Melville shall solicit offers to purchase any or all of the Life Policy Assets, alone or in groups. If Melville receives more than one bona fide offer to purchase any Life Policy Asset or the portfolio of Life Policy Assets, then: (a) at the discretion of the Trustee, Melville may inform all such interested purchasers of all existing offers to purchase such Life Policy Assets or the portfolio of Life Policy Assets and solicit from all such interested purchasers improved offers to

purchase such assets in a competitive process; and (b) the Trustee, in consultation with Melville, shall ultimately determine the highest and best bona fide offer for each Life Policy Asset or group of Life Policy Assets, which may be the entire portfolio of Life Policy Assets, if any. In making such determination, the Trustee may consider, among other things, (i) the amount of the purchase price, (ii) the ability and likelihood of any potential purchaser to consummate a transaction and the timing thereof, and (iii) the net benefit of such proposed purchase to the Estates. The Trustee reserves the right to reject any offer and to withdraw from sale any and/or all of the Life Policy Assets at any time.

23. The Trustee may accept, subject to Court approval as set forth below, any such offer, but shall be under no obligation to accept any offer to purchase any or all of the Life Policy Assets or to present any such offer to the Court for approval. When accepting a binding, non-contingent offer to purchase one or more Life Policy Assets, the Trustee may agree to provide such purchaser a break-up fee (each a "Break-Up Fee") in an amount no greater than four percent (4%) of the purchase price for such Life Policy Asset to be sold. Break-Up Fees will be paid to potential purchasers: (a) only upon consummation of a sale of such Life Policy Asset to another purchaser after approval of same by the Court (an "Alternate Transaction"); (b) only from the portion of the proceeds of the Alternate Transaction that exceed the amount of the transaction originally accepted by the Trustee; and (c) only in the event that the original purchaser at all times prior to the consummation of the Alternate Transaction remained ready, willing and able to consummate the purchase of the Life Policy Asset in question on the terms originally accepted (subject to approval of the Court) by the Trustee.

24. If the Trustee accepts any proposed purchase of any or all of the Life Policy Assets, then the Trustee shall: (a) file with the Bankruptcy Court and (b) serve on (i) each party

that has requested notice in the Chapter 11 Cases, (ii) each party that, as of that date, had expressed to the Trustee or his professionals any interest in the purchase of the Life Policy Assets to be purchased, (iii) each Insurer that issued any Policy to be purchased, (iv) all persons of record with the Trustee that assert an actual or beneficial interest in any Life Policy Assets to be sold, and (v) PCI, if the assets to be conveyed include any PCI Bond (with respect to each Life Policy Asset, the parties identified in the foregoing i – v, collectively, the “Asset Notice Parties”) a notice (substantially in the form attached as Exhibit 3 to the Proposed Order, the “Notice of Proposed Sale”) of proposed sale and hearing. The Notice of Proposed Sale shall identify: (1) the date (no less than 10 days after the filing and service of the Notice of Proposed Sale), time and location of a hearing (a “Sale Hearing”) before the Bankruptcy Court; (2) the Life Policy Asset(s) to be sold (without naming any insured) and any PCI bond to be conveyed; (3) the economic terms of the proposed sale; and (4) the last date to file any objection to any proposed sale (which date shall not be less than seven days after the filing of the Notice of Proposed Sale). At the Sale Hearing, the Trustee will describe the sale process and the proposed sale of the Life Policy Assets in question and request that the Court enter an order authorizing (i) the sale of the Life Policy Asset(s) in question to the proposed purchaser(s), free and clear of all liens, claims and encumbrances to the fullest extent authorized under section 363 of the Bankruptcy Code and with certain findings of fact, conclusions of law and directions (as discussed below and as set forth on the proposed Sale Order) regarding title, contestability (if appropriate), insurable interest, and the ability of the issuer of any Policy to rescind the Policy or declare the Policy *void ab initio*, and (ii) if necessary or appropriate with respect to any PCI Bond, the assumption and assignment of such bond in accordance with section 365 of the Bankruptcy Code.

**Contents of Sale Orders**

25. At each Sale Hearing, the Trustee will request that the Court enter an order (substantially in the form attached as **Exhibit 4** to the proposed order granting the Motion, a “**Sale Order**”) with specific findings of fact, conclusions of law, and directions regarding the Life Policy Assets sold.

**Determination of Estates’ Rights in Policies and Contestability**

26. The Trustee further requests that the Court enter the Proposed Order that: (a) the Estates have valid title to and are the owners of the Life Policy Assets to be conveyed; (b) upon entry of a Sale Order and consummation of a sale of a Policy from the Estates, the purchaser will receive title to each Policy (or interest in such Policy) purchased, free and clear of liens, claims and encumbrances; (c) insurers will accept change of ownership forms executed by the Trustee and will recognize each purchaser as the subsequent owner of the respective Policy; and (d) Insurers cannot contest, due to material misstatements or omissions in the application for the Policy or otherwise, the validity or enforceability of any Policy or such Insurer’s obligation to pay Policy proceeds upon death of any insured by contesting the existence of an insurable interest in the insured when the policy was issued or otherwise (with the exception of non-payment of premium). The Trustee requests that the Proposed Order and each Sale Order, in each case when entered, bind the Insurers.

27. The Trustee believes that each Policy contains a provision and/or applicable state law mandates that the Insurers have only two (2) years from the date of issuance of a Policy in which to contest the validity and enforceability of the Policy based on, among other things, misrepresentations and omissions in the Policy application. Another basis on which Insurers may rely to contest the validity and enforceability of insurance policies is that the beneficiary of

the policy at the time of issuance lacked an insurable interest in the insured or that the Policy was originated with the intent of being transferred to a third party who lacked an insurable interest in the insured. The Trustee recently compromised an adversary proceeding in part based on an Insurer's allegations that it would contest the policy subject to the adversary proceeding on that basis. Some insurance companies have attempted to indefinitely extend contestability periods on the theory that policies are *void ab initio* due to lack of insurable interest. The Insurers party to the Policies, however, should not be allowed to lie in wait while the Trustee expends limited resources of the Estates to maintain and market the Policies, only to later contest the validity of the Policies.

28. The Trustee requests that the Court enter the Proposed Order preventing the Insurers from, after expiration of such Policy's contestability period, contesting the validity or enforceability of any Policy or declaring any Policy to be void for any reason other than non-payment of premium under the Policy. The Trustee has provided specific notice of this request in notice of the Motion to Insurers. In the event that any Insurer contests the validity or enforceability of any Policy on the foregoing bases, the Trustee may seek approval of the Court to terminate such Policy in exchange for a return of all premiums paid on the Policy to date or that the Court adjudicate the Insurer's claim.

#### **Redemption Procedure**

29. At any time, the Trustee may file with the Court and serve on the Asset Notice Parties for any Policy or group of Policies a notice (substantially in the form attached as **Exhibit 5** to the proposed order granting the Motion, the "Notice of Redemption") of the Trustee's intent to redeem such Policy or Policies for their cash surrender value. The Notice of Redemption shall identify: (a) each Policy to be redeemed; (b) the approximate amount to be received in

redemption for each such Policy, in each case net of fees and costs payable to the Insurer; (c) any PCI Bond related to each Policy to be redeemed; and (d) the last date to file an objection to any proposed redemption (which date shall not be less than 7 days after the filing and service of the Notice of Redemption). If no objection is filed to a Notice of Redemption, then the Trustee shall be authorized to redeem such Policies as set forth in such notice without further notice to any party or order of the Court. If an objection is filed to any proposed redemption, then the Trustee will file and serve on the Asset Notice Parties for the Policy subject to the objection a notice that identifies the date, time and location of a hearing (a "Redemption Hearing") before the Bankruptcy Court. At the Redemption Hearing, the Trustee will provide the business reason for the proposed redemption and ask the Court to authorize the Trustee to redeem for its cash value the Policy or Policies identified in the Notice of Redemption and subject to objection.

#### **Lapse Procedure**

30. At any time, the Trustee may file with the Court and serve on the Asset Notice Parties for any Policy or Policies a notice (substantially in the form attached as **Exhibit 6** to the proposed order granting the Motion, a "Notice of Lapse") of the Trustee's intent to allow any such Policy or Policies to lapse. The Notice of Lapse shall identify: (a) the Policies that the Trustee intends to allow to lapse; (b) any PCI Bond related to such Policies; and (c) the proposed lapse date. If no objection is filed with respect to any Policy identified in a Notice of Lapse prior to the proposed lapse date or such earlier date identified in the notice, then the Trustee shall be authorized to (i) allow such Policy to lapse without further notice to any party or order of the Court and (ii) in the sole discretion of the Trustee, accept any consideration in exchange for the transfer of such Policy, with subsequent notice of such transfer to be filed with the Court and served on the Asset Notice Parties for such Policy. If an objection is filed to any Notice of

Lapse, the Trustee shall not be required to incur any cost or take any action to prevent such lapse without further order of the Court.

**Determination of Unrecognized Interests in Policies**

31. The Debtors' and other interests in the Policies set forth on **Exhibit 1** to the Proposed Order are the product of the Trustee's review of proofs of claim filed in the Chapter 11 Cases and certain other documents in the Trustee's possession. However, due to (a) the allegations of fraud against the Debtors' principals, (b) the Trustee's inability to interview and obtain documents and other evidence directly from certain of the Debtors' principals, (c) the fact that the Trustee received many documents second or third-hand (*i.e.*, after such documents were transferred from the Debtors, to Debtors' counsel, to Patrick Collins and finally to the Trustee), and (d) the apparent practice of the Debtors (prior to the Petition Date) to repeatedly transfer interests in Policies, it is possible that the Trustee does not have a comprehensive record of all asserted interests in the Policies. In order to protect the interests of investors with allegedly legally enforceable co-ownership interests in Policies and to provide good title to potential purchasers, the Trustee proposes issuing notice (in the form attached as **Exhibit 7** to the Proposed Order) to all known parties in interest (and posting such notice on the web site dedicated to the Chapter 11 Cases) of the Trustee's interests of record in the Policies and requests that any other party asserting an interest in any Policy be required to provide the Trustee with written notice and documentation of such interest within thirty (30) days after issuance of such notice or forever be barred from asserting any interest therein. If such written notice and documentation is received, the Trustee may either accept the interest asserted therein as valid or contest such interest. In either event, the Trustee will file a motion seeking an applicable and appropriate order of the Court, after notice and opportunity for a hearing.

