

**UNITED STATES BANKRUPTCY COURT  
FOR THE NOTHERN 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**

To: See attached Service List

PLEASE TAKE NOTICE that on **Wednesday, September 30, 2009 at 9:30 a.m.** or as soon thereafter as counsel may be heard, we will appear before United States Bankruptcy 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, on the attached **DEBTORS' APPLICATION FOR ENTRY OF ORDER AUTHORIZING RETENTION AND EMPLOYMENT OF MICHAEL L. GESAS, THOMAS P. YARDLEY, MIRIAM R. STEIN, AND THE LAW FIRM OF ARNSTEIN & LEHR LLP AS COUNSEL FOR THE DEBTORS**, at which time and place you may appear as you see fit.

**LIFE FUND 5.1, LLC, et. al.  
Debtors and Debtors in Possession**

By: /s/ Miriam R. Stein  
One of Its Proposed Attorneys

Michael L. Gesas (06186924)  
Thomas P. Yardley (06208239)  
Miriam R. Stein (06238163)  
ARNSTEIN & LEHR LLP  
120 S. Riverside Plaza, Suite 1200  
Chicago, IL 60606  
Tel: (312) 876-7100  
Fax: (312) 876-0288

**CERTIFICATE OF SERVICE**

I, Miriam R. Stein, an attorney, certify that I caused a copy of the Notice of Motion and Motion to be served on the parties listed on the attached service list by U.S. Mail with proper postage prepaid and by the Court's ECF System to those entities entitled to electronic service, on September 18, 2009.

By: /s/ Miriam R. Stein  
One of Its Proposed Attorneys

SERVICE LIST

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JTWROS  
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1913B Nantuckett  
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316 Cedar Valley Road  
Delafield, WI 53018

Foulis, Robert F.  
773 CR439  
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265 Claremont Avenue  
Elmhurst, IL 60126

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Insurance Company  
3100 Albert Lankford Drive  
Lynchburg, VA 24501

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2309 Bristol  
Bryan, TX 77802

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12309 Johnson Road  
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ING ReliaStar Life  
8132 Innovation Way  
Chicago, IL 60682

ING Security Life  
8408 Innovation Way  
Chicago, IL 60682

John Hancock Life Insurance  
Company  
197 Clarendon Street  
Billing C-6  
Boston, MA 02116

Lincoln Benefit Life Company  
2940 S. 84th Street  
Lincoln, NE 68506

Lincoln Financial Group  
100 N. Green Street  
Greensboro, NC 27401

Madden, Charles D.  
6210 Campbell Road  
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Massachusetts Mutual Life  
Insurance Co.  
P.O. Box 371368  
Pittsburgh, PA 15250

McCoy Family First Ltd.  
Partnership  
1701 Jennifer Circle  
Corsicana, TX 75110

McKellom Revocable Marital  
Trust  
17202 North Bridge Ct.  
Spring, TX 77379

McNally, Georgette H.  
1812 Locklaine  
Pasadena, TX 77502

Metlife  
P.O. Box 990019  
Hartford, CT 06199

Motiff, Jan  
723 Chantilly Rue  
Green Bay, WI 54301

Mozley, Loretta  
405 Windsor Drive  
Friendswood, TX 77546

National Life Insurance Co.  
P.O. Box 21209  
Roanoke, VA 24018

Pacific Life  
1299 Farnam Street  
4th Floor  
Omaha, NE 68103

Pacific Life Insurance Company  
P.O. Box 2030  
Omaha, NE 68103

Parsons, Doug  
15 Crescent Falls Ct.  
Spring, TX 77381

Phoenix Life Insurance  
Company  
P.O. Box 8027  
Boston, MA 02266

Principal Financial Group  
711 High Street  
Des Moines, IA 50392

Prudential Financial  
P.O. Box 41594  
Philadelphia, PA 19176

Prudential Financial Life  
Insurance  
751 Broad Street  
Newark, NJ 07102

Pyron, Dina A.  
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Lancaster, PA 17601

