

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

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

NOTICE OF MOTION

PLEASE TAKE NOTICE that on **Monday, March 8, 2010** at **10:00 a.m.** or as soon thereafter as counsel may be heard, we will appear before the Honorable A. Benjamin Goldgar, or any other judge sitting in his stead, in Courtroom 613 of the Dirksen Federal Building, 219 S. Dearborn St., Chicago, Illinois, and present *Trustee's Motion for Entry of an Order Approving Compromise with Provident Capital Indemnity, Ltd.*, at which time and place you may appear as you see fit.

Dated: February 12, 2010

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

By: /s/ Brian A. Audette
PERKINS COIE LLP
David M. Neff (ARDC # 6190202)
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Counsel to the Trustee

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

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

**TRUSTEE’S MOTION FOR ENTRY OF ORDER APPROVING
COMPROMISE WITH PROVIDENT CAPITAL INDEMNITY, LTD.**

Patrick M. Collins, not individually, but solely in his capacity as chapter 11 trustee (the “Trustee”) of the bankruptcy estates of Life Fund 5.1, LLC (Case No. 09-32672), Life Fund 5.2, LLC (Case No. 09-32674), A&O Life Fund, LLC (Case No. 09-32678), Houston Tanglewood Partners, LLC (Case No. 09-32676), A&O Resource Management, Ltd. (Case No. 09-32677), A&O Bonded Life Assets, LLC (Case No. 09-32679), and A&O Bonded Life Settlement, LLC (Case No. 09-32681) (collectively, the “Debtors”), by his undersigned counsel, pursuant to Federal Rule of Bankruptcy Procedure 9019, files this motion (this “Motion”) for the entry of an order approving two compromises by and between the Trustee, on the one hand, and Minor Vargas Calvo and Provident Capital Indemnity, Ltd., on the other hand. In support of this Motion, the Trustee states as follows:

JURISDICTION

1. The Bankruptcy Court exercises jurisdiction over this 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). Venue of these cases and this Motion in this District is proper under 28 U.S.C. §§ 1408 and 1409.

2. The basis for the relief requested by this Motion is Rule 9019 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

THE DEBTORS’ BANKRUPTCY CASES

3. On September 2, 2009 (the “Petition Date”), the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code.

4. On September 16, 2009, the Court entered an Order Directing Joint Administration of Related Chapter 11 Cases, which directed joint administration of the Debtors’ cases under Case No. 09-32672.

5. On September 16, 2009, the Court entered an Order Granting U.S. Trustee’s Motion to Appoint a Chapter 11 Trustee.

6. On September 21, 2009, the Office of the United States Trustee appointed the Trustee as chapter 11 trustee of the Debtors’ estates.

THE RELATIONSHIP BETWEEN THE DEBTORS AND PCI

7. The Debtors operated in the “life settlement industry” by soliciting and obtaining funds from hundreds of individual investors to acquire life insurance policies (the “Policies”). The Debtors are owners of numerous Policies that remain in force.

8. For many of the Policies, the Debtors also procured First Written Demand Financial Guarantee Bonds from Provident Capital Indemnity, Ltd. (“PCI”), a Commonwealth of Dominica Limited company with an administrative presence in Costa Rica (generally, the “Bonds”). Under the terms of the Bonds, the Debtors were to provide PCI with certain information about the underlying life insurance policy and pay PCI a premium consisting of a percentage of the face value of the life insurance policy.¹ In turn, under the terms of the Bonds, PCI agreed to pay the full face value of the underlying Policy at some identified future date in

exchange for a transfer of ownership of the Policy to PCI. The “maturity” dates on the Bonds issued by PCI to the Debtors ranged (and range) from 2009 through 2014.

THE CLAIMS AND SETTLEMENT AGREEMENTS

9. The Trustee made claims to PCI on certain Bonds that had maturity dates in late 2009 and early 2010 following his appointment as the chapter 11 trustee of the Debtors. In connection with these claims, the Trustee had correspondence and multiple communications with PCI (among others) regarding the Bonds and PCI generally. Initially, PCI claimed that the bonds for which claims had been made were “not active,” based on assertions that either full payment of premiums were not made or certain required information was not provided by the original client. PCI also raised questions regarding the Trustee’s authority to make claims on behalf of the Debtors, most notably Houston Tanglewood Partners, LLC.

10. The conversations between the Trustee and PCI, however, led to the President of PCI, Minor Vargas Calvo, agreeing to travel to Chicago during the week of February 9, 2010 in order to meet with the Trustee to discuss the Bonds and the parties’ respective positions.

11. The Trustee and his counsel met at length with Dr. Vargas Calvo on Wednesday, February 10, 2010. Although Dr. Vargas Calvo maintained that for various reasons numerous bonds issued by PCI were arguably “not active,” he expressed an interest in working through issues with the Trustee. The meeting culminated in written agreements on February 11, 2010 with respect to two Bonds, which relate to policies with face values of \$1,000,000 and \$10,000,000, respectively. Under the terms of the agreements, discussed below, PCI agreed to pay the full face value of each Bond under the payment schedules described below in exchange for a transfer of the ownership of each related Policy to PCI at the conclusion of the payment schedule.

¹ In virtually all cases, the premium consisted of 6% of the face value of the policy.