**Related Relief**

32. As part of their diligence, the Trustee anticipates that Policy Investors and Portfolio Investors will require current information on each Policy and on and from insureds under each Policy. Generally speaking, each insured under a Policy held by the Estates contractually agreed to provide the holder of the Policy (here, one of the Estates) with certain updated medical and other information. The Trustee will obtain other information (such as updated life expectancy information and certified copies of Policies) from Insurers and other sources. The Trustee seeks authority from this Court to expend Estate resources to obtain such information and documents. The Trustee also requests that this Court direct non-Debtor parties to Policy and settlement documents to reasonably cooperate with the Trustee's efforts to obtain such documents and information and to facilitate each sale of a Life Policy Asset. In preparing for and conducting the sale process described herein, as well as at all other times, the Trustee shall abide by the Health Insurance Portability and Accountability Act ("HIPAA") and appropriately safeguard personal information subject to HIPAA.

**ARGUMENT AND BASIS FOR RELIEF REQUESTED**

33. The Debtors are a failed hedge fund. The Trustee is not accepting new investments into the fund and is considering the sale of fund assets in a controlled manner that maximizes the value of the Life Policy Assets for the benefit of creditors of the Estates. After conducting a comprehensive analysis of the Life Policy Assets, the Trustee believes that the relief requested herein will allow the Trustee to maximize the value of the Life Policy Assets and other assets of the Estates, including cash of the Estates that is available to pay Policy premiums. The Trustee believes that the procedures sought hereby will result in the highest and best value for the Estates and are in the best interests of the Debtors, the Estates and creditors of the Estates.

This motion also seeks authority to transfer the PCI Bonds under and in accordance with section 365 of the Bankruptcy Code, to the extent such relief is required.

34. The Trustee is mindful that: (a) some, if not many, investors invested their life savings to own directly, beneficially, or through a loan to the Debtors interests in the Life Policy Assets; and (b) many investors desire that Policies with meaningful death benefits be held to maturity and not sold at their current market price. The Trustee's investigation, including updated life expectancy reports obtained on insureds under the Policies, leads the Trustee to believe that the original life expectancy reports upon which investors may have relied in making investment decisions with the Debtors were materially understated, and perhaps fraudulent, and represented life expectancies that were much shorter than those recently obtained by the Trustee. Life expectancy reports obtained by the Trustee indicate that life expectancies of insureds under the Policies generally are more than 125 months, which the Trustee believes is materially greater than the life expectancies provided to the Debtors and investors when the Policies were obtained by the Debtors. Moreover, the PCI Bonds that, for now at least, PCI confirms are active mature over the next four (4) years. Waiting (i) for PCI Bonds to mature and, (ii) if no payment is received from PCI, for ten years, or longer, to collect a death benefit on a Policy may not be in the best interests of the Estates. As the Estates do not currently have the economic means to pay premiums and maintain the Policies in force for such a time, understanding current market values will provide the Trustee with meaningful information about whether to sell some or all of the Life Policy Assets now or to finance payment of insurance costs until maturity of the PCI Bonds or until death benefits become due.

35. The Trustee is also mindful that some, if not most, of the investors in the funds relied upon PCI Bonds as an investment backstop, especially to guard against insureds surviving

longer than their previously stated life expectancies. As of the date of this Motion, PCI has failed to make two payments of \$833,333, which payments arose from a settlement agreement that permitted PCI to make over time payments allegedly previously due. The Trustee is concerned that PCI may have difficulty meeting future PCI Bond obligations. Moreover, PCI is a foreign entity with no known bank accounts or other assets in the United States. While the Trustee has developed a good working relationship with PCI's principal and hopes that PCI will remedy its outstanding payments and timely make future payments under its PCI Bond obligations, there is no assurance that PCI will do so. The Trustee believes that it could be expensive and time consuming to seek, obtain and monetize judicial enforcement against PCI. The Trustee asserts that if the PCI Bonds have value in the marketplace, the Estates will recognize that value in the sale process by selling and/or assigning PCI Bonds to purchasers of Life Policy Assets.

**Applicable Authority For Sale Of Assets  
Under Section 363(b) of the Bankruptcy Code**

36. Section 363(b)(1) of the Bankruptcy Code provides that a “trustee, after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate.” Section 105(a) of the Bankruptcy Code provides in relevant part that “[t]he Court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title.”

37. Asset sales should be authorized pursuant to section 363 of the Bankruptcy Code if a sound business purpose exists for doing so. See e.g., Meyers v. Martin (In re Martin), 91 F.3d 389, 395 (3d Cir. 1996) (citing Fulton State Bank v. Schipper (In re Schipper), 933 F.2d 513, 515 (7th Cir. 1991)); In re Delaware & Hudson Railway Co., 124 B.R. 169, 176 (D. Del.

1991). The Del. & Hudson Railway court rejected the pre-Code “emergency” or “compelling circumstances” standard, finding the “sound business purpose” standard applicable and, discussing the requirements of that test, observed:

A non-exhaustive list of factors to consider in determining if there is a sound business purpose for the sale include: the proportionate value of the asset to the estate as a whole; the amount of elapsed time since the filing; the likelihood that a plan of reorganization will be proposed and confirmed in the near future; the effect of the proposed disposition on the future plan of reorganization; the amount of proceeds to be obtained from the sale versus appraised values of the property; and whether the asset is decreasing or increasing in value.

124 B.R. at 176. The Del. & Hudson Railway court further held that “[o]nce a court is satisfied that there is a sound business reason or an emergency justifying the pre-confirmation sale, the court must also determine that the trustee has provided the interested parties with adequate and reasonable notice, that the sale price is fair and reasonable and that the proposed purchaser is proceeding in good faith.” Id.

38. Pursuant to the procedures set forth in the Motion, the Trustee will propose to sell Policies only after thorough consideration of all viable alternatives – namely whether it is preferable to hold or redeem such Policies. The Trustee will also consider the views to be expressed by investors in the funds. Moreover, the procedures set forth herein will only result in a sale if the results of the Competitive Sale Process and the Trustee’s analysis (with the advice of Melville and his other professionals) justify a sale, as determined by the Trustee in the exercise of his business judgment, and the Court approves such sale after further notice and a hearing. The Trustee will also consider any positions articulated by investors and other parties in interest.

39. The Estates have limited liquid resources that must be spent judiciously. Because some insureds may live to or well beyond their life expectancy, the Estates may not have the

liquidity to hold each of the Policies to maturity, or to maturity of the related PCI Bonds, and pay related insurance costs as they become due. Other, more liquid entities, however, that are in a position to continue to pay such premiums until the Policies mature may be willing to purchase this opportunity from the Estates. Accordingly, a sale of some or all of the Policies would be appropriate under section 363(b) of the Bankruptcy Code, depending upon the offers, if any, received as a result of the sale process.

40. The Policies will be sold only after exposure to a competitive sale process, to the extent that more than one willing purchaser can be identified for any given Policy. Upon the Trustee's acceptance of any sale and the Court's approval of any sale, all appropriate parties in interest will be assured that any Policy to be sold and PCI Bond to be transferred will be sold or transferred for fair market value that will benefit the Estates. Consequently, the fairness and reasonableness of the consideration to be received by the Estates ultimately will be demonstrated by the competitive sale process described in the Motion – the best means to maximize value of the Life Policy Assets.

41. The very nature of the competitive sale process will result only in proposed sales that will be the product of arms-length, good faith negotiations, in which the Trustee will obtain the maximum possible purchase price for Policies from independent, third party buyers. Under the circumstances, the Trustee submits that the purchaser under any proposed sales that result from the procedures set forth herein will be entitled to all of the protections of section 363(m) of the Bankruptcy Code.

**The Asset Sales Satisfy The Requirements Of Section 363(f) of the Bankruptcy Code For A Sale Free And Clear of Liens, Claims, and Interests**

42. Section 363(f) of the Bankruptcy Code provides:

The trustee may sell property under subsection (b) or (c) of this section free and clear of any interest in such property of an entity other than the estate, only if –

(1) applicable nonbankruptcy law permits sale of such property free and clear of such interest;

(2) such entity consents;

(3) such interest is a lien and the price at which such property is to be sold is greater than the aggregate value of all liens on such property;

(4) such interest is in a bona fide dispute; or

(5) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest.

11 U.S.C. § 363(f).

43. Section 363(f) of the Bankruptcy Code is drafted in the disjunctive. Thus, satisfaction of any of the requirements enumerated therein will suffice to warrant the Trustee's sale of any Policy free and clear of all liens, claims, rights, interests, and encumbrances (collectively, the "Interests"). See Citicorp Homeowners Services, Inc. v. Elliot, 94 B.R. 343, 345 (E.D. Pa. 1988). Based on a limited review, the Trustee is not aware of any Interest in any of the Policies except as set forth in the Motion and in the exhibits to the Motion and the Proposed Order. As to all other Life Policy Assets, the Trustee asserts that any Interest that could exist would satisfy at least one of the five conditions of section 363(f) of the Bankruptcy Code, and that any such Interest will be adequately protected by attaching to the net proceeds of any sale, subject to any claims and defenses the Estates may possess with respect thereto. As to the five Policies subject to alleged interests of co-owners, the procedures set forth in the Motion serve to protect those interests. The Trustee accordingly requests that any Policies sold (other than those Policies with interests of co-owners recognized by the Trustee or other Interests that the Court determines after hearing are not subject to section 363(f) of the Bankruptcy Code) be

transferred free and clear of all Interests, with such Interests to attach to the proceeds of such sale.

