

Not approved by the Bankruptcy Court.

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

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

**DISCLOSURE STATEMENT FOR THE CHAPTER 11 TRUSTEE'S
FIRST AMENDED PLAN OF CONSOLIDATION AND LIQUIDATION**

THIS DRAFT DISCLOSURE STATEMENT REMAINS SUBJECT TO APPROVAL OF THE BANKRUPTCY COURT. IT HAS NOT BEEN APPROVED AS PROVIDING ADEQUATE INFORMATION ABOUT THE PLAN AND IS NOT BEING USED TO SOLICIT VOTES FOR THE PLAN AT THIS TIME. IF THE BANKRUPTCY COURT APPROVES THIS DISCLOSURE STATEMENT, IT MAY BE CIRCULATED TO PARTIES IN INTEREST IN SUPPORT OF THE PLAN AT A LATER DATE.

¹ 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.

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DISCLAIMER

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE CHAPTER 11 TRUSTEE'S FIRST AMENDED PLAN OF CONSOLIDATION AND LIQUIDATION (AS IT MAY BE AMENDED IN ACCORDANCE WITH THE TERMS THEREOF AND APPLICABLE LAW, THE "PLAN"). THE INFORMATION CONTAINED HEREIN MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN. NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT, REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN.

ALL CREDITORS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN AND THE EXHIBITS ANNEXED TO THE PLAN. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN SHALL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE UNITED STATES BANKRUPTCY CODE AND RULE 3016 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER NON-BANKRUPTCY LAW. THIS DISCLOSURE STATEMENT HAS BEEN NEITHER APPROVED NOR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING SECURITIES OR CLAIMS OF ANY OF THE DEBTORS AND DEBTORS IN POSSESSION IN THESE CASES SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSE FOR WHICH THEY WERE PREPARED.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST OR EQUITY INTERESTS IN ANY OF THE DEBTORS AND DEBTORS-IN-POSSESSION IN THESE CASES.

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I. INTRODUCTION

The debtors in the above-captioned chapter 11 cases (these “Chapter 11 Cases”) are the following companies (collectively, the “Debtors” or the “Company”):

Life Fund 5.1, LLC

Life Fund 5.2, LLC

A&O Life Fund, LLC

A&O Resource Management, Ltd.

A&O Bonded Life Settlements, LLC

A&O Bonded Life Assets, LLC, and

Houston Tanglewood Partners, LLC

Jeff Marwil, not individually, but solely as the elected Chapter 11 Trustee to the Debtors’ estates submits this Disclosure Statement for the Chapter 11 Trustee’s Plan of Consolidation and Liquidation (as it may be amended, the “Disclosure Statement”) pursuant to section 1125 of title 11 of the United States Code (the “Bankruptcy Code”) for use in the solicitation of votes on the Chapter 11 Trustee’s First Amended Plan of Consolidation and Liquidation (as may be amended, the “Plan”). Each capitalized term used in this Disclosure Statement but not otherwise defined herein has the meaning ascribed to such term in the Plan. In addition, all references in this Disclosure Statement to monetary figures refer to United States currency, unless otherwise expressly provided.

This Disclosure Statement sets forth certain information regarding the Debtors’ prepetition history, the circumstances surrounding their bankruptcy and significant events that have occurred during the Chapter 11 Cases. This Disclosure Statement also describes terms and provisions of the Plan, certain effects of confirmation of the Plan, certain risk factors associated with the Plan, and the manner in which distributions will be made under the Plan. In addition, this Disclosure Statement discusses the confirmation process and the voting procedures that Holders of Claims entitled to vote to accept or reject the Plan must follow for their votes to be counted.

II. OVERVIEW OF THE PLAN

A. Substantive Consolidation of the Estates

The Plan provides for the substantive consolidation of the Debtors’ Estates into a single estate for all purposes. Accordingly, under the Plan: (1) all of the Debtors are treated as a single entity for bankruptcy purposes, and (2) all assets and liabilities of all of the Debtors are merged. Nearly all claims against the Debtors are claims of individuals who loaned money to the Debtors for purposes of making a personal investment with the Debtors. By substantively consolidating

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the Debtors under the Plan, the Chapter 11 Trustee has provided that all creditors of the Debtors will receive the same percentage or *Pro Rata* return on account of their Allowed Claims.

The bases for substantive consolidation of the Estates include: (1) prior to the Petition Date, the Debtors disregarded their corporate separateness and commingled their assets; (2) assets of the Estates are scrambled to the extent that disentangling them, if possible, would not be beneficial to creditors; (3) the Debtors' complex corporate structure was implemented to obfuscate the Debtors' fraudulent purpose and honoring it would result in arbitrary and inequitable distributions to creditors; and (4) prior to the Petition Date, creditors of the Debtors did not rely on the Debtors' separateness in making investment decisions. The Debtors' business defrauded investor-creditors by funneling their investment dollars through escrow accounts into certain central, commingled, accounts. Most funds in these accounts were distributed to or for the benefit of principals of the Debtors and not used for any legitimate business purpose of the Debtors. Funds that were used for a business purpose were, at that point, commingled funds used for business purposes of all of the Debtors and their non-Debtor affiliates. Accordingly, not only is substantive consolidation of the Estates necessary in light of the current inability to adhere to the Debtors' formal corporate structure, it is equitable in that it treats all defrauded creditors the same.

B. Liquidating Trust

The Plan provides for the transfer of all assets of all of the Debtors to a Liquidating Trust. The Chapter 11 Trustee will be the Liquidating Trustee and will administer the assets of the Liquidating Trust. The holders of the three largest Allowed Unsecured Claims at any time willing to so serve shall comprise the Liquidating Trust Creditor Panel. As set forth in the Liquidating Trust Agreement, the Liquidating Trustee shall consult with the Liquidating Trust Creditor Panel before making any material distribution, incurring any material cost, initiating litigation, or taking other enumerated steps. The Liquidating Trustee shall require approval of the Bankruptcy Court to take any action: (1) with respect to which the Liquidating Trust Creditor Panel holds consultation rights; and (2) which the Liquidating Trust Creditor Panel unanimously opposes. The Liquidating Trustee will distribute cash from the Liquidating Trust directly to holders of Allowed Claims, beginning as soon as practicable after the Effective Date.

C. Classified Claims

The Plan classifies holders of Claims and Equity Interests into three categories. As described below, the Chapter 11 Trustee expects that holders of Class 2 Unsecured Claims (which consists almost entirely of claims of individuals that purchased bonds from the Debtors as a personal investment) are the only Class of Claims that will receive any distributions under the Plan.