12. **The \$1,000,000 Bond and Related Agreement.** PCI issued an indemnity bond payable to Houston Tanglewood Partners, LLC, in connection with Connecticut General Life Insurance Company (Lincoln Financial Group) Policy #7016282, which has a face value of \$1,000,000.00 (the “Larsen Bond”). The Trustee contended that PCI’s obligation to pay \$1,000,000 to the Debtors matured as of October 14, 2009 under the terms of the Larsen Bond. PCI, on the other hand, initially contended that the Larsen Bond was “not active” because PCI had not received certain documentation and/or could not confirm that premiums for the Larsen Bond had been paid in full to PCI. Under the terms of the Settlement Agreement, attached as Exhibit A, the parties agree that the Debtors shall transfer full, unencumbered rights, title and ownership interest in Policy #7016282 to PCI upon receipt of \$1,000,000, which can be paid early without penalty but otherwise will be paid by wire transfer as follows:

(a) PCI and Vargas shall pay the Trustee the total amount of twenty-five thousand United States Dollars (\$25,000.00) on March 10, 2010 (hereinafter the “Initial Payment”)

(b) PCI and Vargas shall pay four (4) equal installments of two hundred forty-three thousand, seven hundred and fifty United States Dollars (\$243,750.00) each on the fifteenth (15th) day of each month after the Initial Payment, beginning April 15, 2010 and ending July 15, 2010 or until such time that the Trustee receives the payment in full of the entire settlement amount.

13. **The \$10,000,000 Bond and Related Agreement.** PCI issued an indemnity bond payable to Houston Tanglewood Partners, LLC, in connection with Prudential Life Insurance policy #V1168732, which has a face value of \$10,000,000.00 (the “Larner Bond”). The Trustee contends that PCI’s obligation to pay \$10,000,000 to the Debtors matures as of February 19, 2010 under the terms of the Larner Bond. PCI, on the other hand, initially contended that the Larner Bond was “not active” because PCI had not received certain documentation and/or could not confirm that premiums for the Larner Bond had been paid in full to PCI. Under the terms of

the Settlement Agreement, attached as Exhibit B, the parties agree that the Debtors shall transfer full, unencumbered rights, title and ownership interest in Policy #V1168732 to PCI upon receipt of \$10,000,000, which can be paid early without penalty but otherwise will be paid by wire transfer as follows: PCI and Vargas shall pay twelve (12) equal installments of eight hundred thirty-three thousand, three hundred and thirty-three United States Dollars and thirty-three United States Cents (\$833,333.33) each on the fifteenth (15th) day of each month beginning June 15, 2010 and ending May 15, 2011 or until such time that the Trustee receives the payment in full of the entire settlement amount.

14. As noted above, PCI issued Bonds in connection with the majority of Policies that remain in force. The parties have discussed the scope and maturity dates of the other Bonds generally, and in some cases specifically, but to date no commitments or agreements have been reached as to the other Bonds (other than the historical issuance of the Bonds themselves and related premium payments). The Trustee expects to have ongoing communications with PCI with respect to Bonds other than the Larner Bond and Larsen Bond.

15. The Trustee believes that the compromises he reached with PCI and Dr. Vargas Calvo on the terms set forth above are in the best interests of the Debtors' estates. The compromises will: (a) avoid litigation costs and risks that would otherwise be born by the Debtors' investors if the Trustee were to attempt to initiate adversary proceedings against PCI with respect to the Larner Bond or Larsen Bond; (b) enhance the liquidity of the Debtors' estates; and (c) provide a baseline and framework from which the Trustee, Debtors, and PCI can hopefully build as they attempt to work through issues with respect to the numerous other Bonds issued by PCI in connection with the Policies.

RELIEF REQUESTED AND BASIS FOR SUCH RELIEF

16. By this Motion, the Trustee requests the entry of an order pursuant to Bankruptcy Rule 9019 approving the two attached Settlement Agreements by and between the Trustee, on the one hand, and PCI and Dr. Vargas Calvo, on the other hand.

17. Bankruptcy Rule 9019 provides, in part, that “[o]n motion by the trustee and after notice and a hearing, the court may approve a compromise or settlement.” Fed. R. Bankr. P. 9019(a). Compromises are tools for expediting the administration of the case and reducing administrative costs and are favored in bankruptcy. *See Fogel v. Zell*, 221 F.3d 955, 960 (7th Cir. 2000); *Fishell v. Soltow (In re Fishell)*, No. 94-1109, 1995 WL 66622, at *2 (6th Cir. Feb. 16, 1995). Various courts have endorsed the use of Bankruptcy Rule 9019. *See e.g., In re Patel*, 43 B.R. 500, 504 (N.D. Ill. 1982); *In re Miller*, 148 B.R. 510, 516 (Bankr. N.D. Ill. 1992); *In re Check Reporting Serv., Inc.*, 137 B.R. 653 (Bankr. W.D. Mich. 1992). Courts may approve “settlements that are in the best interests of the estate.” *In re Doctors Hospital of Hyde Park, Inc.*, 474 F.3d 421, 426 (7th Cir. 2007). The lynchpin of this test is “a comparison of the value of the settlement with the probable costs of and benefits of litigating.” *Id.* Factors courts consider include “the litigation’s probability of success, complexity, expense, inconvenience, and delay.” *Id.*

18. The Trustee submits that the compromise are fair and reasonable under the circumstances and their approval is in the best interests of the Debtors’ estates. PCI has agreed to pay the face value of the Larner Bond and Larsen Bonds under extended payment schedules as set forth above. Although these payments will not be received as quickly as the Trustee contends they are owed under the terms of the Larner Bond and Larsen Bond, if PCI makes the payments as set forth in the Settlement Agreements the Debtors would received substantial benefits.