44. It is the Trustee's intent in this Motion to notify, and ultimately bind by the provisions of the Proposed Order and each Sale Order, Insurers with respect to ownership of the Policies and the Insurers ability to contest the Policies. The Trustee will seek a finding in every Sale Order that: (a) one of the Estates (together with any recognized co-owner) is the legal title owner of the Policy to be sold; (b) upon closing of the sale approved by the Court, the purchaser shall be the legal title owner of such Policy and the Insurer will recognize such transfer or actual or beneficial interest; and (c) the Policy sold is valid and enforceable against the Insurer that issued it and is not subject to contest by such Insurer on the basis of lack of, among other things, lack of insurable interest or misstatements or omissions in the Policy application or application process.

**Authorization For Assumption And Assignment Of PCI Bonds**

45. Some purchasers of Policies may desire to take assignment of a PCI Bond. Accordingly, the Trustee may request that an order approving a Policy sale also provide for the assumption and assignment of one or more PCI Bonds to such purchaser, notwithstanding any provision in any PCI Bonds, including those described in sections 365(b)(2) and (f)(1) and (3) of the Bankruptcy Code, that condition or prohibit such assignment. Any PCI Bonds to be assumed and assigned to any purchaser, and any cure costs necessary for such assumption, will be identified in the Notice of Proposed Sale.

46. Section 365(f) of the Bankruptcy Code provides, in pertinent part, that:

The trustee may assign an executory contract or unexpired lease of the debtor only if –

(A) the trustee assumes such contract or lease in accordance with the provisions of this section; and

(B) adequate assurance of future performance by the assignee of such contract or lease is provided, whether or not there has been a default in such contract or lease.

11 U.S.C. § 365(f)(2). Under section 365(a) of the Bankruptcy Code, a trustee “subject to the court’s approval, may assume or reject any executory contract or unexpired lease of the debtor.”

11 U.S.C. § 365(a). Section 365(b)(1) of the Bankruptcy Code, in turn, codifies the requirements for assuming an unexpired lease or executory contract of a debtor, providing that:

(b)(1) If there has been a default in an executory contract or unexpired lease of the debtor, the trustee may not assume such contract or lease unless, at the time of assumption of such contract or lease, the trustee --

(A) cures, or provides adequate assurance that the trustee will promptly cure, such default;

(B) compensates, or provides adequate assurance that the trustee will promptly compensate, a party other than the debtor to such contract or lease, for any actual pecuniary loss to such party resulting from such default; and

(C) provides adequate assurance of future performance under such contract or lease.

11 U.S.C. § 365(b)(1).

47. Although section 365 of the Bankruptcy Code does not set forth standards for courts to apply in determining whether to approve a trustee’s decision to assume an executory contract, courts have consistently applied a “business judgment” test when reviewing such a decision. See e.g., Group of Institutional Investors v. Chicago, Milwaukee, St. Paul & Pacific Railroad Co., 318 U.S. 523, 550 (1953); Matter of Talco, Inc., 558 F.2d 1369, 1173 (10th Cir. 1977). A trustee satisfies the “business judgment” test when he or she determines, in good faith, that assumption of an executory contract will benefit the estate and the unsecured creditors. In re

FCX, Inc., 60 B.R. 405, 411 (Bankr. E.D. N.Y. 1986). To the extent that assumption and assignment of any PCI Bond is necessary or desirable to sell a Policy for an amount that the Trustee deems beneficial to the Estates, such assumption and assignment should be approved to facilitate such sale.

48. The meaning of “adequate assurance of future performance” depends on the facts and circumstances of each case, but should be given “practical, pragmatic construction.” See Carlisle Homes, Inc. v. Arrari (In re Carlisle Homes, Inc.), 103 B.R. 524, 538 (Bankr. D.N.J. 1989). See also In re Natco Indus., Inc., 54 B.R. 436, 440 (Bankr. S.D.N.Y. 1985) (adequate assurance of future performance does not mean an absolute assurance that debtor will thrive and pay rent); In re Bon Ton Rest. & Pastry Shop, Inc., 53 B.R. 789, 803 (Bankr. N.D. Ill. 1985). All proposed purchasers will have submitted to the Trustee information demonstrating their ability to consummate the purchase of any Policy. The contractual obligations of the Estates under the PCI Bonds are minimal and the Trustee and the proposed purchasers, to the extent required to do so, will provide evidence of the purchaser’s ability to continue to perform under the PCI Bonds at any Sale Hearing.

49. Any objection to assumption or assignment of a PCI Bond will be required to set forth the basis of such objection, including any defaults or other alleged breaches under any PCI Bond that would affect the validity or enforceability thereof. After the assumption and assignment of any PCI Bond, the Estates and the Trustee shall be relieved of all liability accruing or arising at any time under such PCI Bond. The purchaser’s promise to perform under such PCI Bond will constitute adequate assurance of future performance under such PCI Bond.

**Good Faith Under Section 363(m) of the Bankruptcy Code**

50. Section 363(m) of the Bankruptcy Code provides:

The reversal or modification on appeal of an authorization under subsection (b) or (c) of this section of a sale or lease of property does not affect the validity of a sale or lease under such authorization to an entity that purchased or leased such property in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and such sale or lease were stayed pending appeal.

11 U.S.C. § 363(m). While the Bankruptcy Code does not define “good faith”, the Third Circuit in In re Abbotts Dairies of Pennsylvania, Inc., 788 F.2d 143 (3d Cir. 1986) has held that:

[t]he requirement that a Proposed Purchaser act in good faith . . . speaks to the integrity of his conduct in the course of the sale proceedings. Typically, the misconduct that would destroy a Proposed Purchaser’s good faith status at a judicial sale involves fraud, collusion between the Proposed Purchaser and other bidders or the trustee, or an attempt to take grossly unfair advantage of other bidders.

788 F.2d at 147 (citations omitted). Any Policy sale will be the result of a negotiated, arm’s-length transaction. The Trustee reserves his right to request that the Court make a finding that each or any purchaser has purchased any Policy, and has taken by assignment of any PCI Bond, in good faith within the meaning of section 363(m) of the Bankruptcy Code.

51. As set forth herein, there are numerous sound business reasons for the timely consummation of one or more sales of Policies and for providing purchasers of Life Policy Assets with a finding of good faith. First, as noted herein, notice has or will be given to all known parties in interest. Second, timing is critical, as the Estates have limited liquidity and must balance the payment of Policy premiums against satisfaction of other costs to the Estates and preserving assets of the Estates for ultimate distribution to creditors. Timing is especially critical with respect to Policies that should be redeemed for cash value or allowed to lapse, as any delay in executing such decisions may require the Estates to pay premiums that will never benefit the Estates. Third, as noted, the competitive sale process implemented by the procedures

proposed hereby will ensure that the Estates know the market value of each Policy and enable to Trustee to make an appropriate business decision with respect to each Policy. Finally, no proposed sale would benefit any insider, nor would it unfairly favor any creditor or class of creditors.

**The Form, Manner and Extent of Notice of the Motion and the Proposed Sales, Redemptions and Lapses are Appropriate and Adequate Under the Circumstances**

52. The Trustee is serving notice of the Motion on all creditors of the Estates, all known parties with interests in the Policies, PCI, all parties who have requested notice in the Chapter 11 Cases, and the UST. The notice provided to each carrier that issued any Policy specifically identifies the relief sought from this Court with respect to the Policies. Moreover, the Trustee will file each Notice of Proposed Sale, Redemption Notice and Lapse Notice on the docket in the Chapter 11 Cases, serve each such notice on each party requesting notice in the Chapter 11 Cases and each relevant Asset Notice Party, and publish each such notice on its case website.

53. The Debtors will have served this Motion, the notice of this Motion, and the Proposed Order on all creditors and all entities who have expressed an interest in acquiring the Policies at least 21 days prior to the filing of any notice described above.

54. The Trustee submits that the notice he has provided and/or will provide is reasonable and appropriate and should be approved by this Court as adequate and sufficient notice.

**WHEREFORE**, the Trustee respectfully requests that the Court enter an order (in substantially the form submitted herewith): (1) authorizing and approving Competitive Sale Procedures, the Redemption Procedures, and the Lapse Procedures; (2) upon further notice and hearing or opportunity for a hearing, as described above, authorizing and approving the sale (free and clear of liens, claims, interests, charges and encumbrances and with findings of fact, conclusions of law and directions), redemption or lapse of Policies and the assumption and assignment of PCI Bonds; and (3) granting such related and other and further relief as is just and proper.