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Northfield, IL 60093

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Richmond, TX 23236

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Wellesley Hills, MA 02481

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Grand Prairie, TX 75050

Transamerica  
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Los Angeles, CA 90030

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Company  
2801 Highway 280 South  
Birmingham, AL 35223

West Coast Life Insurance  
Company  
343 Sansome Street  
San Francisco, CA 94104

WIEC Properties, LLC  
15521 Edgewood Drive  
Baxter, MN 56401

Illinois Department of Revenue  
Bankruptcy Section  
100 W. Randolph – Level 7-425  
Chicago, IL 60606

Internal Revenue Service  
Centralized Insolvency  
Operations  
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Dept. Chicago Division  
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Chicago, IL 60602-3048

Secretary of State Securities  
Dept.  
Jefferson Terrace, Suite 300A  
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Houston Division  
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Texas State Securities Board-  
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**UNITED STATES BANKRUPTCY COURT  
FOR THE NOTHERN 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**

**DEBTORS' APPLICATION FOR ENTRY OF ORDER AUTHORIZING RETENTION  
AND EMPLOYMENT OF MICHAEL L. GESAS, THOMAS P. YARDLEY, MIRIAM R.  
STEIN, AND THE LAW FIRM OF ARNSTEIN & LEHR LLP AS COUNSEL FOR THE  
DEBTORS**

A&O Life Fund; A&O Bonded Life Assets; A&O Bonded Life Settlement; A&O Resource Management; Life Fund 5.1, LLC; Life Fund 5.2, LLC; and Houston Tanglewood Partners, LLC , debtors and debtors in possession ("Debtors"), presents this application for entry of an order authorizing the Debtors to retain and employ, Michael L. Gesas, Thomas P. Yardley, Miriam R. Stein and the law firm of Arnstein & Lehr LLP (collectively "A&L") as counsel for the Debtors in the above-captioned Chapter 11 cases (the "Application"). The facts and circumstances supporting this Application are set forth herein and in the Affidavit of Michael L. Gesas ("Gesas Affidavit"), which is attached as **Exhibit A**. In support of this Application, the Debtors respectfully state as follows:

**JURISDICTION**

1. This Court has jurisdiction over this Motion pursuant to 28 U.S.C. §§157 and 1334. Venue is proper in this District pursuant to 28 U.S.C. §§1408 and 1409. Consideration of this Motion is a core proceeding pursuant to 28 U.S.C. §157(b). The

statutory predicates for the relief requested herein are 11 U.S.C. § 327(a) and Rules 2014(a) and 6003 of the Federal Rules of Bankruptcy Procedure ("Bankruptcy Rules").

### **BACKGROUND**

2. On September 2, 2009 ("Petition Date"), the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. Since the Petition Date, the Debtors have operated their businesses and managed their assets as debtors in possession. No trustee, committee or examiner has been appointed in any of the Debtors' cases.

3. The Debtors are each limited liability companies. Life Fund 5.1 LLC, A&O Bonded Life Assets, LLC, Life Fund 5.2 LLC, A&O Bonded Life Settlements LLC and A&O Life Fund LLC are Illinois limited liability companies. The remaining two companies – Houston Tanglewood Partners LLC and A&O Resource Management LLC – are Texas limited liability companies. Each of the Debtors' business office is located at 203 N. LaSalle, Suite 2100, Chicago, Illinois. Life Funds LP and its managing member Physicians Trust LLC are directly or indirectly the managing member and/or controlling entity of each of the seven Debtors.

4. The Debtors operate in the life settlement industry. The Debtors operational funds came from investor contributions. The Debtors used the investment funds to purchase life insurance policies and create a reserve account to satisfy policy premiums for the duration of the policy (i.e. until the insured's demise). The insurance proceeds collected upon maturity of any policies were to be distributed to the investors. The Debtors' operations, including the payment of policy premiums and distribution of proceeds, were managed by Shepherd Capital Management LLC.

5. The Debtors' life insurance policies have a total face value of over \$178,000,000 and a total current cash value of more than \$3,000,000.