Moreover, under the terms of the Settlement Agreements, the interests in the related policies will not be transferred until full payment has been made. While these agreements do not resolve all of the issues (and potential issues) arising out of the Bonds generally, they do provide a starting point for further agreements and discussions.

19. Notably, prior to the recent meeting with Dr. Vargas Calvo, the Trustee received information from multiple sources that raised questions about PCI's ability to and willingness to pay on the Bonds. PCI, however, has expressed a willingness to resolve open issues with the Trustee and the Debtors, beginning with payments on the Larsen and Larner Bonds under the arrangements described above. Although the Trustee could have chosen to pursue alternatives to the two attached Settlement Agreements, under the circumstances the Trustee believes that these compromises are in the best interests of the Debtors' estates.

20. After having duly considered the value of the compromises versus the probable costs and benefits of litigating or other potential courses of action, including but not limited to the probability of success, complexity, expense, inconvenience, and delay of litigation, the Trustee has determined, in his business judgment, that the compromises represent a fair and equitable result and are in the best interests of the Debtors' estates. Therefore, the Court should approve the compromises discussed herein.

NOTICE

21. The Trustee has caused notice of this Motion and a copy of this Motion to be served upon: (a) the Office of the United States Trustee; (b) the Debtors' counsel; (c) PCI; (d) Dr. Minor Vargas Calvo; and (e) all parties that have appeared or otherwise requested notice in the Debtors' cases. The Trustee also will cause a copy of the notice attached hereto as Exhibit C

to be served upon all of the Debtors' investors.² The Trustee submits that such notice is proper and sufficient under the circumstances and requests that the Court approve such limited notice.

WHEREFORE, the Trustee respectfully requests that the Court enter an order:

(a) approving the two Settlement Agreements attached hereto; (b) approving limited notice of the Motion; and (c) granting such other and further relief the Court deems just and proper.

Dated: February 12, 2010

Respectfully submitted,

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

By: /s/ Brian A. Audette

PERKINS COIE LLP

David M. Neff (ARDC #6190202)

Brian A. Audette (ARDC #6277056)

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baudette@perkinscoie.com

Counsel to the Trustee

² This Notice is expected to be mailed on February 16, 2010.

EXHIBIT A

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release ("Agreement") is entered into by Minor Vargas Calvo ("Vargas"), an individual, and Provident Capital Indemnity, Ltd., ("PCI"), a Commonwealth of Dominica Limited company, on the one hand, and Patrick M. Collins, not individually, but solely in his capacity as chapter 11 trustee (the "Trustee") of the bankruptcy estates of Life Fund 5.1, LLC (Case No. 09-32672), Life Fund 5.2, LLC (Case No. 09-32674), A&O Life Fund, LLC (Case No. 09-32678), Houston Tanglewood Partners, LLC (Case No. 09-32676), A&O Resource Management, Ltd. (Case No. 09-32677), A&O Bonded Life Assets, LLC (Case No. 09-32679), and A&O Bonded Life Settlement, LLC (Case No. 09-32681) (collectively, the "Debtors"); on the other hand, (collectively hereinafter referred to as the "Parties").

WHEREAS, the Debtors own one-hundred percent (100%) interest in the life insurance policy of Karen Larsen and Gorm Larsen (hereinafter the "Insureds"), Insurance Policy #7016282 issued by Connecticut General Life Insurance Company (Lincoln Financial Group) (hereinafter the "Larsen Policy");

WHEREAS, PCI issued indemnity bond number FWD3835 FGB7016282 (hereinafter the "Larsen Bond") payable to Houston Tanglewood Partners, LLC ("HTP"), one of the Debtors, in the event the insureds survived beyond October 14, 2009;

WHEREAS, although one insured is deceased, Karen Larsen survived beyond October 14, 2009;

WHEREAS, PCI failed to pay HTP the total sum of one million United States dollars (\$1,000,000.00), which it owed as of October 14, 2009 pursuant to the Larsen Bond;

WHEREAS, Trustee asserts that PCI presently owes one million United States dollars (\$1,000,000.00) pursuant to the Larsen Bond;

WHEREAS, PCI has asserted that HTP failed to take certain actions in connection with the issuance of the bond;

WHEREAS, Vargas is the President of PCI;

WHEREAS, the Parties wish to compromise, resolve, and settle any and all existing debts, disputes and claims between and among them;

NOW, THEREFORE, in consideration of the promises set forth herein and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, it is HEREBY AGREED by and between the Parties to this Agreement as follows;

A. TERMS AND CONDITIONS

1. Upon execution of this Agreement, PCI and Vargas agree to pay to the Trustee, on behalf of the Debtors and in his capacity as Trustee of the Debtors' estates, the total amount of one million United States dollars (\$1,000,000.00), (hereinafter the "Settlement Amount"), as follows:

(a) PCI and Vargas shall pay the Trustee the total amount of twenty-five thousand United States Dollars (\$25,000.00) on March 10, 2010 (hereinafter the "Initial Payment");

(b) PCI and Vargas shall pay four (4) equal installments of two hundred forty-three thousand, seven hundred and fifty United States Dollars (\$243,750.00) each on the fifteenth (15th) day of each month after the Initial Payment, beginning April 15, 2010 and ending July 15, 2010 (hereinafter the "Installment Payments") or until such time that the Trustee receives the payment in full of the entire Settlement Amount.