Dated: July 26, 2010  
Chicago, Illinois

**LIFE FUND 5.1, LLC**  
**LIFE FUND 5.2, LLC**  
**A&O LIFE FUND, LLC**  
**A&O RESOURCE MANAGEMENT, LLC**  
**A&O BONDED LIFE SETTLEMENT, LLC**  
**A&O BONDED LIFE ASSETS, LLC; and**  
**HOUSTON TANGLEWOOD PARTNERS, LLC**

/s/ Jeremy T. Stillings

Jeff Marwil (ARDC # 06194054)  
Jeremy T. Stillings (ARDC# 06279868)  
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(312) 962-3551 (Fax)

*Counsel to the Trustee*

**UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

_____	)	Chapter 11
In re:	)	
LIFE FUND 5.1, LLC, <i>et al.</i> , <sup>1</sup>	)	Case No. 09 B 32672
	)	
Debtors.	)	Jointly Administered
_____	)	<b>Re Docket No:</b>

**ORDER: (1) APPROVING (A) COMPETITIVE SALE PROCEDURES AND (B) PROCEDURES TO REDEEM AND ALLOW LIFE POLICY ASSETS TO LAPSE; (2) DETERMINING ESTATES' RIGHTS TO AND IN POLICIES AND PREVENTING INSURERS FROM TAKING CERTAIN ACTS; AND (3) GRANTING RELATED RELIEF**

This matter coming before the Court on the Trustee's Motion for Orders: (1) Approving (A) Procedures for the Sale of Life Policy Assets Free and Clear of Claims and Encumbrances and With Certain Findings and (B) Procedures to Redeem or Allow Life Policy Assets to Lapse; (2) Determining Estates' Rights to and in Policies; (3) Preventing Insurers From Taking Certain Acts With Respect to Policies; and (4) Granting Related Relief (the "Motion")<sup>2</sup>; and upon review and consideration of the Motion, objections (if any) to the Motion filed prior to the date hereof, arguments of counsel and evidence proffered or adduced at the hearing on the Motion (the "Hearing"), and the docket and proceedings in the Chapter 11 Cases

**THE COURT HEREBY FINDS THAT:**

- A. This Court has jurisdiction over the Motion.
- B. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A), (N) and (O).

<sup>1</sup> The Debtors in the cases are: (1) Life Fund 5.1, LLC; (2) Life Fund 5.2, LLC; (3) A&O Life Fund, LLC; (4) A&O Resource Management, LLC; (5) A&O Bonded Life Settlement, LLC; (6) A&O Bonded Life Assets, LLC; and (7) Houston Tanglewood Partners, LLC.

<sup>2</sup> Each capitalized term used but not defined herein shall have the meaning ascribed thereto in the Motion.

C. Venue of the Chapter 11 Cases and the Motion in this district is proper under 28 U.S.C. §§ 1408 and 1409.

D. The relief requested in the Motion and granted in this Order is in the best interests of the Debtors and the Estates.

E. The Trustee provided notice of the Motion and the Hearing to: (1) the office of the United States Trustee, (2) each Insurer, (3) all parties with an interest of record with the Trustee in any Policy, (4) all known creditors of the Debtors, and (5) all parties that have requested notice in the Chapter 11 Cases pursuant to Bankruptcy Rule 2002.

F. Notice of the Motion and the Hearing was due and proper under the circumstances and all interested parties were afforded the opportunity to be heard at the Hearing with respect to the Motion and the relief granted by this Order.

G. The Trustee has articulated good and sufficient reasons for, and the best interests of the Estates will be served by, this Court granting at this time certain of the relief requested in the Motion, including of: (1) the Competitive Sale Procedures attached hereto as **Exhibit 2**; (2) the form of Notice of Proposed Sale attached hereto as **Exhibit 3**; (3) the form of Notice of Redemption attached hereto as **Exhibit 5**; and (4) the form of Notice of Lapse attached hereto as **Exhibit 6**.

H. The best interests of the Estates will be served by authorizing the Trustee and his advisors and professionals to market for sale the Life Policy Assets identified on **Exhibit 1** to this Order in accordance with the Competitive Sale Procedures attached as **Exhibit 2** to this Order, and, in the event that the Trustee accepts any offer to purchase a Life Policy Asset, to file the notices required by the Competitive Sale Procedures and return to this Court for a subsequent Sale Hearing to authorize the sale and transfer of any Life Policy Asset.

I. The Competitive Sale Procedures provide a full, fair and reasonable opportunity for persons to make offer to purchase the Life Policy Assets and, specifically, the form of Notice of Proposed Sale provides a full, fair and reasonably opportunity for persons to object to the sales proposed thereby in accordance with the Bankruptcy Code and Bankruptcy Rules.

J. The form of the Notice of Redemption provides full, fair, reasonable and sufficient notice of the proposed redemption of any Policy for cash and, together with the Redemption Procedures approved by this Order, satisfies applicable notice requirements for the Trustee to redeem Policies for their cash value.

K. The form of Notice of Lapse provides full, fair, reasonable and sufficient notice of the proposed lapse of any Policy and, together with the procedures approved by this Order, satisfies applicable notice requirements for the Trustee to allow Policies.

**NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED  
THAT:**

1. The Motion is granted as set forth herein.
2. The findings of fact set forth above and conclusions of law stated herein shall constitute this Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent any finding of fact later shall be determined to be a conclusion of law, it shall be so deemed, and to the extent any conclusion of law later shall be determined to be a finding of fact, it shall be so deemed.
3. All objections to the relief requested by the Motion and granted by this Order that have not been withdrawn, waived or settled as announced to the Court at the Hearing or by stipulation filed with the Court, and all reservations of rights included therein, are hereby overruled on the merits, except as expressly provided herein.

**Policies are Property of the Estates and Insurers Cannot Contest Policies**

4. The Estates have valid title to and are the owners of the Life Policy Assets.

5. Upon entry of a Sale Order and consummation of a sale of a Policy from the Estates, (a) the purchaser will receive title to each Policy (or interest in such Policy) purchased, free and clear of liens, claims and encumbrances; (b) Insurers will accept change of ownership forms executed by the Trustee and will recognize each purchaser as the subsequent owner of the respective Policy.

6. The Policies are valid and enforceable. As of and after the date hereof, other than on account of non-payment of premium obligation due under any Policy, Insurers are barred from contesting the validity or enforceability of any Policy or such Insurer's obligation to pay Policy proceeds upon death of any insured for any reason, including, without limitation: (a) by contesting the existence of an insurable interest in the insured when the Policy was issued or otherwise; or (b) due to material misstatements or omissions in the application for the Policy.

**Competitive Sale Procedures**

7. The Competitive Sale Procedures attached hereto as **Exhibit 2** are approved and the Trustee and his professionals are authorized and empowered to take any and all actions necessary and/or appropriate to implement the Competitive Sale Procedures.

8. The Competitive Sale Procedures shall be binding on all parties to these Chapter 11 Cases including, without limitation, each Insurer that issued a Policy and its successors and assigns. Specifically, all findings and determinations of this Court regarding title, enforceability and contestability of any Policy shall be binding on each Insurer that issued a Policy and its successors and assigns.

9. The Trustee and his professionals are authorized to agree to, document and execute confidentiality agreements and documents evidencing Break-Up Fees, in each case as described in and in accordance with and in furtherance of the Competitive Sale Procedures.

10. The form of Notice of Proposed Sale attached hereto as **Exhibit 3** is approved.

11. After acceptance by the Trustee of any offer to purchase a Life Policy Asset, the Trustee shall file with the Bankruptcy Court and serve on the Asset Notice Parties for such Life Policy Asset(s) a Notice of Proposed Sale. Such service of the Notice of Proposed Sale, in addition to the notice of Motion provided to parties in interest in the Chapter 11 Cases, shall constitute good and sufficient notice under the Bankruptcy Code and the Bankruptcy rules to sell and convey the Life Policy Assets identified in the Notice of Proposed Sale and shall be binding on Insurers that issued the Policies. Other than notice of the Motion already provided, service of the Notice of Proposed Sale in accordance with the Competitive Sale Procedures and this Order, and the occurrence of the Sale Hearing, no other or further notice or hearing shall be necessary to sell or convey Life Policy Assets identified in the Notice of Proposed Sale.

#### **Redemption Procedures**

12. The form of Notice of Redemption attached hereto as **Exhibit 5** is approved.

13. At any time, the Trustee may file with the Court and serve on the Asset Notice Parties for any Policy or group of Policies to be redeemed a Notice of Redemption. The Notice of Redemption shall identify: (a) each Policy to be redeemed; (b) the approximate amount to be received in redemption for each such Policy, in each case net of fees and costs payable to the insurer; (c) any PCI Bond related to each Policy to be redeemed; and (d) the last date to file an objection to any proposed redemption (which date shall not be less than seven (7) days after the filing and service of the Notice of Redemption).

14. If an objection is filed to any Notice of Redemption, then the Trustee may file and serve on the Asset Notice Parties for the Policy subject to such Notice of Redemption a notice that identifies the date, time and location of a hearing (a “Redemption Hearing”) before the Bankruptcy Court. At the Redemption Hearing, the Trustee may ask the Court to authorize the Trustee to redeem for its cash value the Policy or Policies identified in the Notice of Redemption and subject to objection.

15. If no objection is filed with respect to any Policy identified in a Notice of Redemption, then the Trustee shall be authorized to redeem such Policy in accordance the terms of the Policy to be redeemed and as set forth in such notice, without further notice to any party or order of the Court.

#### **Lapse Procedures**

16. The form of Notice of Lapse attached hereto as **Exhibit 6** is approved.

17. At any time, the Trustee may file with the Court and serve on the Asset Notice Parties for any Policy or Policies a Notice of Lapse. The Notice of Lapse shall identify: (a) the Policies that the Trustee intends to allow to lapse; (b) any PCI Bond related to such Policies; and (c) the proposed date on which such lapse shall become effective.

18. If no objection is filed with respect to any Policy identified in a Notice of Lapse prior to the proposed lapse date or such earlier date identified in the notice, then the Trustee shall be authorized to (a) allow such Policy to lapse without further notice to any party or order of the Court and (b) in his sole discretion, accept any consideration in exchange for the transfer of such Policy, with subsequent notice of such transfer to be filed with the Court and served on the Asset Notice Parties for such Policy.

19. If an objection is filed to any Notice of Lapse, the Trustee shall not be required to incur any cost or take any action to prevent such lapse without further order of the Court.

**Related Relief**

20. The Trustee is authorized to expend Estate assets in furtherance of the Competitive Sale Procedures and the other relief granted herein, including, without limitation, to obtain information from Insurers, insureds and other third parties.

21. The Trustee and his professionals are authorized to take all actions reasonable or necessary to market the Policies in furtherance of the Competitive Sale Procedures and to effectuate the relief granted pursuant to this Order.