6. An escrow account was established pre-petition at Prestige Title, Inc., a corporation organized and existing under the laws of the State of Mississippi, to hold all of the reserve funds of the Debtors which were used to pay insurance premiums.

7. On February 13, 2009, Wachovia Bank N.A. filed a Complaint for Interpleader, Declaratory Judgment and Other Related Relief against Prestige Title, Inc. and other related entities to Prestige Title in the Chancery Court of Harrison County, Mississippi, Second Judicial District. In its Complaint, Wachovia Bank alleged that Prestige Title improperly withdrew funds from various escrow accounts held by Prestige Title and used funds for purposes other than the intended purpose of the escrow account, without notice to or consent by the account holder.

8. Upon information and belief, most (if not all) of the Debtors' reserve funds held in escrow at Prestige Title were transferred from the accounts by representatives of Prestige Title. Due to the Wachovia litigation, all of the escrow and corporate funds at Prestige Title have been frozen since approximately February 2009. To date, the Debtors have been unable to access any of those funds to pay the required policy premiums on the various insurance policies.

9. Many of the insurance companies insuring the policies have commenced proceedings to terminate the policies due to the non-payment of policy premiums. As a result of these factors, the Debtors have found it necessary to commence these chapter 11 cases to preserve the value of the insurance policies.

10. The Debtors intend to seek authority from the Court to borrow against the cash value of the insurance policies to support payment of the insurance premiums, and to support payment of the administrative costs of these Chapter 11 cases.

### **RELIEF SOUGHT**

11. By this Application, the Debtors respectfully request that this Court enter an order authorizing the Debtors to employ and retain A&L as their attorneys pursuant to section 327(a) of the Bankruptcy Code.

12. The Debtors seek to retain A&L as their attorneys because (a) the firm is knowledgeable as to the facts of this case, the interested parties and relevant information regarding the Debtors; (b) the firm has extensive general experience and knowledge in the field of debtor's and creditor's rights and business reorganizations under Chapter 11 of the Bankruptcy Code, (c) the firm has experience and knowledge practicing before this Court, and (d) the firm's appearance before this Court for the application, motions and other matters in this Chapter 11 case will be efficient and cost effective for the Debtors' estates. The Debtors believe that A&L is both well-qualified and uniquely able to represent them in their Chapter 11 case in a most efficient and timely manner.

### **SCOPE OF EMPLOYMENT**

13. The Debtors desire to retain A&L because of the extensive legal services that may be required and the fact that the nature and extent of such services are not known at this time. The Debtors expect that A&L will be called upon to render professional services, including, but not limited to, the following:

- (a) providing legal advice with respect to the Debtors' powers and duties as debtors in possession in the management of their assets;

- (b) providing legal advice with respect to the Debtors' obligations to taxing bodies and other government agencies;
- (c) negotiations with the Debtors' creditors;
- (d) pursuing confirmation of a plan and approval of a disclosure statement;
- (e) preparing, on behalf of the Debtors, all necessary applications, motions, answers, orders, reports and other legal papers as required by applicable bankruptcy or non-bankruptcy law, as dictated by the demands of the case, or as required by the Court, and representing the Debtors in any hearings or proceedings related thereto;
- (f) appearing in Court and protecting the interests of the Debtors before the Court;
- (g) assisting with any disposition of the Debtors' assets, by sale or otherwise; and
- (h) performing all other legal services for the Debtors which may be necessary and proper in this case.

### **COMPENSATION**

14. Section 327(a) of the Bankruptcy Code authorizes the employment of a professional person on any reasonable terms and conditions of employment, including on an hourly basis. See 11 U.S.C. §327(a). The Debtors will require A&L to render extensive legal services, the cost of which cannot be estimated.

15. Subject to this Court's approval and in accordance with sections 330 and 331 of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, the Local Rules of this Court and other procedures that may be fixed by this Court, the Debtors request that A&L be compensated on an hourly basis, plus reimbursement of the actual and necessary expenses A&L incurs, in accordance with the ordinary and customary rates which are in effect on the date the services are rendered and the expenses are incurred. Those expenses for which A&L ordinarily and customarily charges clients

include, but are not limited to, telephone and telecopier tolls and other charges, mail and express mail charges, special or hand delivery charges, document processing, photocopying services, courier services, overnight deliveries, computer assisted research, docket and court filing fees, telecommunications, travel expenses, court reporting charges, expenses for working meals, transcription costs, and any other incidental costs advanced by the firm specifically for these matters.