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1. Class 1 Secured Claims

Estimated¹ Number of Allowed Claims - 0

Estimated Aggregate Allowed Amount - \$0.00

Estimated Percentage Recovery – 100%

Secured Claims are defined in the Plan, but generally are Claims secured by a lien on or against property in which an Estate has an interest, which lien is not subject to avoidance. Certain creditors filed proofs of claim alleging Claims secured by interests in certain life insurance policies owned by the Debtors. The Chapter 11 Trustee believes that rights granted to him by section 544 of the Bankruptcy Code are senior to the rights of all holders of Secured Claims and, therefore, any liens asserted under or in connection with Secured Claims are subject to avoidance. Accordingly, the Chapter 11 Trustee (or the Liquidating Trustee, as appropriate) has objected or will object to all Secured Claims and request entry of an order or orders that all Secured Claims are Unsecured Claims. To the extent that the Bankruptcy Court overrules any such objection, such Secured Claim is not Impaired by the Plan and each holder of an Allowed Secured Claim will receive on account of such Allowed Secured Claim: (1) cash equal to the amount of such Secured Claim, (2) Reinstatement of such Secured Claim, or (3) the property securing such Secured Claim.

2. Class 2 Unsecured Claims

Estimated Number of Allowed Claims – 801

Estimated Aggregate Allowed Amount – approximately \$92,000,000²

Estimated Percentage Recovery – 0% to 8%

Unsecured Claims are Claims that are not Secured Claims, Administrative Claims, Priority Tax Claims, or Equity Interests. Substantially all Unsecured Claims are Claims against an Estate on account of an entity's investment with a Debtor, whether by means of purchasing a bond issued by a Debtor or otherwise. Unsecured Claims are Impaired under the Plan and holders of such Claims are entitled to vote on the Plan. Holders of Allowed Unsecured Claims shall receive their Pro Rata share of the assets and proceeds of the Liquidating Trust, after satisfaction of all Liquidating Trust Expenses, Allowed Administrative Claims, and Allowed Priority Tax Claims. Holders of Allowed Unsecured Claims who are determined to be victims of the Debtors' prepetition fraud (as described in this Disclosure Statement) will receive their Pro

¹ Estimates of the number of Allowed Claims, amounts of Allowed Claims, and recoveries for each Class of Claims are set forth below. Estimates have been calculated based upon a number of assumptions and no representation can be or is being made with respect to whether the estimates shown will actually be realized.

² This estimate excludes approximately 7 claims filed by AB Revocable Living Trust relating to the Transamerica Policies described in Section V(C) of this Disclosure Statement. The Chapter 11 Trustee has agreed in principal to settle and resolve these claims and related litigation in a manner that will result in the withdrawal of these claims. See Section V(H).

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Rata share of amounts funded to the Investor Account by the United States Department of Justice or other parties who are contributing property that is not property of the Estates for distribution to creditors.

3. Class 3 Equity Interests

Estimated Number of Allowed Interests – 7

Percentage Recovery – 0%

Equity Interests are all equity interest in the Debtors. Holders of Equity Interests shall neither receive nor retain any property under the Plan on account of such interests.

D. Unclassified Claims

The Plan includes the following categories of Claims that, in accordance with the Bankruptcy Code, are not classified for purposes of voting or distributions under the Plan:

1. Administrative Claims

Estimated Additional Administrative Claims – approximately \$827,000

Administrative Claims are Claims for payment or reimbursement of administrative expenses for administering the Estates allowed under sections 503 of the Bankruptcy Code that are entitled to priority under section 507 of the Bankruptcy Code, including actual and necessary costs and expenses of preserving the Estates, Fee Claims of the Chapter 11 Trustee and his professionals, and other Claims entitled to administrative priority. Administrative Claims must be Allowed by Final Order of the Bankruptcy Court. Under the Plan, Allowed Administrative Claims incurred, accrued or in existence prior to the Effective Date shall be paid in Cash from the Liquidating Trust Account, to the extent that they are not paid prior to the Effective Date. The estimated amount above consists of the following amounts, which may not be inclusive of all Administrative Claims Allowed: (1) \$250,000 estimated fees of Proskauer Rose LLP as counsel to the Chapter 11 Trustee for September, October and November 2011; (2) approximately \$251,962 of professional fees previously awarded to counsel to the Chapter 11 Trustee but held back in accordance with orders of the Bankruptcy Court; (3) \$15,000 estimated expenses of Melville Capital to be reimbursed; and (4) up to approximately \$310,000 in fees payable to the Chapter 11 Trustee.

2. Priority Tax Claims

All Allowed Priority Tax Claims shall be paid on the later of: (1) the date the Priority Tax Claim becomes an Allowed Priority Tax Claim or (2) the date a Priority Tax Claim first becomes payable pursuant to any agreement between the Chapter 11 Trustee or the Liquidating Trustee and the holder of such Priority Tax Claim. At the sole option of the Liquidating Trustee, such holder of an Allowed Priority Tax Claim shall be entitled to receive, on account of such Priority Tax Claim, (i) Cash equal to the unpaid portion of such Allowed Priority Tax Claim, (ii) treatment in any other manner such that its Allowed Priority Tax Claim shall not be Impaired, including periodic payments on a quarterly basis over a period ending not later than five (5) years after the Petition Date, in accordance with the provisions of sections 511 and 1129(a)(9)(C) of the Bankruptcy Code, or (iii) such other treatment as to which the Chapter 11

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Trustee or the Liquidating Trustee and such holder shall have agreed upon in writing. Clause (iii) of the preceding sentence shall not be construed to avoid the need for Bankruptcy Court approval of a Priority Tax Claim when such Bankruptcy Court approval is otherwise required by the Bankruptcy Code. Payment of Allowed Priority Tax Claims shall be made from the Liquidating Trust Account.

III. PLAN VOTING INSTRUCTIONS AND PROCEDURES

A. Notice to Holders of Claims and Equity Interests

The Bankruptcy Court has approved this Disclosure Statement as providing information of a kind and in sufficient and adequate detail to enable Holders of Claims to make an informed judgment whether to accept or reject the Plan. The Bankruptcy Court's approval of this Disclosure Statement does not constitute a guaranty of the accuracy or the completeness of the information contained herein or an endorsement of the Plan by the Bankruptcy Court.