2. PCI and Vargas shall make the initial Payment and all Installment Payments, described in Paragraph 1(a) and 1(b) above by wire transfer to the following:

Bank of America, N.A.
ABA #0260-0959-3
Life Fund 5.1 LLC, et al.
Patrick M. Collins, as Trustee
No. 2450

3. PCI and Vargas shall be in default if the Initial Payment is not received by Trustee on March 10, 2010, or if any installment Payment is not received by Trustee by the fifteenth (15th) day of the month in which the Installment Payment is due (defined hereinafter as "Default"). In the event a Default occurs and is not cured within three business days, PCI and Vargas shall have fifteen (15) calendar days to cure the Default by making the full payment due plus a default penalty payment of ten thousand United States Dollars (\$10,000.00) to Trustee before the expiration of the fifteenth (15th) calendar day after the occurrence of said Default. In the event PCI and Vargas fail to cure its Default, as described above, the full amount due under the Larsen Bond, one million United States dollars (\$1,000,000.00), minus any payments made under this Agreement, shall become due and payable immediately and shall accrue interest at a rate of six percent (6%) per annum until all amounts are paid in full.

4. PCI and Vargas may pay the full Settlement Amount to Trustee at any time prior to July 15, 2010 without penalty.

5. Once PCI and Vargas pay, and Trustee confirms receipt of, the full Settlement Amount, the Trustee shall cause the Debtors (most notably HTP) to transfer full, unencumbered rights, title and ownership interest in the Larsen Policy to PCI.

6. The Trustee shall maintain the Larsen Policy in force until 30 days after July 15, 2010, through payment of appropriate premiums if necessary, in order to facilitate the transfer of the Larsen Policy as discussed herein. The Trustee shall also provide PCI a verification of coverage from the insurance carrier and confirm that the insured is living.

7. Upon transfer of right, title and ownership as set forth in Paragraph 5 above, PCI shall assume all responsibility for the Larsen Policy, if any.

8. In the event the Larsen Policy's benefits are paid and distributed to Trustee and/or Debtors prior to PCI's and Vargas's full payment of the Settlement Amount, the Parties agree that PCI shall be entitled to reimbursement of any installment payments made from the proceeds of the Larsen Policy's benefits. In the event that the Larsen Policy's benefits are not paid or distributed prior to PCI's full payment of the Settlement Amount, but paid after the Debtors transfer ownership interest in the Larsen Policy to PCI, PCI shall retain all benefits and/or distributions paid.

9. The Parties agree to pay their own costs, expenses, and attorneys' fees, whether taxable or otherwise, incurred in connection with the execution of this Agreement, except as otherwise set forth in this Agreement.

10. The Parties agree that this Agreement is subject to the approval of the Bankruptcy Court in which the Debtors' bankruptcy cases are pending, the United States Bankruptcy Court for the Northern District of Illinois. Upon execution of this agreement, Trustee agrees to promptly seek approval of this Agreement with such Court.

11. In the event either Party breaches any provision contained in this Agreement, they will be liable for all damages, attorney fees and litigation costs. Vargas and PCI shall be jointly and severally liable for any Default, as defined in this Agreement, and any other breach of this Agreement.

B. ENFORCEMENT AND BINDING NATURE

12. The Parties agree that any dispute regarding the terms of this Agreement, including alleged breach of any provision contained herein, or disputes pertaining to its enforceability, shall be resolved in the United States Bankruptcy Court of the Northern District of Illinois or, if the parties agree, arbitrated in the State of Illinois, United States of America, by a mutually agreed upon arbitrator with the Judicial Arbitration & Mediation Services' (JAMS) or the American Arbitration Association (AAA) under the rules and procedures of JAMS or AAA. The Parties further agree that the rules of evidence normally applicable to trial proceedings are waived with respect to any such arbitrator's authority to arbitrate any disputes arising out of the terms of this Agreement or its enforceability. If any arbitration or legal proceeding is initiated relating to this Agreement or any breach of it, by the Parties, the prevailing party in such arbitration or legal proceeding shall be entitled to reimbursement for all of its costs, expenses and attorneys' fees incurred by it in such arbitration or legal proceeding, in addition to any other damages or remedies in any such arbitration or legal proceeding, and the Parties agree that the remaining terms of this Agreement shall remain in full force and effect.

13. The Parties agree that this Agreement is enforceable between the Parties pursuant to Federal Rules of Civil Procedure. If any action or motion is brought pursuant to by the Parties, including arbitration proceeding pursuant to Paragraph 12 above, the prevailing party in such action shall be entitled to reimbursement of all of its costs, expenses and attorneys' fees incurred by it in such action or motion, in addition to any other damages or remedies.