16. A&L has advised the Debtors that the current hourly rates applicable to the principal attorneys and paralegals proposed to represent the Debtors are as follows:

(a) Michael L. Gesas	\$550.00 per hour
(b) Barry A. Chatz	\$565.00 per hour
(c) Miriam R. Stein	\$430.00 per hour
(d) Thomas P. Yardley	\$380.00 per hour
(e) Kevin H. Morse	\$255.00 per hour
(f) Becky Sutton (paralegal)	\$215.00 per hour

Other persons employed by A&L will render services to the Debtors as needed. Generally, A&L's hourly rates are in the following ranges: Attorneys: \$250.00 - \$600.00 per hour and Paralegals: \$195.00 - \$225.00 per hour. The Debtors understand that the hourly rates set forth above are subject to periodic adjustments in the ordinary course of A&L's business, as the market may require or due to other conditions.

17. A&L was not paid an advance retainer in this case. The Debtors intend to seek authority to pay A&L a post-petition retainer.

**ARNSTEIN & LEHR LLP DOES NOT HOLD  
OR REPRESENT ANY ADVERSE INTEREST**

18. To the best of the Debtors' knowledge and based upon the Gesas Affidavit, A&L does not hold or represent any interest adverse to the Debtors or their Chapter 11 estates, creditors or any other party in interest, and A&L is a "disinterested person" as such term is defined in section 101(14) of the Bankruptcy Code.

19. Except as set forth in the Gesas Affidavit, to the best of the Debtors' knowledge, A&L does not have any connections with the Debtors, their creditors, any other parties in interest, their current respective attorneys, the United States Trustee or any person employed in the Office of the United States Trustee.

20. A&L is not a creditor of the Debtors.

### **NOTICE AND PRIOR APPLICATION**

21. Notice of this Application has been given to (a) the Office of the United States Trustee of this District; (b) Securities and Exchange Commission; (c) relevant state and federal taxing bodies; (d) relevant insurance companies; and (e) an aggregate list of the thirty (30) largest unsecured creditors of the Debtors.

### **CONCLUSION**

WHEREFORE, the Debtors respectfully request that this Court enter the attached order (i) granting this Application pursuant to Bankruptcy Rule 6003; (ii) authorizing the Debtors to retain and employ Arnstein & Lehr LLP as their counsel in this Chapter 11 case pursuant to section 327(a) of the Bankruptcy Code retroactive to September 2, 2009; and (iii) granting such other relief as this Court may deem just and proper.

**LIFE FUND 5.1, LLC, et. al.**  
**Debtors and Debtors in Possession**

By: /s/ Miriam R. Stein  
One of Its Proposed Attorneys

Michael L. Gesas  
Thomas P. Yardley  
Miriam R. Stein  
ARNSTEIN & LEHR LLP  
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**UNITED STATES BANKRUPTCY COURT  
FOR THE NOTHERN 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

**AFFIDAVIT OF MICHAEL L. GESAS PURSUANT TO BANKRUPTCY  
RULE 2014(a) AND IN SUPPORT OF DEBTOR'S APPLICATION FOR  
ENTRY OF ORDER AUTHORIZING RETENTION AND EMPLOYMENT  
OF ARNSTEIN & LEHR LLP AS COUNSEL FOR DEBTOR**

STATE OF ILLINOIS        )  
  )        ss:  
COUNTY OF COOK        )

I, Michael L. Gesas, being duly sworn, deposes and says:

1. I am an attorney duly licensed to practice before the United States District Court for the Northern District of Illinois and a partner with the law firm of Arnstein & Lehr LLP ("A&L"), located at 120 S. Riverside Plaza, Suite 1200, Chicago, Illinois 60606.