22. All parties to, including, without limitation, non-Debtor parties to Policy and settlement documents shall reasonably cooperate with the Trustee's efforts to: (a) obtain documents and information related to the Policies and the procedures set forth in this Order; and (b) facilitate each sale of a Life Policy Asset.

23. To the extent any provisions of this Order are inconsistent with the Motion, the terms of this Order shall control.

Dated:

Chicago, Illinois

\_\_\_\_\_  
United States Bankruptcy Judge

**EXHIBIT 1**  
**TO SALE PROCEDURES ORDER**

**Life Policy Assets**

attached hereto

**Exhibit 1**

<b>Insurer</b>	<b>Policy Number</b>	<b>Death Benefit Amount</b>	<b>Accrued Cash Value<sup>1</sup></b>	<b>Cost &amp; Period of Premium Payment</b>	<b>PCI Bond Maturity Date<sup>2</sup></b>	<b>PCI Bond Amount</b>
Met Life and Annuity Company of Connecticut/Travelers Life and Annuity Co.	Policy No. U7403296	\$1,500,000	\$21,828.49 as of July 1, 2010	\$13,484.24 Annually	12/5/2012	\$1,500,000
Pacific Life Insurance Company	Policy No. VP60832870	\$6,137,593.04 as of June 30, 2010	\$137,593.04 as of June 30, 2010	\$15,000 Quarterly	12/5/2012	\$6,000,000
Transamerica Occidental Life	Policy No. 60134439	\$5,000,000	\$71,506.42 as of June 30, 2010	\$8,211.85 Monthly	3/20/2012	\$5,000,000
Transamerica Occidental Life	Policy No. 60134440	\$5,000,000	\$71,349.44 as of June 30, 2010	\$8,211.85 Monthly	3/20/2012	\$5,000,000
C.M. Life (Mass Mutual)	Policy No. 8275165	\$2,000,000	\$92,967.17 as of June 30, 2010	\$7,585.00 Quarterly	6/29/2011	\$2,000,000
Transamerica Occidental Life	Policy No. 60059453	\$725,000	\$51,914.02 as of June 30, 2010	\$1,724.50 Monthly	11/30/2013	\$725,000
Transamerica Occidental Life	Policy No. 60081812	\$21,421,011.37 as of June 30, 2010	\$124,736.09 as of June 30, 2010	\$30,247.83 Monthly	10/25/2010	\$21,500,000
Pacific Life Insurance Company	Policy No. VF51212390	\$1,000,000	\$22,545.96 as of June 30,	\$21,000 Annually	9/19/2012	\$1,000,000

<sup>1</sup> The approximate cash value stated here is as of the date hereof unless provided otherwise and varies on a regular basis. Policies listed as in freeze, in grace, or holding no current cash value may require an additional lump sum payment.

<sup>2</sup> As set forth in other documents filed with the Court, PCI contests the validity of many PCI Bonds, including several of the PCI Bonds summarized herein.

			2010			
Pacific Life Insurance Company	Policy No. VF51212400	\$1,000,000	\$37,257.15 as of June 30, 2010	\$19,975 Annually	9/19/2012	\$1,000,000
Pacific Life Insurance Company	Policy No. VP61029750	\$1,000,000	\$36,955.17 as of June 30, 2010	\$22,847 Annually	9/19/2012	\$1,000,000
National Life	Policy No. NL2364882	\$2,000,000	\$161,574.85 as of July 1, 2010	\$3,455 Monthly	6/27/2013	\$2,000,000
John Hancock	Policy No. 57169674	\$650,000	\$64,949.31 as of July 1, 2010	\$4,045.33 Monthly	11/30/2011	\$650,000
John Hancock	Policy No. UL00267681	\$1,000,000	\$136,546.06 as of July 1, 2010	\$7,937.49 Quarterly	5/19/2012	\$1,000,000
John Hancock	Policy No. UL001402937	\$1,000,000	\$0 as of April 14, 2010	IN FREEZE \$9,691.14 Quarterly	5/3/2012	\$1,000,000
Prudential	Policy No. V1168732	\$10,000,000	\$294,300 as of June 28, 2010	\$634,820.00 Annually	2/19/2010	\$10,000,000
Lincoln National	Policy No. 7016282	\$1,000,000	\$205,742.96 as of June 24, 2010	\$1,666.67 Monthly	10/14/2009	\$1,000,000
Lincoln National	Policy No. JG5462406	\$2,000,000	\$5,441.97 as of July 1, 2010	IN GRACE \$6,041.67 Monthly	5/3/2011	\$2,000,000
Sun Life	Policy No. 020068584	\$5,000,000	\$237,084.85 as of June 30, 2010	\$36,504 Semi-Annually	1/2/2010	\$5,000,000
West Coast Life Insurance Company	Policy No. ZUA341379	\$13,700,000	\$0 as of July 1, 2010	IN GRACE	10/29/2011	\$13,700,000

Lincoln National	Policy No. 7000058	\$4,283,995.70 as of June 24, 2010	\$283,995.70 as of June 24, 2010	\$4,166.67 Monthly	1/16/2012	\$4,000,000
Lincoln National	Policy No. 2722294	\$250,000	\$30,382.87 as of June 24, 2010	\$625.00 Monthly	6/17/2010	\$250,000
American General	Policy No. U10033937L	\$10,000,000	\$0 as of June 28, 2010	\$26,000 Monthly	1/1/2011	\$10,000,000
Lincoln National	Policy No. JF5571385	\$2,000,000	\$47,321.49 as of July 8, 2010	\$4,043.16 Monthly	6/6/2013	\$2,000,000
Lincoln National	Policy No. JP5578112	\$1,000,000	\$9,458.20 as of June 27, 2010	\$7,368.02 Quarterly		
Lincoln National	Policy No. JJ7002605	\$1,500,000	\$3,605.68 as of July 9, 2010	IN GRACE \$3,983.75 Monthly		
Lincoln National	Policy No. JF5571244	\$1,000,000	\$29,313 as of June 15, 2010	\$3,467.57 Monthly		
ING	Policy No. 1618622	\$2,000,000	\$98,118.29 as of July 1, 2010	IN GRACE \$21,848 Quarterly		

**EXHIBIT 2**  
**TO SALE PROCEDURES ORDER**

**Competitive Sale Procedures**

attached hereto

**UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

_____	)	Chapter 11
	)	
LIFE FUND 5.1, LLC, <i>et al.</i> , <sup>1</sup>	)	Case No. 09 B 32672
	)	
Debtors.	)	Jointly Administered

**Competitive Sale Procedures**

***Participation Requirements and Initial Due Diligence***

1. The Trustee, in his sole discretion, may require from any party seeking to investigate or consummate a purchase of a Life Policy Asset<sup>2</sup>: (a) an executed confidentiality agreement in form and substance satisfactory to the Trustee, and (b) evidence satisfactory to the Trustee of such party's financial wherewithal to consummate any proposed purchase of any Life Policy Asset, which may include, in the sole discretion of the Trustee, that a potential purchaser provide the Trustee a deposit or escrow all or a part of a purchase price. After executing a confidentiality agreement and providing the Trustee evidence of financial wherewithal, the Trustee may afford any such party access to the Life Policy Assets and related documents.

***Competitive Sale Process***

2. Taking into account indications of interest already received for any Life Policy Asset, Melville shall solicit offers to purchase any or all of the Life Policy Assets, alone or in

<sup>1</sup> The Debtors in the cases are: (1) Life Fund 5.1, LLC; (2) Life Fund 5.2, LLC; (3) A&O Life Fund, LLC; (4) A&O Resource Management, LLC; (5) A&O Bonded Life Settlement, LLC; (6) A&O Bonded Life Assets, LLC; and (7) Houston Tanglewood Partners, LLC.

<sup>2</sup> Each capitalized term used but not defined herein shall have the meaning ascribed thereto in the motion filed on July 26, 2010 in the above-captioned chapter 11 cases titled the "Trustee's Motion for Orders Approving: (A) Competitive Sale Procedures; (B) Procedures to Redeem or Allow Life Policy Assets to Lapse; (C) Procedures for the Sale of Life Policy Assets Free and Clear of Claims and Encumbrances and With Certain Findings; and (D) Related Relief".

groups. If Melville receives more than one bona fide offer to purchase any Life Policy Asset or the portfolio of Life Policy Assets, then: (a) at the discretion of the Trustee, Melville may inform all such interested purchasers of all existing offers to purchase such Life Policy Assets or the portfolio of Life Policy Assets and solicit from all such interested purchasers improved offers to purchase such assets in a competitive process; and (b) the Trustee, in consultation with Melville, shall ultimately determine the highest and best bona fide offer for each Life Policy Asset or group of Life Policy Assets, which may be the entire portfolio of Life Policy Assets, if any. In making such determination, the Trustee may consider, among other things, (i) the amount of the purchase price, (ii) the ability and likelihood of any potential purchaser to consummate a transaction and the timing thereof, and (iii) the net benefit of such proposed purchase to the Estates. The Trustee reserves the right to reject any offer and to withdraw from sale any and/or all of the Life Policy Assets at any time.

3. The Trustee may accept, subject to Court approval as set forth below, any such offer, but shall be under no obligation to accept any offer to purchase any or all of the Life Policy Assets or to present any such offer to the Court for approval. When accepting a binding, non-contingent offer to purchase one or more Life Policy Assets, the Trustee may agree to provide such purchaser a break-up fee (each a "Break-Up Fee") in an amount no greater than four percent (4%) of the purchase price for such Life Policy Asset to be sold. Break-Up Fees will be paid to potential purchasers: (a) only upon consummation of a sale of such Life Policy Asset to another purchaser after approval of same by the Court (an "Alternate Transaction"); (b) only from the portion of the proceeds of the Alternate Transaction that exceed the amount of the transaction originally accepted by the Trustee; and (c) only in the event that the original purchaser at all times prior to the consummation of the Alternate Transaction remained ready, willing and able to

consummate the purchase of the Life Policy Asset in question on the terms originally accepted (subject to approval of the Court) by the Trustee.