14. This Agreement shall be binding upon the Parties, and their respective heirs, executors, administrators, assigns, and successors, upon approval of the Court as referenced in Paragraph 10.

15. The Parties hereby expressly agree that this Agreement will be governed by and construed in accordance with the laws of the state of Illinois. In addition, the titles and headings used throughout this Agreement are for organizational purposes only and do not imply any rights or obligations to the Parties hereto.

C. INTEGRATION, MODIFICATION, SEVERABILITY, EXECUTION

16. This Agreement constitutes the entire agreement between the Parties and is the complete, final, and exclusive embodiment of their agreement with respect to its subject matter. This Agreement is executed without reliance on any promise, warranty, or representation by any party or any representative of any party other than those expressly contained this Agreement.

17. No modification of or amendment to this Agreement, nor waiver of any rights under it, will be effective unless in writing and signed by the Parties.

18. If any provision of this Agreement is held to be invalid, void, or unenforceable, the remaining provisions will nevertheless continue in full force and effect without being impaired or invalidated in any way.

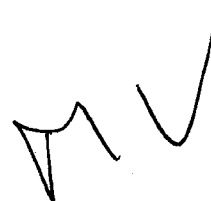
19. The signature pages of this Agreement may be executed in counterparts, all of which will have the same force and effect as though they were the same original.

E. WARRANTIES

20. PCI and Vargas represent and warrant that they know and understand the contents of this Agreement; that they have had the opportunity to consult with their attorney prior to executing it, that they have been given a reasonable period of time to consider this Agreement; and that they have executed it voluntarily and without coercion of any kind.

21. Each signatory to this Agreement expressly warrants to the other parties that he or it is authorized to execute this Agreement on behalf of the party or parties to be bound by his or its signature, and on behalf of each and every principal or other owner of a legal, equitable or beneficial interest in such party or parties.

(SIGNATURE PAGE FOLLOWS)

A handwritten signature in black ink, consisting of a stylized 'M' followed by a checkmark-like flourish.

IT IS HEREBY AGREED:


DATED:

DATED:

February 11, 2010

DATED:

02/11/10



MINOR VARGAS CALVO, individually
PROVIDENT CAPITAL INDEMNITY, LTD.

By



MINOR VARGAS CALVO

Title: President

By:



PATRICK COLLINS

Title: Chapter 11 Trustee of the Debtors

EXHIBIT B

SETTLEMENT AGREEMENT AND RELEASE

This Settlement Agreement and Release ("Agreement") is entered into by Minor Vargas Calvo ("Vargas"), an individual, and Provident Capital Indemnity, Ltd., ("PCI"), a Commonwealth of Dominica Limited company, on the one hand, and Patrick M. Collins, not individually, but solely in his capacity as chapter 11 trustee (the "Trustee") of the bankruptcy estates of Life Fund 5.1, LLC (Case No. 09-32672), Life Fund 5.2, LLC (Case No. 09-32674), A&O Life Fund, LLC (Case No. 09-32678), Houston Tanglewood Partners, LLC (Case No. 09-32676), A&O Resource Management, Ltd. (Case No. 09-32677), A&O Bonded Life Assets, LLC (Case No. 09-32679), and A&O Bonded Life Settlement, LLC (Case No. 09-32681) (collectively, the "Debtors"); on the other hand, (collectively hereinafter referred to as the "Parties").

WHEREAS, the Debtors own one-hundred percent (100%) interest in the life insurance policy of Helen Lerner (hereinafter the "Insureds"), Insurance Policy #V1168732 issued by Prudential Life Insurance (hereinafter the "Lerner Policy");

WHEREAS, PCI issued indemnity bond number FWD130406 FGB1168732 (hereinafter the "Lerner Bond") payable to Houston Tanglewood Partners, LLC ("HTP"), one of the Debtors, in the event the insureds survived beyond February 19, 2010;

WHEREAS, although the insured is not deceased;

WHEREAS, Trustee asserts that as of February 19, 2010, PCI owes or will owe ten million United States dollars (\$10,000,000.00) pursuant to the Lerner Bond;

WHEREAS, PCI has asserted that HTP failed to take certain actions in connection with the issuance of the bond;

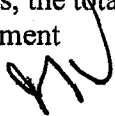
WHEREAS, Vargas is the President of PCI;

WHEREAS, the Parties wish to compromise, resolve, and settle any and all existing debts, disputes and claims between and among them;

NOW, THEREFORE, in consideration of the promises set forth herein and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, it is HEREBY AGREED by and between the Parties to this Agreement as follows;

A. TERMS AND CONDITIONS

1. Upon execution of this Agreement, PCI and Vargas agree to pay to the Trustee, on behalf of the Debtors and in his capacity as Trustee of the Debtors' estates, the total amount of ten million United States dollars (\$10,000,000.00), (hereinafter the "Settlement Amount"), as follows:



(a) PCI and Vargas shall pay twelve (12) equal installments of eight hundred thirty-three thousand, three hundred and thirty-three United States Dollars and thirty-three United States Cents (\$833,333.33) each on the fifteenth (15th) day of each month after the Initial Payment, beginning June 15, 2010 and ending May 15, 2011 (hereinafter the "Installment Payments") or until such time that the Trustee receives the payment in full of the entire Settlement Amount.