2. I respectfully submit this Affidavit in connection with the application of the above-captioned Debtors and Debtors in possession (the "Debtors") to retain and employ A&L and the professionals at A&L as counsel to the Debtors.

3. I have personal knowledge of the matters set forth herein. If called upon to testify, I could testify competently to the facts contained herein.

4. I am not related, and, to the best of my knowledge, no other professional employed by A&L is related to any judge of the United States Bankruptcy Court of the Northern District of Illinois, Eastern Division.

5. To the best of my knowledge, neither I, A&L, nor any of its employees hold or represent an interest adverse to the Debtors within the meaning of Bankruptcy Code §327(a).

6. To the best of my knowledge, I, A&L, and all of its employees are disinterested as that term is defined in Bankruptcy Code §101(14) and used in §327(a).

7. To the best of my knowledge, neither I, A&L, nor any of its employees have any connection to the Debtors' creditors, the United States Trustee, any person employed in the office of the United States Trustee, or any other party in interest or their respective attorneys or accountants, within the meaning of Fed. R. Bankr. P. 2014(a), except for the following:

- a. Barry A. Chatz is currently serving on the panel of Chapter 7 Trustees in this district.
- b. Arnstein & Lehr LLP represented the Debtors pre-petition in preparation for the Chapter 11 filings including without limitation representation of Shepherd Capital Management LLC in the state court litigation titled *Shepherd Capital Management LLC v. A&O Life Funds LP and Physicians Trust, LLC* (Case No. 09 CH 22301) when it sought and obtained state court authorization to file the instant bankruptcy cases.

8. To the extent that any such other connection to the Debtors' creditors, the United States Trustee, any person employed in the office of the United States Trustee, or any other party in interest or their respective attorneys or accountants, in addition to the connections listed in Paragraph 7 above, is discovered during the pendency of this case, I will amend this Affidavit to disclose same to the Court.

9. The professional services that A&L expects to render to the Debtors include, but shall not be limited to, the following:

- (a) providing legal advice with respect to the Debtors' powers and duties as a debtor in possession in the management of its assets;
- (b) providing legal advice with respect to the Debtors' obligations to taxing bodies and other government agencies;
- (c) negotiations with the Debtors' creditors;
- (d) pursuing confirmation of a plan and approval of a disclosure statement;
- (e) preparing, on behalf of the Debtors, all necessary applications, motions, answers, orders, reports and other legal papers as required by applicable bankruptcy or non-bankruptcy law, as dictated by the demands of the case, or as required by the Court, and representing the Debtors in any hearings or proceedings related thereto;
- (f) appearing in Court and protecting the interests of the Debtors before the Court;

(g) assisting with any disposition of the Debtors' assets, by sale or otherwise; and

(h) performing all other legal services for the Debtors which may be necessary and proper in this case.

10. A&L intends to apply for compensation for professional services rendered in connection with this Chapter 11 case subject to this Court's approval and in accordance with sections 330 and 331 of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, the Local Rules of this Court and other procedures that may be fixed by this Court. A&L requests to be compensated on an hourly bases, plus reimbursement of the actual and necessary expenses A&L incurs, in accordance with the ordinary and customary rates which are in effect on the date the services are rendered and the expenses are incurred. A&L was not paid an advance retainer in these cases.

11. With respect to this case, A&L has advised the Debtors that the current hourly rates applicable to the principal attorneys and paralegals proposed to represent the Debtor are as follows:

(a) Michael L. Gesas	\$550.00 per hour
(b) Barry A. Chatz	\$565.00 per hour
(c) Miriam R. Stein	\$430.00 per hour
(d) Thomas P. Yardley	\$380.00 per hour
(e) Kevin H. Morse	\$255.00 per hour
(f) Becky Sutton (paralegal)	\$215.00 per hour

Other attorneys and paralegals will render services to the Debtors as needed. Generally, A&L's hourly rates are in the following ranges: Attorneys: \$250.00 - \$600.00 per hour and Paralegals: \$195.00 - \$225.00 per hour. The Debtors understand that the hourly rates set forth above are subject to periodic adjustments in the ordinary course of A&L's business, as the market may require or due to other conditions.