4. If the Trustee accepts any proposed purchase of any or all of the Life Policy Assets, than the Trustee shall: (a) file with the Bankruptcy Court and (b) serve on (i) each party that has requested notice in the Chapter 11 Cases, (ii) each party that, as of that date, had expressed to the Trustee or his professionals any interest in the purchase of the Life Policy Assets to be purchased, (iii) each Insurer that issued any Policy to be purchased, (iv) all persons of record with the Trustee that assert an actual or beneficial interest in any Life Policy Assets to be sold, and (v) PCI, if the assets to be conveyed include any PCI Bond, a notice (the “Notice of Proposed Sale”) of proposed sale and hearing. The Notice of Proposed Sale shall identify: (1) the date (no less than 10 days after the filing and service of the Notice of Proposed Sale), time and location of a hearing (a “Sale Hearing”) before the Bankruptcy Court; (2) the Life Policy Asset(s) to be sold (without naming any insured) and any PCI bond to be conveyed; (3) the economic terms of the proposed sale; and (4) the last date to file any objection to any proposed sale (which date shall not be less than seven days after the filing of the Notice of Proposed Sale). At the Sale Hearing, the Trustee will describe the sale process and the proposed sale of the Life Policy Assets in question and request that the Court enter an order authorizing (i) the sale of the Life Policy Asset(s) in question to the proposed purchaser(s), free and clear of all liens, claims and encumbrances to the fullest extent authorized under section 363 of the Bankruptcy Code and with certain findings of fact, conclusions of law and directions (as discussed below and as set forth on the proposed Sale Order) regarding title, contestability (if appropriate), insurable interest, and the ability of the issuer of any Policy to rescind the Policy or declare the Policy *void*

*ab initio*, and (ii) if necessary or appropriate with respect to any PCI Bond, the assumption and assignment of such bond in accordance with section 365 of the Bankruptcy Code.

**EXHIBIT 3**  
**TO SALE PROCEDURES ORDER**

**Form Notice of Proposed Sale**

attached hereto

**UNITED STATES BANKRUPTCY COURT  
 NORTHERN DISTRICT OF ILLINOIS  
 EASTERN DIVISION**

In re:	)	Chapter 11
	)	
LIFE FUND 5.1, LLC, <i>et al.</i> , <sup>1</sup>	)	Case No. 09 B 32672
	)	
Debtors.	)	Jointly Administered
	)	<b>Hearing Date and Time:</b> [_____]
	)	<b>Objection Deadline:</b> [_____]

**NOTICE OF PROPOSED SALE OF LIFE POLICY ASSETS  
 FREE AND CLEAR OF LIENS, CLAIMS AND ENCUMBRANCES  
 AND WITH CERTAIN FINDINGS OF FACT AND DIRECTIONS**

**PLEASE TAKE NOTICE THAT ON [Insert Date of Entry of Order]** the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division (the “Court”) entered an order approving Competitive Sale Procedures (the “Sale Procedures Order”).<sup>2</sup>

**PLEASE TAKE NOTICE THAT** in accordance with the Sale Procedures Order, Jeff Marwil, the elected Trustee of the chapter 11 estates of the above-captioned Debtors, and/or his professionals, subject to approval of the Court, proposes to sell and convey the following Life Policy Assets on the following terms:

Policy Issuer	Policy Number	PCI Bond (y/n)	Terms of Sale and Cure for Transfer of PCI Bond

**PLEASE TAKE NOTICE THAT** on [Insert Date and Time of Sale Hearing] (the “Sale Hearing”) the Trustee shall appear before the Honorable A. Benjamin Goldgar, United States Bankruptcy Judge for the United States Bankruptcy Court, Northern District of Illinois, Eastern Division, or any other Judge who may be sitting in his place and stead, in Courtroom 613 of the Dirksen Federal Building, 219 S. Dearborn Street, Chicago, Illinois, 60604, and then and there request that the Court:

- (1) authorize the sale and conveyance of the Debtors’ interests (and, with the consent of the holders of such interests, other interests) in the above Life Policy Assets free and clear of liens, claims and encumbrances and with certain findings of fact,

<sup>1</sup> The Debtors in the cases are: (1) Life Fund 5.1, LLC; (2) Life Fund 5.2, LLC; (3) A&O Life Fund, LLC; (4) A&O Resource Management, LLC; (5) A&O Bonded Life Settlement, LLC; (6) A&O Bonded Life Assets, LLC; and (7) Houston Tanglewood Partners, LLC.

<sup>2</sup> Each capitalized term used but not defined herein shall have the meaning ascribed thereto in the Auction and Sale Order.

- (2) direct each Insurer to provide transfer title to such assets to the purchaser,  
and
- (3) direct each Insurer to accept and process change of ownership forms  
executed by the Trustee and recognize each purchaser as the subsequent  
owner of the respective Policy.

**PLEASE TAKE FURTHER NOTICE THAT**, by previous order of the Court, the Policies identified above have been found to be valid and enforceable and no longer subject to contest for any reason, other than on account of the failure of any party to pay when due premiums for such Policies.

**PLEASE TAKE NOTICE THAT [identify cure costs, if any, under PCI Bonds to be assumed and assigned, if any.]**

**PLEASE TAKE NOTICE THAT** any objections to the sale or conveyance of the Life Policy Assets identified above (including any objection to the assumption and assignment of any PCI Bond) must: (1) be in writing; (2) state the name and address of the objecting party and the nature of such party's claim against or interest in the Debtors; (3) state with particularity the basis and nature of the objection; (4) be filed with the Court; and (5) be served on undersigned counsel to the Trustee no later than **[Objection time] on [Objection Date]**.

Dated: **[Date]**  
Chicago, Illinois

**LIFE FUND 5.1, LLC  
LIFE FUND 5.2, LLC  
A&O LIFE FUND, LLC  
A&O RESOURCE MANAGEMENT, LLC  
A&O BONDED LIFE SETTLEMENT, LLC  
A&O BONDED LIFE ASSETS, LLC; and  
HOUSTON TANGLEWOOD PARTNERS, LLC**

/s/ \_\_\_\_\_

Jeff Marwil (ARDC # 06194054)  
Jeremy T. Stillings (ARDC# 06279868)  
PROSKAUER ROSE LLP  
70 West Madison, Suite 3800  
Chicago, Illinois 60602-4342  
(312) 962-3529  
(312) 962-3551 (Fax)

*Counsel to the Trustee*

**EXHIBIT 4**  
**TO SALE PROCEDURES ORDER**

**Form of Sale Order**

attached hereto

UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION

\_\_\_\_\_  
In re: ) Chapter 11  
)  
LIFE FUND 5.1, LLC, *et al.*,<sup>1</sup> ) Case No. 09 B 32672  
)  
Debtors. ) Jointly Administered

**ORDER AUTHORIZING SALE OF LIFE POLICY ASSETS  
FREE AND CLEAR OF LIENS, CLAIMS AND ENCUMBRANCES  
AND WITH CERTAIN FINDINGS OF FACT AND DIRECTIONS**

This matter coming before the Court on the Trustee’s Motion for Orders: (1) Approving (A) Procedures for the Sale of Life Policy Assets Free and Clear of Claims and Encumbrances and With Certain Findings and (B) Procedures to Redeem or Allow Life Policy Assets to Lapse; (2) Determining Estates’ Rights to and in Policies; (3) Preventing Insurers From Taking Certain Acts With Respect to Policies; and (4) Granting Related Relief (the “Motion”)<sup>2</sup>; the Court having entered an order (Docket No. \_\_, the “Procedures Order”) granting certain of the relief requested in the Motion and approving Competitive Sale Procedures (the “Sale Procedures”); the Trustee and his professionals having marketed for sale the following Life Policy Assets in accordance with the Sale Procedures and the Procedures Order:

**[identify Life Policy Assets to be sold]**

(the “Subject Assets”); the Trustee having determined that [**Insert name of Highest Bidder**] (the “Purchaser”) submitted the highest and best bona fide offer to purchase the Subject Assets; the Trustee having accepted the Purchaser’s offer (subject to approval of the Court); the Trustee

<sup>1</sup> The Debtors in the cases are: (1) Life Fund 5.1, LLC; (2) Life Fund 5.2, LLC; (3) A&O Life Fund, LLC; (4) A&O Resource Management, LLC; (5) A&O Bonded Life Settlement, LLC; (6) A&O Bonded Life Assets, LLC; and (7) Houston Tanglewood Partners, LLC.

<sup>2</sup> Each capitalized term used but not defined herein shall have the meaning ascribed thereto in the Motion.

having issued a Notice of Proposed Sale (Docket No. \_\_, the “Notice of Sale”) in accordance with the Procedures Order; and upon review and consideration of the Motion, objections (if any) to the sale of the Subject Assets, arguments of counsel and evidence proffered or adduced at the hearing on the sale of the Subject Assets in accordance with the Notice of Sale (the “Sale Hearing”), and the docket and proceedings in the Chapter 11 Cases,

**THE COURT HEREBY FINDS THAT:**

- A. This Court has jurisdiction over the Motion.
- B. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A), (N) and (O).
- C. Venue of the Chapter 11 Cases and the Motion in this district is proper under 28 U.S.C. §§ 1408 and 1409.
- D. This Sale Order constitutes a final and appealable order within the meaning of 28 U.S.C. § 158(a). Notwithstanding Bankruptcy Rules 6004(h) and 6006(d), the Court expressly finds that there is no just reason for delay in the implementation of this Sale Order, and expressly directs entry of judgment as set forth herein.
- E. The relief requested in the Motion and granted in this Order is in the best interests of the Debtors and the Estates.
- F. The Trustee provided notice of the Sale Hearing to the Asset Notice Parties for the Subject Assets in accordance with the Procedures Order.
- G. Given the notice of the Sale Hearing and the notice provided of the first hearing on the Motion, notice of the Sale Hearing was due and proper under the circumstances and all interested parties were afforded the opportunity to be heard respect to the sale of the Subject Assets to the Purchaser.

