

**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 THIRD STATUS REPORT**

Patrick M. Collins, not individually, but solely in his capacity as chapter 11 trustee (the "Trustee") of the above-captioned Debtors' estates<sup>1</sup> provides the following as an interim status report.<sup>2</sup> The Trustee submits this report in order to provide the Court and investors additional information regarding the Trustee's activities.

As a threshold matter, the Trustee notes that the Court held a hearing on January 13-14, 2010 and heard evidence regarding the disputed November 13, 2009 trustee election. The Court has asked for further briefing on certain issues, and has set a status hearing on the election for March 8, 2010. The Trustee will continue to serve in his role pending the Court's resolution of the issues related to the election.

**I. STATUS OF POLICIES AND RELATED ISSUES**

The Trustee continues to evaluate the best way to maximize the value of the life insurance policies in which the Debtors have interests (generally, the "Policies") for the benefits of the Debtors' estates, and significant progress has been made. The Trustee's motion to retain Melville Capital ("Melville") as a life settlement broker was granted on November 30, 2009, and

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

<sup>2</sup> The Trustee previously submitted status reports on October 14, 2009 and November 12, 2009, copies of which are available at [www.lifefundstrustee.com](http://www.lifefundstrustee.com).

since that time the Trustee has worked closely with Melville Capital to update and evaluate information relating to Policies. Among other things, the Trustee has supported Melville Capital's attempts to forge cooperative relationships with both insurance carriers and underlying insureds. Cooperation from both insurance carriers and insureds is an important component of moving these proceedings forward. Melville Capital has also assisted in ongoing attempts to update key information and secure core documents in connection with the Policies.

Among other things, Melville Capital has worked to obtain, where possible, updated Life Expectancy certificates ("LEs") with respect to the insureds, which are vital in any evaluation of a Policy. This process is ongoing. As a group, however, the LEs received to date suggest that the prior life expectancy information provided to investors by the Debtors' owners and sales agents was, at best, aggressive.

Policy-related activities and information can be summarized as follows:

- A total of 26 individuals are insured under 30 in-force Policies spanning 13 insurance carriers;

### **Insurance Policy Information**

- Two policies with a \$5 million face value each are subject to disputed ownership claims (Transamerica policy #s 60134441 and 60134442); and one \$5 million face value policy issued by AVIVA Life and annuity (#B0520454) is the subject of an adversary proceeding and a dispute between the Trustee and AVIVA as to its status.
- Current policy illustrations have been ordered for 27 policies (excluding the three policies referenced above), and received for 26 policies.
- There are currently 3 policies in grace and subject to possible lapse. Although the Trustee is working to confirm whether the carriers will agree to a requested stay of any lapse, the upcoming deadlines are as follows:
  - A policy with a face value of \$13,700,000 (Policy #ZUA341379) requires payment of \$139,208.05 by February 3, 2010 in order to prevent lapse;
  - A policy with a face value of \$10,000,000 (Policy #U10033937L) requires payment of \$76,500 by February 23, 2010 in order to prevent lapse;

- A policy with a face value of \$1,500,000 (Policy #JJ7002605) requires a payment of \$7,720.80 by February 8, 2010 in order to prevent lapse.
- The next 5 policies which are currently in-force but at the highest risk to go into grace in the next three months are the following:
  - John Hancock policy #UL1402937 (\$1,000,000 face value);
  - John Hancock policy #571696740 (\$650,000 face value);
  - Lincoln policy #JP5578112 (\$1,000,000 face value);
  - Lincoln policy #JG5462406 (\$2,000,000 face value);
  - Met Life policy #U7403296 (\$1,500,000 face value).
- Four policies issued by different carriers with face values totaling approximately \$23 million in face value are owned by multiple parties (including entities unconnected to any A&O entity) in the records of the insurance carriers.
- There are approximately six policies that were previously owned in trusts, which then assigned their interests to one or more of the Debtors. These arrangements presents potential complications, which the Trustee is attempting to work through with the insurance carriers.

### **Insured Information**

- Melville Capital has sent packages of information to 25 of the insured individuals,<sup>3</sup> which included a cover letter from the Trustee and a request for assistance in providing and authorizing the release of certain information;
- Of the 25 contacted insureds, 14 are cooperating;
- Updated medical records have been ordered for all 14, and there are 10 insureds for whom medical records have been received. There are 4 insureds for whom we are still waiting for additional records to come in.
- Of the 10 insureds for whom all medical records have been received, Life Expectancy reports have been received on 6 insureds.

Eleven (11) insured individuals have either (i) failed to respond to repeated attempted contacts by Melville Capital; (ii) flatly refused to provide any cooperation to the Trustee or Melville Capital; (iii) referred inquiries to third parties (e.g., an agent) who have thus far refused

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<sup>3</sup> One insured has been unreachable.

to respond or provide assistance. In light of the lack of cooperation from certain insureds, therefore, the Trustee has filed a Motion seeking authority to issue subpoenas for documents and depositions of such individuals. The Motion is scheduled to be heard by the Court on January 27, 2010.