2. PCI and Vargas shall make the all Installment Payments described in Paragraph 1 above by wire transfer to the following:

Bank of America, N.A.
ABA #0260-0959-3
Life Fund 5.1 LLC, et al.
Patrick M. Collins, as Trustee
No. 2450

3. PCI and Vargas shall be in default if the Initial Payment is not received by Trustee on June 15, 2010, or if any installment Payment is not received by Trustee by the fifteenth (15th) day of the month in which the Installment Payment is due (defined hereinafter as "Default"). In the event a Default occurs and is not cured within three business days, PCI and Vargas shall have fifteen (15) calendar days, to cure the Default by making the full payment due plus a default penalty payment of ten thousand United States Dollars (\$10,000.00) to Trustee before the expiration of the fifteenth (15th) calendar day after the occurrence of said Default. In the event PCI and Vargas fail to cure its Default, as described above, the full amount due under the Lerner Bond, ten million United States dollars (\$10,000,000.00), minus any payments made under this Agreement, shall become due and payable immediately and shall accrue interest at a rate of six percent (6%) per annum until all amounts are paid in full.

4. PCI and Vargas may pay the full Settlement Amount to Trustee at any time prior to May 15, 2011 without penalty.

5. Once PCI and Vargas pay, and Trustee confirms receipt of, the full Settlement Amount, the Trustee shall cause the Debtors (most notably HTP) to transfer full, unencumbered rights, title and ownership interest in the Lerner Policy to PCI.

6. The Trustee shall maintain the Lerner Policy in force until June 15, 2010 and ensure that it will remain in force for 30 days thereafter, and shall provide PCI a verification of coverage from the insurance carrier and confirm that the insured is living. After June 15, 2010 and until Trustee receives full payment of the Settlement Amount from PCI, PCI and Vargas shall be obligated to and shall pay all premiums due under the Lerner Policy.

7. Upon transfer of right, title and ownership as set forth in Paragraph 5 above, PCI shall assume all responsibility for the Lerner Policy, if any.

8. In the event the Lerner Policy's benefits are paid and distributed to Trustee and/or Debtors prior to PCI's and Vargas's full payment of the Settlement Amount, the Parties agree that PCI shall be entitled to reimbursement of any installment payments made from the proceeds of the Lerner Policy's benefits. In the event that the Lerner Policy's benefits are not

paid or distributed prior to PCI's full payment of the Settlement Amount, but paid after the Debtors transfer ownership interest in the Lerner Policy to PCI, PCI shall retain all benefits and/or distributions paid.

9. The Parties agree to pay their own costs, expenses, and attorneys' fees, whether taxable or otherwise, incurred in connection with the execution of this Agreement, except as otherwise set forth in this Agreement.

10. The Parties agree that this Agreement is subject to the approval of the Bankruptcy Court in which the Debtors' bankruptcy cases are pending, the United States Bankruptcy Court for the Northern District of Illinois. Upon execution of this agreement, Trustee agrees to promptly seek approval of this Agreement with such Court.

11. In the event either Party breaches any provision contained in this Agreement, they will be liable for all damages, attorney fees and litigation costs. Vargas and PCI shall be jointly and severally liable for any Default, as defined in this Agreement, and any other breach of this Agreement.

B. ENFORCEMENT AND BINDING NATURE

12. The Parties agree that any dispute regarding the terms of this Agreement, including alleged breach of any provision contained herein, or disputes pertaining to its enforceability, shall be resolved in the United States Bankruptcy Court of the Northern District of Illinois or, if the parties agree, arbitrated in the State of Illinois, United States of America, by a mutually agreed upon arbitrator with the Judicial Arbitration & Mediation Services' (JAMS) or the American Arbitration Association (AAA) under the rules and procedures of JAMS or AAA. The Parties further agree that the rules of evidence normally applicable to trial proceedings are waived with respect to any such arbitrator's authority to arbitrate any disputes arising out of the terms of this Agreement or its enforceability. If any arbitration or legal proceeding is initiated relating to this Agreement or any breach of it, by the Parties, the prevailing party in such arbitration or legal proceeding shall be entitled to reimbursement for all of its costs, expenses and attorneys' fees incurred by it in such arbitration or legal proceeding, in addition to any other damages or remedies in any such arbitration or legal proceeding, and the Parties agree that the remaining terms of this Agreement shall remain in full force and effect.

13. The Parties agree that this Agreement is enforceable between the Parties pursuant to Federal Rules of Civil Procedure. If any action or motion is brought pursuant to by the Parties, including arbitration proceeding pursuant to Paragraph 12 above, the prevailing party in such action shall be entitled to reimbursement of all of its costs, expenses and attorneys' fees incurred by it in such action or motion, in addition to any other damages or remedies.

14. This Agreement shall be binding upon the Parties, and their respective heirs, executors, administrators, assigns, and successors, upon approval of the Court as referenced in Paragraph 10.

15. The Parties hereby expressly agree that this Agreement will be governed by and construed in accordance with the laws of the state of Illinois. In addition, the titles and

headings used throughout this Agreement are for organizational purposes only and do not imply any rights or obligations to the Parties hereto.