B. Voting Requirements to Confirm Plan

Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation of a chapter 11 plan. Section 1129(a)(7) of the Bankruptcy Code requires that each class of Claims either (a) accepts the Plan or (b) is not Impaired under the Plan. Class 1 is not Impaired under the Plan. Under Section 1126 of the Bankruptcy Code, Class 2 accepts the Plan if creditors holding (i) 2/3 in amount and (ii) 1/2 in number of the Allowed Class 2 Claims vote to accept the Plan.

C. Voting Rights

Pursuant to the provisions of the Bankruptcy Code, only classes of Claims or Equity Interests that are (a) "impaired" by a chapter 11 plan and (b) entitled to receive a distribution under such plan are entitled to vote to accept or reject such plan. In the Chapter 11 Cases, only Class 2 (Unsecured Claims) are Impaired by and entitled to receive a distribution under the Plan. Accordingly, only the holders of Allowed Claims in Class 2 are entitled to vote to accept or reject the Plan. Claims in Class 1 (Secured Claims) are not Impaired by the Plan; accordingly, holders of Class 1 Claims are conclusively presumed to have accepted the Plan and are not eligible to vote on the Plan. Holders of Equity Interests in Class 3 neither receive nor retain any property under the Plan on account of such Equity Interests and are deemed to have rejected the Plan and are not entitled to vote on the Plan on account of such Equity Interests.

D. Solicitation Materials

In soliciting votes for the Plan pursuant to this Disclosure Statement, the Chapter 11 Trustee, through the Estates' voting agent, The Garden City Group, Inc. (the "Voting Agent") will send to holders of Claims who are entitled to vote copies of: (a) the Disclosure Statement and Plan; (b) the notice of, among other things, (i) the date, time and place of the hearing to consider confirmation of the Plan and related matters and (ii) the deadline for filing objections to confirmation of the Plan (the "Confirmation Hearing Notice"); (c) a ballot (and return envelope) to be used in voting to accept or to reject the Plan; and (d) other materials as authorized by the Bankruptcy Court.

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If you are the Holder of a Class 2 Claim that is entitled to vote, but you did not receive a Ballot, or if your Ballot is damaged or illegible, or if you have any questions concerning voting procedures, you may contact the Voting Agent:

By regular mail:

Life Fund Bankruptcy Administration
c/o The Garden City Group, Inc.
PO Box 9553
Dublin, OH 43017-4853

By overnight courier or hand delivery:

The Garden City Group, Inc.
Attn: LFE Bankruptcy Administration
5151 Blazer Parkway, Suite A
Dublin, OH 43017

By telephone:

(800) 826-6412

By email:

LifeFundsInfo@gardencitygroup.com

E. Voting Procedures, Ballots and Voting Deadline

After reviewing the Plan and this Disclosure Statement, you are asked to indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the accompanying Ballot. You should complete and sign your original Ballot (copies will not be accepted) and return it to the Voting Agent in the envelope provided. Do not return your Ballot to the Chapter 11 Trustee.

Each Ballot has been coded to reflect the Claim it represents. Accordingly, in voting to accept or reject the Plan, you must use only the coded Ballot sent to you with this Disclosure Statement.

IN ORDER FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE WITH THE VOTING INSTRUCTIONS ON THE BALLOT AND RECEIVED BY THE VOTING AGENT BY DELIVERY TO THE US MAIL OR OVERNIGHT DELIVERY ADDRESSES ABOVE NO LATER THAN OCTOBER 13, 2011 (THE "VOTING DEADLINE"). BALLOTS WILL NOT BE ACCEPTED VIA FACSIMILE OR OTHER ELECTRONIC MEANS.

Copies of this Disclosure Statement, the Plan and any appendices and exhibits to such documents are available to be downloaded free of charge at www.lifefundstrustee.com.

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F. Confirmation Hearing and Deadline for Objections to Confirmation

The Bankruptcy Court has scheduled a Confirmation Hearing for **October 24, 2011, at 10:00 a.m. prevailing Central time.** The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

Objections to confirmation of the Plan or proposed modifications to the Plan, if any, must: (a) be in writing; (b) conform to the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court; (c) state the name and address of the objecting party and the amount and nature of the claim or interest of such party; (d) state with particularity the basis and nature of any objection to the Plan; and (e) be filed electronically, together with proof of service, with the United States Bankruptcy Court for the Northern District of Illinois, 219 South Dearborn, Chicago, IL 60604, and served on the parties listed in the Confirmation Hearing notice, in each case so as to be actually received on or before **October 13, 2011.**

G. Plan Binding on Creditors and Parties in Interest

If the Plan is approved by the Bankruptcy Court, the Plan will bind all holders of Claims against and Equity Interests in the Debtors, whether or not they were entitled to vote or did vote to accept or reject the Plan and whether or not they receive or retain any distributions or property under the Plan.

IV. GENERAL INFORMATION CONCERNING THE DEBTORS

A. Overview of the Debtors' Purported Business Operations

Prior to the Petition Date, the Debtors purportedly operated in the "life settlement" industry, soliciting funds from individual investors in order to use such funds to acquire ownership of or beneficial interests in life insurance policies on third party insureds. As part of this purported business model, the Debtors also acquired bonds issued by Provident Capital Indemnity, Ltd. ("PCI"). Each PCI bond matured on a fixed date and in an amount equal to the death benefit of a Policy with which it was connected. The Debtors' purported business model appears to have been to: (a) borrow money from investors to finance the Debtors' purchase of Policies and PCI bonds; (b) purchase and maintain Policies and PCI bonds using investor dollars; (c) 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); (d) use such proceeds to repay investors the principal amount of their investment plus a promised investment premium; and (e) keep the difference between the proceeds collected and investor funds repaid as profit.

As described below, it is now apparent that for some time leading up to the Petition Date, the Debtors' business was a sham. It appears from documents reviewed by the Chapter 11 Trustee that individual investors were led to believe that: (a) the bonds or other investments they made in the Debtors would grant them a specific interest in an individual life insurance Policy that would yield future investment income, and (b) that a portion of their investment would be remitted directly to insurance companies to satisfy future premiums due on such Policies. Although some investment documents did grant creditors a security interest in a specific Policy, the same documents generally also prohibited investors from perfecting their interest in such

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Policy. Moreover, in many circumstances investor funds were funneled to the former principals of the Debtors through a non-Debtor entity for their personal use. As a result of, among other things, principals of the Debtors funneling funds away from the Debtors for their personal gain, the Debtors are unable to return to creditors their principal investments or to satisfy in full Unsecured Claims.