12. The hourly rates set forth above are A&L's standard hourly rates for work of this nature. These rates are set at a level designed to fairly compensate A&L for the work of its attorneys and paralegals and to cover fixed and routine overhead expenses.

13. Other than as set forth herein, there is no proposed arrangement to compensate A&L. A&L has not shared, nor agreed to share (a) any compensation it has received or may receive with any other party or person, other than with the professionals of A&L, or (b) any compensation another person or party has received or may receive.

14. By reason of the foregoing, I believe A&L is eligible for employment and retention by the Debtors pursuant to section 327(a) of the Bankruptcy Code and the applicable Bankruptcy Rules.

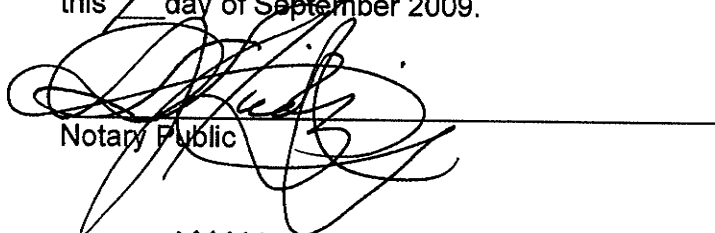
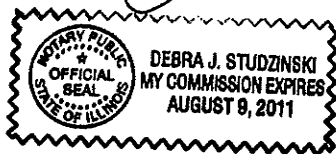
I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Executed on this 9 day of September 2009.



\_\_\_\_\_  
Michael L. Gesas, Esq.

SUBSCRIBED AND SWORN to before me  
this 9 day of September 2009.

  
\_\_\_\_\_  
Notary Public

**UNITED STATES BANKRUPTCY COURT  
FOR THE NOTHERN DISTRICT OF ILLINOIS  
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**In re:**

**Chapter 11**

**LIFE FUND, 5.1, LLC, et. al.**

**Case No. 09-32672  
(Jointly Administered)**

**Debtor.**

**Hon. A. Benjamin Goldgar**

**ORDER AUTHORIZING DEBTORS' RETENTION AND EMPLOYMENT OF  
ARNSTEIN & LEHR LLP AS COUNSEL FOR THE DEBTORS**

Upon the application (the "Application") of A&O Life Fund; A&O Bonded Life Assets; A&O Bonded Life Settlement; A&O Resource Management; Life Fund 5.1, LLC; Life Fund 5.2, LLC; and Houston Tanglewood Partners, LLC, Debtors and Debtors in Possession in the above-captioned Chapter 11 case ("Debtors"), for entry of an order authorizing the Debtor to retain and employ Michael L. Gesas, Thomas P. Yardley, Miriam R. Stein, and Arnstein & Lehr LLP ("A&L") as its counsel in the Debtors' Chapter 11 cases; the Court having considered the Affidavit of Michael L. Gesas, a partner of Arnstein & Lehr LLP ("A&L") which is attached to the Application as Exhibit A; the Court being satisfied that A&L does not hold or represent any interest adverse to the Debtors or their estates, creditors and other parties in interest; that A&L is "disinterested" as such term is defined in Section 101(14) of the Bankruptcy Code; and that the retention and employment of A&L as its counsel is necessary and in the best interest of the Debtors' estates; adequate notice of the Application having been given pursuant to Bankruptcy Rule 6003; and the Court being fully advised in the premises;

**IT IS HEREBY ORDERED THAT:**

1. Pursuant to Section 327(a) of the Bankruptcy Code, the Debtors are authorized and empowered to retain and employ A&L as their counsel in these Chapter 11 cases as set forth in the Application for all purposes set forth in the Application retroactive to September 2, 2009.

2. A&L shall be compensated in accordance with the procedures set forth in Sections 330 and 331 of the Bankruptcy Code, the applicable Federal Rules of Bankruptcy Procedure, the Local Rules of this Court, and such other procedures as may be fixed by order of this Court.

Dated:

ENTERED:

\_\_\_\_\_  
A. BENJAMIN GOLDGAR