C. INTEGRATION, MODIFICATION, SEVERABILITY, EXECUTION

16. This Agreement constitutes the entire agreement between the Parties and is the complete, final, and exclusive embodiment of their agreement with respect to its subject matter. This Agreement is executed without reliance on any promise, warranty, or representation by any party or any representative of any party other than those expressly contained this Agreement.

17. No modification of or amendment to this Agreement, nor waiver of any rights under it, will be effective unless in writing and signed by the Parties.

18. If any provision of this Agreement is held to be invalid, void, or unenforceable, the remaining provisions will nevertheless continue in full force and effect without being impaired or invalidated in any way.

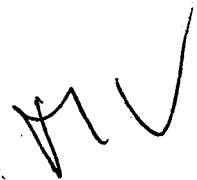
19. The signature pages of this Agreement may be executed in counterparts, all of which will have the same force and effect as though they were the same original.

E. WARRANTIES

20. PCI and Vargas represent and warrant that they know and understand the contents of this Agreement; that they have had the opportunity to consult with their attorney prior to executing it, that they have been given a reasonable period of time to consider this Agreement; and that they have executed it voluntarily and without coercion of any kind.

21. Each signatory to this Agreement expressly warrants to the other parties that he or it is authorized to execute this Agreement on behalf of the party or parties to be bound by his or its signature, and on behalf of each and every principal or other owner of a legal, equitable or beneficial interest in such party or parties.

(SIGNATURE PAGE FOLLOWS)

Handwritten signature or initials, possibly 'MV', in black ink.

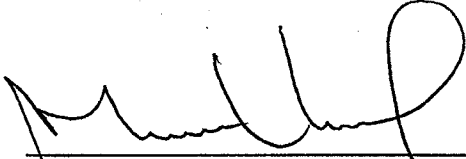
IT IS HEREBY AGREED:

DATED:

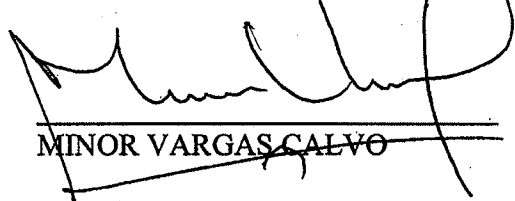
DATED:

February 11, 2010

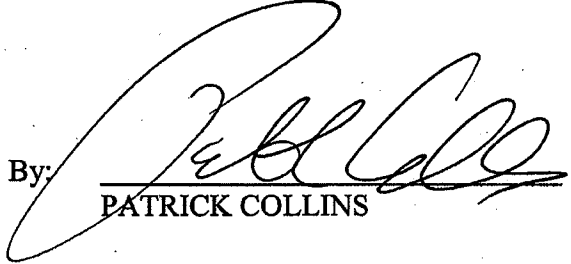
DATED: 02/11/10



MINOR VARGAS CALVO, individually
PROVIDENT CAPITAL INDEMNITY, LTD.

By 

MINOR VARGAS CALVO
Title: President

By 

PATRICK COLLINS
Title: Chapter 11 Trustee of the Debtors

EXHIBIT C

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

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

BANKRUPTCY HEARING NOTICE

PLEASE TAKE NOTICE THAT on February 12, 2010, Patrick M. Collins, as chapter 11 trustee (the "Life Funds Trustee") of the bankruptcy estates of Life Fund 5.1, LLC (Case No. 09-32672), Life Fund 5.2, LLC (Case No. 09-32674), A&O Life Fund, LLC (Case No. 09-32678), Houston Tanglewood Partners, LLC (Case No. 09-32676), A&O Resource Management, Ltd. (Case No. 09-32677), A&O Bonded Life Assets, LLC (Case No. 09-32679), and A&O Bonded Life Settlement, LLC (Case No. 09-32681) (collectively, the "Debtors"), filed the *Trustee's Motion for Entry of Order Approving Compromise with Provident Capital Indemnity, Ltd.* (the "Motion").

PLEASE TAKE FURTHER NOTICE THAT on March 8, 2010, 2010 at 10:00 a.m., the Life Funds Trustee is presenting the Motion for hearing before the Honorable A. Benjamin Goldgar, or any judge sitting in his stead, in Room 613 of the Everett McKinley Dirksen Building, 219 South Dearborn Street, Chicago, Illinois 60604.

PLEASE TAKE FURTHER NOTICE THAT pursuant to the Motion, the Life Funds Trustee requests the approval of a compromise he has reached with Provident Capital Indemnity, Ltd. ("PCI"). Under the terms of two Settlement Agreements, PCI has agreed to pay \$1,000,000.00 in connection with a bond related to Connecticut General Life Insurance Company (Lincoln Financial Group) Policy #7016282 and \$10,000,000.00 in connection with a bond related to Prudential Life Insurance Policy #V1168732. The payments of these amounts are to occur in installments over a period of time beginning in March 2010 through May 15, 2011. Under the terms of the Settlement Agreements, the Trustee and Debtors would transfer interests in the policies identified herein to PCI upon full payments of the respective settlement amounts. The compromises addressed in the Motion do not resolve, nor attempt to resolve, all of the potential obligations of PCI with respect to other bonds issued to the Debtors.