Also as described below, PCI was also a fraudulent entity and the PCI bonds were not enforceable.

B. Criminal Prosecution of Principals of the Debtors

During the week ending September 10, 2010, the United States Department of Justice, acting through the United States Attorney for the Eastern District of Virginia, charged Christian Allmendinger, Brent Oncale, Adley Abdulwahab, Russell Mackert, and other individuals involved in the prepetition operation of the Debtors with various counts of mail fraud and/or wire fraud and/or money laundering and/or other charges related to their respective roles in the Debtors' operations. The Department of Justice alleged that these individuals used the Debtors to defraud investors of the Debtors and used moneys invested in the Debtors for personal gain. The charges were the result of an investigation conducted by the U.S. Postal Inspection Service, the Internal Revenue Service, and the FBI, with significant assistance from the Texas State Securities Board and the Virginia Corporation Commission.

Defendants Oncale and Mackert, among others, executed plea agreements with the United States Attorney whereby each agreed to plead guilty to certain criminal counts. Mr. Oncale was sentenced to 120 months in prison for his crimes. Mr. Mackert was sentenced to 188 months in prison for his crimes.

Defendants Abdulwahab and Allmendinger were convicted on various counts of fraud, conspiracy, and money laundering. These individuals had not been sentenced as of the date of this Disclosure Statement.

In connection with these arrests, the United States Attorney seized personal property of multiple of the defendants to secure expected monetary damages against the defendants. As described below, the Chapter 11 Trustee expects that the United States Attorney will distribute property seized from the defendants (or cash proceeds generated from the sale of such property) to victims of the Debtors.

C. Cooperation of the Chapter 11 Trustee With the US Department of Justice

The Chapter 11 Trustee has been in contact and cooperated with the office of the United States Attorney regarding criminal charges brought against the former principals of the Debtors and distribution of funds and other assets that the United States Attorney seized from the former principals of the Debtors. The Chapter 11 Trustee understands that the typical practice of the United States Attorney for the Eastern District of Virginia is to use assets forfeited by convicted criminals to provide restitution to victims. Substantially all creditors in Class 2 of the Plan are victims of the Debtors. The Chapter 11 Trustee has held discussions with the United States Attorney regarding whether restitution could be provided most efficiently by contributing seized assets (or their proceeds) to the Liquidating Trust for subsequent distribution to victims who are holders of Class 2 Claims. The Chapter 11 Trustee provided a mechanism for these distributions in the Plan in the form of the Investor Account. As of the date of publication of this Disclosure Statement, it is unclear whether the United States Attorney will use the Investor Account to make

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restitution to victims or distribute restitution payments directly to victims. The Chapter 11 Trustee and the Liquidating Trustee will continue to make themselves available to the United States Attorney to maximize the value of assets seized for the benefit of victims of the crimes perpetrated by the Debtors' former principals and distribute those proceeds to victims.

D. Events Leading to the Chapter 11 Cases

The Debtors effectively ceased operations prior to the United States Attorney making its investigation of the Debtors' public and arresting the former principals of the Debtors. After a period of inactivity, Russell Mackert, an attorney involved in the formation of the Debtors, obtained approval of an Illinois state court to commence these Chapter 11 Cases on behalf of the Debtors.

V. THE CHAPTER 11 CASES

A. Commencement of the Chapter 11 Cases and Appointment of a Chapter 11 Trustee

On September 2, 2009, Mr. Mackert caused each of the Debtors to file a voluntary petition for relief under chapter 11 of the Bankruptcy Code. Subsequently, the Bankruptcy Court entered an order consolidating the Chapter 11 Cases for procedural purposes only and directing that the Chapter 11 Cases be administered jointly under the case number assigned to Life Fund 5.1, LLC.

On September 16, 2009, the Bankruptcy Court granted a motion of the office of the United States Trustee requesting appointment of a chapter 11 trustee under section 1104(a) of the Bankruptcy Code. In moving for a trustee, the United States Trustee stated that it had grounds to suspect that members of the Debtors' management had engaged in actual fraud, dishonesty, or criminal conduct with respect to the operation of the Debtors. As described above, these suspicions subsequently were confirmed by the criminal convictions of the Debtors' prepetition principals.

On September 21, 2009, the Bankruptcy Court approved the appointment of Patrick Collins as Chapter 11 Trustee. On March 8, 2010, after Jeff Marwil was elected Chapter 11 Trustee by creditors of the Debtors, the Bankruptcy Court entered an order certifying Mr. Marwil's election as Chapter 11 Trustee.

Subsequent to the commencement of these cases, Mr. Mackert filed schedules with the Bankruptcy Court stating that the Debtors, in the aggregate, had approximately \$3 million in assets (largely in the form of life insurance Policies that, in some instances, required ongoing cost of insurance payments) and approximately \$92 million in liabilities. The scheduled liabilities consisted chiefly of amounts owed to individuals who had invested money with the Debtors in the form of loans or other financing arrangements. Mr. Mackert provided the Chapter 11 Trustee with documents regarding the Debtors' prepetition operations, including copies of individual investment agreements with creditors of the Debtors.

B. Claims Against Principals of the Debtors and Their Affiliates

On January 7, 2010, the Chapter 11 Trustee filed in the Bankruptcy Court a complaint against certain prepetition principals of the Debtors, including Allmendinger, Oncale, Abdulwahab, and Mackert, and certain affiliates of the Debtors believed to be controlled by such individuals. The complaint alleged various theories of actual and constructive fraud and sought

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the recovery of millions of dollars and other property, including interests in life insurance policies. The Chapter 11 Trustee subsequently amended the complaint in response to a motion to dismiss the complaint filed by certain of the defendants.

On April 4, 2011, the Bankruptcy Court entered a partial default judgment against A&O Life Funds, LP, a defendant that the Chapter 11 Trustee believes was used to siphon money and other property from the Debtors to the other defendants. As a result of this default judgment, the Estates obtained interests in two Policies and a judgment against Life Funds, LP for approximately \$32.3 million. The balance of this complaint remains pending. The right to prosecute this complaint will transfer, on the Effective Date, to the Liquidating Trustee and the underlying cause of action will transfer to the Liquidating Trust. The Chapter 11 Trustee or the Liquidating Trustee will seek judgments against the Defendants for millions of dollars, although it is unclear that the defendants will ever be able to satisfy such judgments. To the extent the Liquidating Trustee is able to collect on such judgments, the proceeds thereof will be distributed to creditors in accordance with the terms of the Plan and the Liquidating Trust Agreement.