H. The Trustee seeks to convey the Subject Assets to the Purchaser (the “Sale”).

I. The Trustee has demonstrated both (1) good, sufficient, and sound business purposes and justifications for the Sale; and (2) compelling circumstances for the Sale pursuant to section 363(b) of the Bankruptcy Code.

J. On [**Date of Procedures Order**], the Court entered the Procedures Order approving the Competitive Sale Procedures. The Competitive Sale Procedures provided a full, fair and reasonable opportunity for any person to make an offer to purchase the Subject Assets. The Trustee and/or his professionals marketed the Subject Assets in accordance with the Procedures Order and complied with that order in all respects. The Purchaser complied with the Procedures Order.

K. As demonstrated by the testimony and other evidence proffered or adduced at the Sale Hearing: (1) the Trustee has adequately marketed the Subject Assets; (2) the offer of the Purchaser constitutes the highest and otherwise best offer for the Subject Assets and provides fair and reasonable consideration therefor; (3) the Sale will provide a greater recovery for the Estates than would be provided by any other practical available alternative; (4) no other party has offered to purchase the Subject Assets for greater economic value to the Estates; and (5) the consideration to be paid by the Purchaser constitutes reasonably equivalent value and fair consideration for the Subject Assets under the Bankruptcy Code and under the laws of the United States, any state, territory or possession thereof or the District of Columbia.

L. Approval and consummation of the Sale to the Purchaser at this time is in the best interests of the Debtors, their creditors, the Estates and other parties in interest in the Chapter 11 Cases.

M. The Sale was negotiated, proposed and entered into by the Estates and the Purchaser in good faith, without collusion and from arm's-length bargaining positions. The Purchaser is a "good faith purchaser" within the meaning of section 363(m) of the Bankruptcy Code and, as such, is entitled to all the protections afforded thereby. Neither the Trustee, his professionals, the Estates, nor the Purchaser have engaged in any conduct that would cause or permit the Sale to be avoided or impose costs and damages under section 363(n) of the Bankruptcy Code or any other provision of the Bankruptcy Code, the Bankruptcy Rules, or applicable law.

N. As evidenced by the certificates of service filed with the Court: (1) the Trustee provided proper, timely, adequate and sufficient notice of the Motion and the Sale Hearing; (2) such notice was good, sufficient and appropriate under the particular circumstances; and (3) no other or further notice of the Motion, the Sale Hearing or the Sale is or shall be required. A reasonable opportunity to object or be heard with respect to the Motion and the Sale has been afforded to all interested persons and entities, including, but not limited to:

- (i) any party who expressed in writing to the Trustee or his professionals an interest in the Subject Assets;
- (ii) all parties who are known or reasonably believed to have asserted a lien, encumbrance, claim or other interest in the Subject Assets;
- (iii) **[Name of Insurance Companies]**, the issuer of the Policy or Policies to be conveyed in the Sale;
- (iv) **[PCI]**;
- (v) the Office of the United States Trustee for the Northern District of Illinois, Eastern Division;
- (vi) all parties of record with the Trustee who may have an interest in the Subject Assets;
- (vii) all known creditors of the Estates; and

(viii) all entities that have requested notice in the Chapter 11 Cases under Bankruptcy Rule 2002.

**O. [In accordance with the provisions of the Procedures Order, the Trustee has served upon PCI notice of the Estates' intent to assume and assign the PCI Bonds that are Subject Assets and of the related proposed cure costs (the "Cure Costs"). The service of such notice was good, sufficient and appropriate under the circumstances and no further notice need be given with respect to the Cure Costs and the assumption and assignment of the PCI Bonds that are Subject Assets. PCI had a reasonable opportunity to object to both the Cure Costs and the assumption and assignment of the PCI Bonds.]**

P. The Trustee is authorized to sell and convey the Subject Assets free and clear of all liens, claims, interests and encumbrances of any kind or nature whatsoever (collectively, "Claims"), because, in each case, one or more of the standards set forth in section 363(f)(1)-(5) of the Bankruptcy Code have been satisfied. Those holders of Claims who did not object, or who withdrew their objections, to the Sale or the Motion are deemed to have consented pursuant to section 363(f)(2) of the Bankruptcy Code. Those holders of Claims who did object to the Sale of the Subject Assets free and clear of Claims fall within one or more of the other subsections of section 363(f) of the Bankruptcy Code and are adequately protected by having their Claims, if any, attach to the proceeds of the Sale ultimately attributable to the property against which they have a Claim, in the same order of priority and with the same validity, force and effect that such creditor had prior to the Sale, subject to any defenses of the Debtors or the Trustee.

Q. The Insurer that issued the Policies that are Subject Assets received sufficient notice of the Motion, Procedures Order, Sale and the terms of the Sale and is deemed to have waived any objection thereto.

R. The Purchaser would not consummate the Sale if the sale of the Subject Assets will not be free and clear of all Claims.

S. The Sale provides the Estates with reasonably equivalent value and fair consideration (as those terms are defined in the Uniform Fraudulent Transfer Act, the Uniform Fraudulent Conveyance Act and the Bankruptcy Code) for the Subject Assets, and was not entered into for the purpose of, nor does it have the effect of, hindering, delaying or defrauding creditors of any of the Debtors under any applicable law.

T. The assumption and assignment of the PCI Bonds that are Subject Assets is integral to the Sale, in the best interests of the Debtors and the Estates, and represents the reasonable exercise of the Trustee's sound business judgment.

U. The Trustee has satisfied all requirements of section 365(b) of the Bankruptcy Code with respect to the assumption and assignment of each PCI Bond that is a Subject Asset. The Purchaser has provided all necessary adequate assurance of future performance under such PCI Bonds in satisfaction of sections 365(b) and 365(f) of the Bankruptcy Code. Accordingly, such PCI Bonds may be assumed by the Estates and assigned to the Purchaser.

V. As of the closing of the Sale (the "Closing"), the transfer of the Subject Assets to the Purchaser will be a legal, valid and effective transfer of the Subject Assets, and will vest the Purchaser with all right, title and interest in and to the Subject Assets, free and clear of (1) all Claims and (2) all debts arising under or out of, in connection with, or in any way relating to, any acts of the Debtors, claims (as defined in section 101(5) of the Bankruptcy Code), rights or causes of action (whether in law or in equity, including any rights or causes of action based on theories of transferee or successor liability under any law, statute, rule or regulation of the United States, any state, territory, or possession thereof or the District of Columbia), obligations,

demands, guaranties, rights, contractual commitments, restrictions, interests and matters of any kind or nature whatsoever, whether arising prior to or subsequent to the commencement of these cases, and whether imposed by agreement, understanding, law, equity or otherwise.

W. As of the date hereof, the Estates have valid title to and are the owners of the Policies that are Subject Assets.

X. Upon entry of this Order and consummation of the Sale, the purchaser will hold title to each Policy (or interest in such Policy) that is a Subject Asset free and clear of liens, claims and encumbrances.

Y. As of the date hereof, the Policies are valid and enforceable.

Z. As of and after the date hereof, other than on account of non-payment of premium obligation due under any Policy, Insurers are barred from contesting the validity or enforceability of any Policy or such Insurer's obligation to pay Policy proceeds upon death of any insured for any reason, including, without limitation: (a) by contesting the existence of an insurable interest in the insured when the Policy was issued or otherwise; or (b) due to material misstatements or omissions in the application for the Policy.

AA. The Trustee: (1) has full power and authority to consummate the Sale and to execute and deliver all documents in connection therewith; and (2) requires no consents or approvals (other than the entry of this Sale Order), to consummate the Sale.

**NOW THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED**

**THAT:**

1. The Motion is granted as set forth herein.
2. The findings of fact set forth above and conclusions of law stated herein shall constitute this Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052,

made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent any finding of fact later shall be determined to be a conclusion of law, it shall be so deemed, and to the extent any conclusion of law later shall be determined to be a finding of fact, it shall be so deemed.

3. All objections to the relief requested by the Motion and granted by this Sale Order that have not been withdrawn, waived or settled as announced to the Court at the Sale Hearing or by stipulation filed with the Court, and all reservations of rights included therein, are hereby overruled on the merits, except as expressly provided herein.

4. The Sale is approved.

5. The Trustee, as well as his professionals and agents, are authorized to execute and deliver, and authorized to perform under, consummate and implement, any instruments and documents that may be reasonably necessary or desirable to consummate the Sale and to take all further actions as may be reasonably requested by the Purchaser for the purpose of assigning, transferring, granting, conveying and conferring to the Purchaser, or reducing to possession, the Subject Assets, all without further order of the Court.

6. Pursuant to sections 105(a) and 363(f) of the Bankruptcy Code, the transfer of the Subject Assets to the Purchaser shall: (a) be valid, legal, binding and effective; (b) vest the Purchaser with all right, title and interest in the Subject Assets; and (c) be free and clear of all Claims, with all Claims to attach to the net proceeds of the Sale, in the order of their priority and with the same validity, force and effect which they now have against the Subject Assets, subject to any claims and defenses the Debtors may possess with respect thereto.

7. Following the Closing, no holder of any Claim shall interfere with the Purchaser's title to or use and enjoyment of the Subject Assets based on or related to any Claim or based on

any actions taken or not taken by the Debtors or the Trustee prior to or during the Chapter 11 Cases.