Presently, the Debtors lack funds to make significant premium payments. In particular, the Debtors do not have funds on hand to pay the \$139,208.05 required by February 3, 2010 to bring the Policy #ZUA341379 out of grace and back into good standing or the \$76,500 owed by February 23, 2010 to bring Policy #U10033937L out of grace and back into good standing. The Trustee has requested that the carriers on these policies stay any lapse of these policies in light of the bankruptcy proceedings. Representatives of the carrier for Policy #ZUA341379 have indicated that it will not lapse the policy until resolution of the bankruptcy proceedings, but the Trustee has not yet received written confirmation of that position.

For those Policies for which updated information and LEs have been obtained, Melville Capital has begun discussions with potential buyers in the life settlement market. Any offers on a Policy will be submitted to the Trustee for consideration, and notice of any proposed sale will be provided to investors. Furthermore, any proposed sale of a Policy will be subject to approval of the Bankruptcy Court. Individuals or organizations with the financial means to purchase *any* policy and an interest in doing so should contact Rob Stark of Melville Capital at [rstark@melvillecapital.com](mailto:rstark@melvillecapital.com) or (212) 380-4277 for more information. Generally, and subject to the specifics of any particular situation, the Trustee continues to believe it may be in the best interests of the Debtors' estates to explore strategic Policy sales.

It is important to note that it may be in the best interests of the Debtors to allow certain policies to lapse in light of the relationship between premium obligations on the policies versus

the anticipated life expectancy of the insured and/or market value (or anticipated market value) of the policy. In addition, policies may lapse, such as those identified above, because there are not sufficient funds on hand to pay premiums. Beginning this week, the Trustee intends to add a link on [www.lifefundtrustee.com](http://www.lifefundtrustee.com) that will be updated weekly and will provide basic information as to the status of the Policies, including notice of policies that are in grace or potentially will lapse.

## **II. W FINANCIAL SETTLEMENT**

On January 22, 2010, the federal court in the Northern District of Texas approved the Trustee's settlement with a court-appointed Receiver in a case in Texas which had involved fraudulent investment activities of Adley Wahab, one of the former principals of the Debtors. The Bankruptcy Court approved the settlement on December 18, 2009.

Among other things, the terms of the settlement provide for (i) a \$365,000 transfer to the Trustee for the benefit of the Debtors' estates; (ii) a 35% interest in an approximately \$734,000 that the Receiver expects to receive from an Offshore Account; and (iii) a 35% interest in the proceeds of a residence owned by Adley Wahab. In light of the recent order of the Texas court, the Trustee is in communication with the Receiver in Texas to discuss the timing and logistics of the transfers referenced above, which would enhance liquidity.

## **III. ADVERSARY COMPLAINT AGAINST FORMER PRINCIPALS**

On January 7, 2010, the Trustee filed an adversary complaint against Brent Oncale ("Oncale"); Russell Mackert ("Mackert"); Adley Abdulwahab ("Wahab"); Christian Allmendinger; A&O Life Funds, LP; A&O Life Funds Management, LLC; and Shepherd Capital Management (collectively, the "Defendants"). The complaint alleges that in late 2007, former principals of the Debtor entities and Mackert facilitated a "sale" of companies as part of a series of insider transactions through which the Defendants transferred millions of dollars from the

accounts of the Debtors into the accounts of A&O Life Funds, LP and the accounts of the individual Defendants. The complaint, among other things, seeks to avoid and recover the fraudulent transfers. The Court has set a status hearing on the adversary complaint for February 17, 2010.

#### **IV. PROVIDENT CAPITAL INDEMNITY**

Numerous investors have inquired about the status of Provident Capital Indemnity (“PCI”), a Dominica-based entity with an administrative office in Costa Rica. PCI issued “bonds” that purportedly secured—or secure—certain investments that were made in life insurance policies held by the Debtors’ estates. In essence, PCI was to pay the full face value of each bonded policy to the Debtors in exchange for a transfer of the policy ownership to PCI at some future date (tied to the life expectancy of the insured). Bonds were not issued on all of the Policies.

The Trustee has had numerous communications with PCI and has made claims on two bonds in particular. To date, PCI has claimed that the two bonds for which claims were made (among others) are “not active,” based on assertions that either full payment of premiums were not made or certain information was not provided by the original client. The Trustee is contesting these assertions. PCI has indicated an interest in resolving open issues, however, and the Trustee has a February meeting scheduled with one of the PCI principals to discuss the Debtors’ interests and claims in more detail. The Trustee recently made a third claim to PCI on a bond connected to Policy #V1168732. It is worth noting that while a few additional bonds arguably become “due” in 2010, the majority of bonds issued by PCI have dates in 2011 and beyond.

In short, there continue to be significant questions regarding the likelihood of recovering on the bonds in accordance with investors' underlying expectations, but the Trustee continues to pursue recovery.

The Trustee will continue to provide information to interested parties through the website [www.lifefundtrustee.com](http://www.lifefundtrustee.com). Among other things, the website provides access to the bankruptcy docket and filings in this matter to interested individuals. The phone line set up by the Trustee for questions or other information is 1-877-841-2346. The Trustee plans and hopes to continue to provide appropriate updates about his activities, plans, and the status of his investigation, and welcomes investors' input.

Dated: January 26, 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

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**CERTIFICATE OF SERVICE**

Brian A. Audette, an attorney, certifies that on January 26, 2010 he caused a copy of the *Trustee's Third Status Report* to be filed via the Court's ECF system and served on the attached Service List as so indicated.

/s/ Brian A. Audette

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