C. Administration and Sale of Policies

The Debtors' most valuable assets (other than claims against the former principals of the Debtors, which may not yield any proceeds) were life insurance Policies. The Chapter 11 Trustee believes that at least 18, and perhaps as many as 27, Policies lapsed prior to the Petition Date because the Debtors failed to pay premiums or other costs of insurance necessary to keep such Policies in effect. The aggregate death benefits of these Policies was no less than \$37 million, and perhaps far in excess of the amount. The Chapter 11 Trustee cannot identify with certainty Policies that lapsed prior to the Petition Date and does not have the ability, under the Bankruptcy Code or other applicable law, to revive lapsed Policies.

The Chapter 11 Trustee had the ability to monetize any or all of the Policies for the benefit of creditors by: (1) selling them, (2) holding them through maturity, or (3) redeeming them for accrued cash value (as to the Policies for which the Debtors had paid premiums in advance). As of the Petition Date the Estates held interests in 29 Policies. The Estates owned 100% of some of these Policies and owned portions of others. Premiums on some of the Policies were paid in advance, while others required (or at some point during the Chapter 11 Cases, began to require) significant and ongoing cash payments to remain in effect.

Although the aggregate death benefits of Policies held by the Debtors as of the Effective Date exceeded \$100 million, their value was far less. Many of the Policies lacked documentation of the manner in which they were originated or obtained by the Debtors. Multiple of the Policies were not owned directly by the Debtors, but were held, at least in part, by a trust controlled by one of the criminal principals of the Debtors or a relative of one of these individuals. This ownership structure prevented the Estates from being able to obtain information about, or exercise control over, such Policies. With respect to certain Policies, the Estates lacked agreements with underlying insureds that gave the Estates access to such insureds medical information. Policies held for investment purposes typically have such agreements in place. In addition to these defects, many of the Policies were of poor quality for investment purposes because insureds had exceedingly long life expectancies (a fact that the former principals of the Debtors appear to have concealed by obtaining life expectancy reports from an

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entity that generally was not well regarded in the industry and that closed amid allegations of providing misleading, and perhaps fraudulent, life expectancy reports).

To assist his administration of the Policies, the Chapter 11 Trustee retained Melville Capital, LLC ("Melville") as life Policy broker and Lewis & Ellis, Inc. ("Lewis & Ellis") as life settlement consultant. Lewis & Ellis, among other things, projected the payments required to keep each Policy in force. Based in part on the Lewis & Ellis Analysis, the Chapter 11 Trustee determined that the Estates did not have cash sufficient to pay premium and costs of insurance on all Policies on hand as of the Petition Date. Accordingly, at least some Policies would have to be sold, redeemed for their accrued value, or allowed to lapse.

To facilitate these actions, on July 26, 2010, the Chapter 11 Trustee filed in the Bankruptcy Court a motion seeking procedures that would allow the Chapter 11 Trustee to competitively market, auction, sell, and lapse policies in an orderly and efficient manner. A significant element of this motion was to provide confidence to potential purchasers that the Chapter 11 Trustee would be able to sell and deliver good title to Policies with minimal disruption from the Chapter 11 Cases. The Bankruptcy Court subsequently granted the motion, in part, and established procedures that facilitated the marketing, sale and maintenance of the Policies.

The Chapter 11 Trustee worked closely with Melville to market the Policies for sale. Melville obtained information on each Policy (and, when possible, the underlying insured), developed marketing materials to market the Policies, and repeatedly marketed the Policies for sale (both individually and in groups). The results of Melville's marketing efforts, among other things, provided the Chapter 11 Trustee with an informed basis for determining which Policies could or should be sold, redeemed or lapsed.

The Chapter 11 Trustee compared offers that Melville obtained to purchase Policies, whether individually, in groups, or as an entire portfolio, with net returns expected if the Estates attempted to hold some or all of the Policies for later sale or maturity. The Chapter 11 Trustee initially sold small groups of Policies for which he received acceptable offers. After determining: (a) that the Estates did not have, and could not obtain, cash sufficient to maintain Policies for an extended period; (b) that continuing to hold Policies likely would result in increased losses to creditors; and (c) that an offer to purchase substantially all of the Policies remaining in the Estates constituted the best use of such Policies, and was in the best interests of creditors, the Chapter 11 Trustee accepted an offer to sell substantially all remaining Policies. On June 27, 2011, the Bankruptcy Court approved a proposed sale to Vida Capital, Inc. ("Vida").

As of the date of this Disclosure Statement, the Chapter 11 Trustee was continuing to work to consummate the sale of Policies to Vida. The result of all Policy sales is that: (a) the Estates received in excess of \$4.8 million of sale proceeds; and (b) the Estates were relieved of the burden of paying hundreds of thousands of dollars to maintain life insurance Policies that were not expected to mature until well after the Estates' ability to pay related costs of insurance. Although the proceeds of these sales have been and will be used to pay expenses of the Chapter 11 Cases and the Liquidating Trust, respectively, the bulk of this money will be distributed to creditors under the Plan through the Liquidating Trust.

During the Chapter 11 Cases, the Chapter 11 Trustee allowed one Policy to lapse because it had no value in the market and required ongoing premium payments that, in the Chapter 11

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Trustee’s business judgment, were not worth making. The Chapter 11 Trustee provided notice to creditors of his intent to allow the Policy to lapse.

As of the date of this Disclosure Statement, the Estates held interests in the Policies identified below, which will transfer to the Liquidating Trust under the Plan unless otherwise disposed of prior to the Effective Date, provided, however, that such transfer shall not affect any rights, remedies, or defenses of the insurance companies that issued such Policies, whether such rights or defenses arise under a Policy or applicable law. The table below also identifies the expected disposition of each Policy, to the extent known.

Insurance Company	Policy No.	Death Benefit	Expected Disposition
Transamerica	60134439 60134440 60134441 60134442	\$5,000,000 \$5,000,000 \$5,000,000 \$5,000,000	Policies are encumbered by litigation. The Chapter 11 Trustee expects to settle these litigation claims and transfer the Policies in exchange for a cash payment in the range of \$150,000 to \$200,000.
West Coast	ULA341379	\$13,700,000	Lapse for no value to Estates. Hundreds of thousands of dollars of premiums are past due. Policy has no market value. Policy has been frozen by insurance company.
Lincoln National	2722294	\$250,000	Estates hold a partial interest. Policy has no market value. Disposition unclear.