PLEASE TAKE FURTHER NOTICE THAT you may obtain a copy of the Motion by visiting the Trustee's website at: **www.lifefundtrustee.com**.

CERTIFICATE OF SERVICE

Brian Audette, an attorney, certifies that on February 12, 2010 he caused a copy of the *Notice of Motion and Trustee's Motion for Entry of an Order Approving Compromise with Provident Capital Indemnity, Ltd.* to be served on the parties listed on the attached Service List as so indicated.

/s/ Brian A. Audette _____

SERVICE LIST

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

	Delivery Method		Delivery Method
Daniel T. Graham Neil M. Rosenbaum Funkhouser, Vegosen, Liebman & Dunn, Ltd. 55 W. Monroe, Suite 2300 Chicago, IL 60603 dgraham@fvldlaw.com nrosenbaum@fvldlaw.com	Court's ECF notice	Gordon E. Gouveia Shaw Gussis Fishman Glantz Wolfson & Towbin 321 N. Clark Street, Suite 800 Chicago, IL 60654 ggouveia@shawgussis.com	Court's ECF notice
Patricia A. Navin 32 Mill Road Hampton, NH 03842 navin32@comcast.net	U.S. Mail	Nancy J. Groppi 5837 Electric Avenue Berkeley, IL 60163-1522 ngroppi@adt.com	U.S. Mail
Edith Stuart Phillips Assistant Attorney General Bankruptcy & Collections Division P.O. Box 12548, MC-008 Austin, TX 78711-2548 stuart.phillips@oag.state.tx.us	Court's ECF notice	Hal F. Morris Assistant Attorney General Managing Attorney - Bankruptcy Regulatory Section Texas Attorney General's Office P.O. Box 12548, MC-008 Austin, TX 78711-2548 hal.morris@oag.state.tx.us	U.S. Mail
Emily S. Gottlieb The Garden City Group, Inc. 190 S. LaSalle St., Suite 1520 Chicago, Illinois 60603 emily.gottlieb@gardencitygroup.com	Court's ECF notice	Mary Fabre LeVine Blalock Walters Held & Johnson PA 802 11th Street West Bradenton, FL 34205 mlevine@blalockwalters.com	U.S. Mail
David E. Grochocinski David P. Lloyd Ariane Holtschlag Grochocinski, Grochocinski & Lloyd 1900 Ravinia Place Orland Park, IL 60462 lawyers@ggl-law.com	Court's ECF notice	Erin E. Jones Jones Morris LLP 2700 Post Oak, Suite 1120 Houston, TX 77056 erin@jonesmorris.com	Court's ECF notice
Judith T. Romano Phelan Hallinan & Schmiege, LLP 1617 John F. Kennedy Blvd. #1400 Philadelphia, PA 19103 judith.romano@fedphe.com	U.S. Mail	Paige E. Barr Katten Muchin Rosenman LLP 525 W. Monroe Street Chicago, IL 60661 paige.barr@kattenlaw.com	Court's ECF notice
Mark E. Leipold Gould & Ratner LLP 222 N. LaSalle St., Suite 800 Chicago, IL 60601 mleipold@gouldratner.com	Court's ECF notice	Marc H. Schneider Waldron & Schneider LLP University Park 15150 Middlebrook Drive Houston, TX 77058 marcs@ws-law.com	U.S. Mail

	Delivery Method		Delivery Method
Michael J. Durrschmidt Hirsh & Westheimer, PC Bank of America Center, 25th Fl. 700 Louisiana Houston, TX 77002-2728 mdurrschmidt@hirschwest.com	Court's ECF notice	Russell E. Mackert 5555 West Loop South, Suite 605 Houston, TX 77401 rmackert1@aol.com	U.S. Mail
Provident Capital Indemnity Ltd., Minor Vargas Calvo and Desarrollos Comerciales Ronim, S.A. Oficinas Ejecutivas San Rafael San Rafael-Heredia, Costa Rica	Email and U.S. Mail	Provident Capital Indemnity Limited c/o Texas Secretary of State as Agent for Service P.O. Box 12887 Austin, TX 78711-2887	Email and U.S. Mail

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

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

**ORDER APPROVING COMPROMISES BETWEEN
THE TRUSTEE AND PROVIDENT CAPITAL INDEMNITY, LTD.**

THIS MATTER COMING TO BE HEARD upon the Trustee's Motion for Entry of Order Approving Compromise With Provident Capital Indemnity, Ltd. (the "Motion");¹ the Court having approved limited notice of the Motion and found that notice of the Motion was proper and sufficient under the circumstances; the Court having jurisdiction over this core proceeding; the Court having found that the compromises that are the subject of the Motion are in the best interests of the Debtors' estates; and the Court otherwise being fully advised in the premises, IT IS HEREBY ORDERED that:

1. The Motion is GRANTED.
2. The compromises between the Trustee and Minor Vargas Calvo and Provident Capital Indemnity, Ltd. are approved pursuant to those terms and conditions contained in the Settlement Agreements attached to the Motion as Exhibits A and B.
3. The Trustee is authorized to execute any and all additional documents he deems necessary, in his judgment, to consummate and/or implement the compromises.

Dated: _____, 2010

ENTER:

United States Bankruptcy Judge

¹ Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.