8. Each Insurers of a Subject Policy is directed to accept change of ownership forms executed by the Trustee and, after consummation of the Sale, to recognize each purchaser of a Subject Asset that is a Policy as the owner of such Policy.

9. Pursuant to sections 105(a) and 365 of the Bankruptcy Code, the Debtors' assumption and assignment to the Purchaser of any PCI Bonds that are Subject Assets is approved, and all requirements of section 365 of the Bankruptcy Code are determined to have been satisfied with respect to such PCI Bonds.

10. The Trustee is authorized in accordance with sections 105(a) and 365 of the Bankruptcy Code to assume and assign to the Purchaser the PCI Bonds that are Subject Assets free and clear of all Claims.

11. The PCI Bonds transferred in accordance with this Sale Order shall be transferred to, and remain in full force and effect for the benefit of, the Purchaser in accordance with their respective terms, notwithstanding any provision in any such PCI Bonds (including those of the type described in sections 365(e)(1) and (f) of the Bankruptcy Code) that prohibits, restricts or conditions such assignment or transfer.

12. Upon the Closing, the Purchaser shall be fully and irrevocably vested with all right, title and interest of the Debtors under the Subject Assets, including the PCI Bonds that are Subject Assets.

13. The transactions authorized by this Sale Order are undertaken by the Purchaser in good faith, as that term is used in section 363(m) of the Bankruptcy Code, and accordingly, the reversal or modification on appeal of the authorization provided herein of the Sale shall not

affect the validity of the Sale to the Purchaser, unless such authorization is duly stayed pending such appeal.

14. Each and every federal, state and local governmental agency, department or official is hereby directed to accept any and all documents and instruments necessary and appropriate to consummate the transactions contemplated by this Sale Order.

15. The Trustee is directed to serve a copy of this Order via U.S. Mail on the Insurer that issued each Policy that is a Subject Asset.

16. The Insurer is directed to: (a) note in its Policy files that the Purchaser has purchased and is the owner of the Policy or Policies that are Subject Assets; and (b) direct all future correspondence and notices regarding such Policies to Purchaser.

17. The Trustee and his professionals are authorized to take all actions necessary to effectuate the relief granted pursuant to this Order.

18. As provided by rules 6004(h) and 6006(d) of the Bankruptcy Rules, this Sale Order shall not be stayed for 10 days after its entry but shall be effective immediately upon entry, and the Trustee and the Purchaser are authorized to close the Sale immediately upon entry of this Sale Order.

Dated:  
Chicago, Illinois

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United States Bankruptcy Judge

**EXHIBIT 5**  
**TO SALE PROCEDURES ORDER**

**Form Notice of Redemption**

attached hereto

**UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

In re:	)	Chapter 11
	)	
LIFE FUND 5.1, LLC, <i>et al.</i> , <sup>1</sup>	)	Case No. 09 B 32672
	)	
Debtors.	)	Jointly Administered
	)	<b>Objection Deadline:</b> [_____]

**NOTICE OF REDEMPTION OF POLICY FOR CASH VALUE**

**PLEASE TAKE NOTICE THAT ON [Insert Date of Entry of Order]** the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division (the “Court”) entered an order (the “Procedures Order”)<sup>2</sup> approving procedures for the redemption for cash of Policies.

**PLEASE TAKE NOTICE THAT** in accordance with the Procedures Order, the Trustee proposes to redeem the following Policies for the following amounts:

Policy Issuer	Policy Number	Net Redemption Amount	PCI Bond (y/n)

**PLEASE TAKE NOTICE THAT** the Trustee proposes to redeem the Policy because: (1) the Trustee has marketed the Policy for sale and has not received any indications of interest to purchase the Policy that will result in a gain (net of transaction costs) to the Estates, and (2) the Trustee’s analysis indicates that the Net Redemption Amount represents the greatest value to the Estates from the Policy (taking into consideration, among other things, continuing premium funding obligations under the Policy and the life expectancy of the insured under the Policy).  
**[Modify as necessary or appropriate.]**

**PLEASE TAKE NOTICE THAT** if you object to the Policy being redeemed on the terms set forth above, you must file an objection (an “Objection”) to this proposed redemption. Any Objection must: (1) be in writing; (2) state the name and address of the objecting party and the nature of such party’s claim against or interest in the Debtors; (3) state with particularity the basis and nature of the objection; (4) be filed with the Court; and (5) be served on undersigned counsel to the Trustee no later than [**Objection time**] on [**Objection Date**] (the “Objection Deadline”).

<sup>1</sup> The Debtors in the cases are: (1) Life Fund 5.1, LLC; (2) Life Fund 5.2, LLC; (3) A&O Life Fund, LLC; (4) A&O Resource Management, LLC; (5) A&O Bonded Life Settlement, LLC; (6) A&O Bonded Life Assets, LLC; and (7) Houston Tanglewood Partners, LLC.

<sup>2</sup> Each capitalized term used but not defined herein shall have the meaning ascribed thereto in the Auction and Sale Order.

**PLEASE TAKE NOTICE THAT** if an Objection is filed prior to the Objection Deadline, then, in accordance with the Redemption Procedures Order, the Trustee shall: (1) schedule a hearing before the Court; (2) provide a separate notice of such hearing to all parties who received this notice; and (3) at such hearing, ask the Court to overrule all Objections and authorize the Trustee to redeem the Policy.

**PLEASE TAKE NOTICE THAT** if no party files and serves an Objection prior to the Objection Deadline, then, in accordance with the Redemption Procedures Order, the Trustee shall be authorized to redeem the Policy without further notice or action by the Court.

Dated: **[Date]**  
Chicago, Illinois

**LIFE FUND 5.1, LLC  
LIFE FUND 5.2, LLC  
A&O LIFE FUND, LLC  
A&O RESOURCE MANAGEMENT, LLC  
A&O BONDED LIFE SETTLEMENT, LLC  
A&O BONDED LIFE ASSETS, LLC; and  
HOUSTON TANGLEWOOD PARTNERS, LLC**

/s/ \_\_\_\_\_

Jeff Marwil (ARDC # 06194054)  
Jeremy T. Stillings (ARDC# 06279868)  
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Chicago, Illinois 60602-4342  
(312) 962-3529  
(312) 962-3551 (Fax)

*Counsel to the Trustee*

**EXHIBIT 6**  
**TO SALE PROCEDURES ORDER**

**Form Notice of Lapse**

attached hereto

**UNITED STATES BANKRUPTCY COURT  
 NORTHERN DISTRICT OF ILLINOIS  
 EASTERN DIVISION**

In re:	)	Chapter 11
	)	
LIFE FUND 5.1, LLC, <i>et al.</i> , <sup>1</sup>	)	Case No. 09 B 32672
	)	
Debtors.	)	Jointly Administered

**NOTICE OF LAPSE OF POLICY**

**PLEASE TAKE NOTICE THAT ON [Insert Date of Entry of Order]** the United States Bankruptcy Court for the Northern District of Illinois, Eastern Division (the “Court”) entered an order (the “Procedures Order”)<sup>2</sup> approving procedures for the Trustee to allow certain Policies to Lapse.

**PLEASE TAKE NOTICE THAT** in accordance with the Procedures Order, the Trustee shall allow the following Policies to Lapse:

Policy Issuer	Policy Number	Date of Lapse	PCI Bond (y/n)

**PLEASE TAKE NOTICE THAT** the Trustee proposes to allow the Policy to lapse because: (1) the Trustee has marketed the Policy for sale and has not received any indications of interest to purchase the Policy that will result in a gain (net of transaction costs) to the Estates; (2) the Policy has insufficient accrued value to remain in effect without future premium payments; and/or (3) the Trustee’s analysis indicates that there is no net value (after accounting for premium payments required to maintain the Policy) in the Policy and that the greatest value to the Estates from the policy (taking into consideration, among other things, continuing premium funding obligations under the Policy and the life expectancy of the insured under the Policy) is to allow the Policy to lapse. **[Modify as necessary or appropriate.]**

**PLEASE TAKE NOTICE THAT** if you object to the proposed lapse of the any Policy identified above, you may file an objection (an “Objection”) to the proposed lapse. Any Objection must: (1) be in writing; (2) state the name and address of the objecting party and the nature of such party’s claim against or interest in the Debtors; (3) state with particularity the basis and nature of the objection; (4) be filed with the Court; and (5) be served on undersigned counsel to the Trustee.

<sup>1</sup> The Debtors in the cases are: (1) Life Fund 5.1, LLC; (2) Life Fund 5.2, LLC; (3) A&O Life Fund, LLC; (4) A&O Resource Management, LLC; (5) A&O Bonded Life Settlement, LLC; (6) A&O Bonded Life Assets, LLC; and (7) Houston Tanglewood Partners, LLC.

<sup>2</sup> Each capitalized term used but not defined herein shall have the meaning ascribed thereto in the Auction and Sale Order.

**PLEASE TAKE FURTHER NOTICE THAT** absent further order of the Court, the Trustee shall make no additional premium payments to maintain the Policy and that, as a result, the Policy may lapse whether or not an Objection is filed and, if an Objection is filed, prior to the occurrence of any hearing on such Objection.

Dated: **[Date]**  
Chicago, Illinois

**LIFE FUND 5.1, LLC  
LIFE FUND 5.2, LLC  
A&O LIFE FUND, LLC  
A&O RESOURCE MANAGEMENT, LLC  
A&O BONDED LIFE SETTLEMENT, LLC  
A&O BONDED LIFE ASSETS, LLC; and  
HOUSTON TANGLEWOOD PARTNERS,  
LLC**

/s/ \_\_\_\_\_

Jeff Marwil (ARDC # 06194054)  
Jeremy T. Stillings (ARDC# 06279868)  
PROSKAUER ROSE LLP  
70 West Madison, Suite 3800  
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*Counsel to the Trustee*