D. Litigation With Insurance Companies

On July 29, 2010, the Chapter 11 Trustee filed a complaint in the Bankruptcy Court for injunctive and other relief against three insurance companies that issued Policies, three individuals who were trustees of trusts that controlled Policies in which the Estates held an interest, and six trusts that controlled Policies in which the Estates held an interests. After significant litigation, this lawsuit resulted in the Chapter 11 Trustee obtaining control over several Policies in which the Estates held interests, but which previously had been outside of the control of the Chapter 11 Trustee. The Chapter 11 Trustee sold each of these Policies, except for one Policy which was allowed to lapse (as described above).

E. Settlement With PCI and Appointment of PCI Receiver

As described above, PCI issued to the Debtors bonds that purported to secure payment on each Policy in an amount equal to the death benefit under a Policy (to the extent that the insured had not passed as of the date on which the PCI bond matured). Shortly after the commencement of the Chapter 11 Cases, the Chapter 11 Trustee contacted PCI regarding multiple PCI bonds that had matured, but for which PCI had not remitted payment to the Debtors. PCI contested that payment was due on many bonds, alleging that the Debtors had violated the terms of the bonds by, among other things, failing to pay premiums due under the bonds.

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In February 2010, after meeting with a principal of PCI, the Chapter 11 Trustee entered into two settlement agreements with PCI, pursuant to which PCI agreed to satisfy over time amounts due under two PCI bonds. Under the settlement agreements, PCI agreed to remit payments to the Estates in the aggregate amount of \$11 million. Subsequent to the Bankruptcy Court approving both settlements, PCI remitted payments to the Estates totaling in excess of \$1 million. However, by the middle of 2010, PCI had defaulted on the terms of its settlement agreements.

The Chapter 11 Trustee again met with a principal for PCI. The purpose of the meeting was to discuss PCI's obligations to the Estates arising under: (a) the settlement agreements; (b) other PCI bonds that had matured and on account of which PCI owed the Estates approximately \$10.5 million; and (c) additional PCI bonds (with an aggregate value of approximately \$56 million) that had not yet matured, but which PCI claimed were unenforceable. PCI complained that it suffered from liquidity problems that prevented it from meeting its financial obligations as they arose, but promised that additional payments would follow.

PCI later failed to make all payments due to the Estates. The Chapter 11 Trustee was in the process of exploring his ability to enforce his rights against PCI (an entity based in the Dominican Republic with offices in Costa Rica and, to the knowledge of the Chapter 11 Trustee, no or limited assets in the United States) when, in January of 2011, the Department of Justice, acting with the Office of the United States Attorney, arrested both principals of PCI on charges of mail and wire fraud. The United States Attorney alleged that PCI was a fraudulent enterprise that, in effect, operated as a ponzi scheme by selling bonds that it did not have the ability to repay. The Chapter 11 Trustee does not know whether the principals of the Debtors ever knew or had reason to know that PCI a fraudulent enterprise.

Contemporaneous with the arrest of PCI's principals, the Securities and Exchange Commission sought and obtained the appointment of a receiver over PCI's assets. The Chapter 11 Trustee has communicated with the court-appointed receiver for PCI regarding the filing and satisfaction of claims against PCI on account of the tens of millions of dollars of PCI bonds held by the Estates. It is unclear whether the PCI receivership will ever have funds to distribute to the Estates or to other holders of claims against PCI. Under the Plan, the right to collect on account of the Estates' claims against PCI will pass to the Liquidating Trust, which will remit proceeds of claims against PCI to creditors under the terms of the Plan and the Liquidating Trust Agreement.

F. Resolution of Claims Against Prestige Title, Inc. and Related Entities

Prior to the Petition Date, the Debtors engaged Prestige Title, Inc. ("Prestige Title") to act as an escrow agent and sent Prestige Title no less than \$4.6 million to hold in escrow. The terms of the Debtors' escrow agreement with Prestige Title obligated Prestige Title to hold all of the Debtors' funds in escrow and use them only to pay premiums on Policies. However, as described in the Chapter 11 Trustee's Motion to Compromise Interpleader Complaint [Docket No. 458] it appears that the principal of Prestige Title, Richard Colson, breached his agreement with the Debtors, commingled the Debtors' funds with funds of several of his other ventures, and used the Debtors' funds for his own personal benefit.

Prior to the Petition Date, the Debtors were one of several entities suing Mr. Colson and various of his business enterprises on theories of breach of contract and fraud. Subsequently, Mr. Colson filed a petition commencing a chapter 7 bankruptcy case. The chapter 7 trustee

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appointed to Mr. Colson's bankruptcy estate alleged fraud against Mr. Colson and multiple of his business enterprises, including Prestige Title.

The Chapter 11 Trustee and the chapter 7 trustee to Mr. Colson's bankruptcy estate agreed that the Estates would have a claim against Mr. Colson's bankruptcy estate (which has rights to the assets of Prestige Title and other Colson enterprises) in the amount of \$4.6 million. Under the Plan, this claim will transfer to the Liquidating Trust for the benefit of Class 2 creditors, and any proceeds received by the Liquidating Trust on account of such claim will be available for distribution to creditors, under the terms of the Plan and the Liquidating Trust.

G. Investigation of Bayou City Escrow and John Spalding

Prior to the Petition Date, Bayou City Escrow, Inc. ("Bayou City") also served as escrow agent for the Debtors' transactions with investors. In this capacity, Bayou City collected money from investors in the Debtors and, at the instruction of the Debtors, released the funds collected. The Debtors were not party to these escrow agreements, but under these agreements were granted authority to direct Bayou City to release funds held in escrow. Many of the funds held by Bayou City were released directly to the Debtors at the direction of the Debtors. The Chapter 11 Trustee believes that the Debtors led investors to believe that funds placed in escrow with Bayou City would be sent to insurance companies to pay premiums on life insurance Policies, when in fact the Debtors directed Bayou City to release those funds directly to the Debtors and/or their affiliates or principals.

One of the principals of Bayou City was John E. Spalding ("Spalding"), a partner at the law firm of Johnson, Trent, West & Taylor, L.L.P. f/k/a Johnson, Spalding, Doyle, West & Trent, L.L.P. ("Johnson Trent"). Johnson Trent represents a large group of creditors in the Chapter 11 Cases. The Chapter 11 Trustee believes that Spalding solicited investments in the Debtors and that the Spalding and/or Johnson Trent drafted and/or substantially revised some escrow documents and investment documents used by the Debtors. Spalding also invested in the Debtors.

The Chapter 11 Trustee obtained an order of the Bankruptcy Court granting him the right to serve discovery on Bayou City. Upon request of similar relief against Johnson Trent, Johnson Trent agreed to provide the Chapter 11 Trustee with documents and information regarding its involvement with the Debtors prior to the Petition Date. The Chapter 11 Trustee obtained documents and other information from Johnson Trent and Bayou City and, after considering whether such claims existed and could be prosecuted by the Chapter 11 Trustee or the Estates, determined not to bring any claims or causes of action against Bayou City, Johnson Trent or Spalding because the Estates Claims against such individuals appeared to be not strong or enforceable.

Certain individual investors of the Debtors have filed suit against Bayou City, Johnson Trent, and/or Spalding. Creditors may not be subject to the defense of unclean hands (which likely could be raised against any claims brought by the Estates) and were parties to escrow agreements with Bayou City, which the Debtors appear not to be. For these and other reasons, individual creditors of the Estates may have colorable or enforceable claims or causes of action that they are able to bring against Bayou City, Johnson Trent, and/or Spalding. Upon request of any creditor of the Estates, the Chapter 11 Trustee or the Liquidating Trustee, as applicable, will provide (at such creditor's expense) certain documents and information in such trustee's possession obtained from and regarding Bayou City, Johnson Trent, and Spalding.

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H. Arbitration With Boutte Trust

Prior to the Petition Date the Debtors held and conveyed interests in several insurance Policies issued by Transamerica Occidental Life Insurance Company (“Transamerica”). Prior to the Petition Date, Eric Boutte (“Boutte”), not individually, but solely as Trustee for the AB Revocable Living Trust (the “Boutte Trust”) filed a demand for arbitration against the Debtors. In the arbitration demand, Boutte alleged that the Debtors sold certain Transamerica Policies to Boutte through the Boutte Trust, converted these Policies from Boutte, and then conveyed certain of these Policies to other entities. Through litigation against the former principals of the Debtors and certain of their affiliates (described above), the Chapter 11 Trustee recovered for the benefit of the Estates rights to two of the Policies subject to the Boutte arbitration. The Debtors previously held right to two other such Policies. The Debtors have not conveyed their interests in the Transamerica Policies, which interests are identified above and will transfer to the Liquidating Trust to the extent they are not otherwise conveyed prior to the Effective Date. Boutte and the Boutte Trust contest the Estates’ rights to these Policies.

The Chapter 11 Trustee has reached a tentative settlement with Boutte and the Boutte Trust and anticipates that he or the Liquidating Trustee will seek approval of the Bankruptcy Court to settle the Boutte arbitration in a manner that will result in the Estates’ transferring their contested rights in the Policies to Boutte in exchange for a cash payment. Any such payment would become property of the Liquidating Trust and be distributed to creditors in accordance with the terms of the Plan and the Liquidating Trust Agreement.

VI. SUMMARY OF THE PLAN OF REORGANIZATION

A. Formation of the Liquidating Trust

On the Effective Date, the Liquidating Trust shall be established pursuant to the Liquidating Trust Agreement for the purposes of, among other things: (a) administering the Liquidating Trust Account and the Investor Account, (b) resolving all Disputed Claims, and (c) making all Distributions to the Beneficiaries provided for under the Plan. The Liquidating Trust is intended to qualify as a liquidating trust pursuant to United States Treasury Regulation Article 301.7701-4(d). Liquidating Trust Expenses incurred on or after the Effective Date may be paid by the Liquidating Trustee from the Liquidating Trust in accordance with the Liquidating Trust Agreement without further order of the Bankruptcy Court

B. Formation and Authority of the Liquidating Trust Creditor Panel

The holders of the three largest Unsecured Claims so willing to serve shall comprise the Liquidating Trust Creditor Panel. As set forth in the Liquidating Trust Agreement, the Liquidating Trustee shall be required to consult the Liquidating Trust Creditor Panel with respect to certain, enumeration acts and, if the Liquidating Trust Creditor Panel unanimously opposes such acts, obtain authority of the Bankruptcy Court prior to taking any such act.

C. Vesting of Assets in the Liquidating Trust

On the Effective Date, the Chapter 11 Trustee shall transfer all Cash and other assets of the Estates to the Liquidating Trust.

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D. Rights and Powers of the Liquidating Trustee

The Liquidating Trustee shall be deemed the Estates' representative in accordance with section 1123 of the Bankruptcy Code and shall have the powers of a trustee under sections 704 and 1106 of the Bankruptcy Code and the rights and powers set forth in the Plan and the Liquidating Trust Agreement. The Liquidating Trustee shall File quarterly reports regarding the liquidation or other administration of property comprising the Liquidating Trust, the Distributions made by it and other matters related to the Liquidating Trust.

E. Allowed Claims, Distribution Rights and Objections to Claims

1. Allowance Requirement

Only Holders of Allowed Claims are entitled to receive distributions under the Plan. The Chapter 11 Trustee or the Liquidating Trustee may have filed and may file objections to Claims. Prior to making any Distribution to holders of Allowed Unsecured Claims from the Liquidating Trust Account or the Investor Account, the Liquidating Trustee may establish one or more reserves for Disputed Claims. The Liquidating Trustee shall reserve in Cash or other property for Distribution on account of any Claim so reserved the full asserted amount (or such lesser amount as may be reasonably estimated by the Liquidating Trustee) of such Claim or expense.

2. Date of Distribution

All Distributions to holders of Allowed Claims will be made as and when provided in the Plan. The Liquidating Trustee will make an initial distribution as soon as practicable after the Effective Date.

3. Making of Distributions

Distributions to Holders of Allowed Class 2 Claims will be made by the Liquidating Trustee: (a) to the last known addresses of such holders; or (b) to the addresses set forth in any filed proof of claim or written notices of address changes delivered to the Liquidating Trustee by the holder of an Allowed Claim. If any distribution is returned as undeliverable, no further distributions to the recipient shall be made unless and until the Liquidating Trustee is notified of such holder's then current address, at which time all missed distributions shall be made to such holder without interest.

4. Objection Procedures

Unless otherwise ordered by the Court after notice and a hearing, under the Plan, the Liquidating Trustee shall have the exclusive right, on and after the Effective Date, to File objections to Claims.

F. Disposition of Executory Contracts and Unexpired Leases

Pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory contracts and unexpired leases that exist between the Debtors and any person or Entity shall be deemed rejected by the Debtors as of the Effective Date. The Confirmation Order (except as otherwise provided therein) shall constitute an order of the Bankruptcy Court pursuant to section 365 of the Bankruptcy Code, effective as of the Effective Date, rejecting all executory contracts of the Debtors. Rejection claims arising out of the rejection of any executory contract or unexpired lease pursuant to the Plan must be filed with the Bankruptcy Court no later than the later of thirty (30) days after the entry of an order rejecting such executory contract or unexpired

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lease. Any Claim not filed within such time period shall be forever barred. The Liquidating Trustee shall have the exclusive right to object to any Claim arising out of the rejection of an executory contract or unexpired lease.

Any Claims arising out of the rejection of executory contracts and unexpired leases shall, pursuant to section 502(g) of the Bankruptcy Code, be treated as Class 2 Unsecured Claims under the Plan.

G. Reservation of Rights Regarding Claims

Except as otherwise explicitly provided in the Plan, nothing will affect the Estates' rights and defenses, both legal and equitable, with respect to any Claims, including, but not limited to, all rights with respect to legal and equitable defenses to alleged rights of setoff or recoupment. All such rights, remedies, claims, defenses and Causes of Action shall transfer to the Liquidating Trust on the Effective Date.

H. Releases, Discharge, Injunctions, Exculpation and Indemnification

1. Discharge and Discharge Injunction

To the fullest extent permitted by applicable law (including, without limitation, section 105 of the Bankruptcy Code), and except as otherwise provided in the Plan or in the Confirmation Order, all consideration distributed under the Plan shall be in exchange for, and in complete satisfaction, settlement, discharge and release of, all Claims of any nature whatsoever against the Debtors or any of their assets or properties, regardless of whether any Property shall have been distributed or retained pursuant to the Plan on account of such Claims. Upon the Effective Date, and except as expressly contemplated in the Plan, the Debtors, and each of them, shall be deemed discharged and released under section 1141(d)(1)(A) of the Bankruptcy Code from any and all Claims. Further, as of the Effective Date, all entities, including, without limitation, all Holders of Claims or Equity Interests, shall be barred and enjoined from asserting against the Debtors, the Liquidating Trustee, the Liquidating Trust, their successors or their Property any other or further Claims, debts, rights, Causes of Action, or liabilities relating to the Debtors based upon any act, omission, transaction or other activity of any nature that occurred prior to the Effective Date, except for those obligations expressly created by, or reserved in, the Plan.

2. Exculpation Relating to Chapter 11 Cases

None of the Exculpated Parties (which includes the Chapter 11 Trustee and their professionals, but excludes the former principals of the Debtors) shall have or incur any liability to any Person, including, without limitation, any Holder of a Claim or Equity Interest or any other party in interest, for any act taken or omission made in connection with, relating to, or arising out of, the Chapter 11 Cases, the Plan, or the Property to be distributed under the Plan, including all activities leading to the promulgation and confirmation of the Plan, the Disclosure Statement (including any information provided or statement made in the Disclosure Statement or omitted therefrom), or any contract, instrument, release or other agreement or document created in connection with or related to the Plan or the administration of the Debtors or these Chapter 11 Cases; provided, however, that the foregoing exculpation shall not apply to any act of gross negligence or willful misconduct.

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I. Preservation of Rights of Action

Except as otherwise provided in the Plan, all Causes of Action, including Avoidance Actions, shall automatically be retained and preserved and transferred to the Liquidating Trust on the Effective Date. Pursuant to section 1123 of the Bankruptcy Code, the Liquidating Trustee (as representative of the Estates) will retain and have the exclusive right to enforce and prosecute such Causes of Action against any Entity.

J. Retention of Jurisdiction

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain after the Effective Date exclusive jurisdiction of all matters arising out of, arising in or related to the Chapter 11 Cases to the fullest extent permitted by applicable law.

K. Amendment, Alteration and Revocation of Plan

The Chapter 11 Trustee may alter, amend or modify the Plan in accordance with section 1127 of the Bankruptcy Code or as otherwise permitted at any time prior to the Confirmation Date. After the Confirmation Date and prior to the substantial consummation of the Plan, and in accordance with the provisions of section 1127(b) of the Bankruptcy Code and the Bankruptcy Rules, the Chapter 11 Trustee may, so long as the treatment of holders of Claims or Interests under the Plan is not adversely affected, institute proceedings in the Bankruptcy Court to remedy any defect or omission or to reconcile any inconsistencies in the Plan, the Disclosure Statement or the Confirmation Order and any other matters as may be necessary to carry out the purposes and effects of the Plan; provided, however, prior notice of such proceedings shall be served in accordance with Bankruptcy Rules 2002 and 9014.

The Chapter 11 Trustee reserves the right, at any time prior to Confirmation of the Plan, to withdraw the Plan. If the Plan is withdrawn, the Plan shall be null and void and have no force and effect.

L. Conditions to Confirmation Date and Effective Date

The Plan specifies conditions precedent to the Confirmation Date and the Effective Date. Each of the specified conditions must be satisfied or waived in whole or in part pursuant to the Plan by the Chapter 11 Trustee, without any notice to parties-in-interest or the Bankruptcy Court and without a hearing.

VII. Requirements for Confirmation of the Plan

Before the Plan can be confirmed, the Bankruptcy Court must determine at the Confirmation Hearing that the requirements for confirmation, set forth in section 1129 of the Bankruptcy Code, have been satisfied. The Chapter 11 Trustee believes that, upon receipt of the votes required to confirm the Plan, the Plan will satisfy all the statutory requirements of chapter 11 of the Bankruptcy Code, that the Chapter 11 Trustee has complied or will have complied with all of the requirements of chapter 11, and that the Plan has been proposed and submitted to the Bankruptcy Court in good faith.

VIII. CERTAIN RISK FACTORS TO BE CONSIDERED

The Holders of Claims in Class 2 should read and carefully consider the following factors, as well as the other information set forth in this Disclosure Statement (and the documents

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delivered together herewith and/or incorporated by reference herein), before deciding whether to vote to accept or reject the Plan. These risk factors should not, however, be regarded as constituting the only risks associated with the Plan and its implementation.

A. Certain Bankruptcy Considerations

Even if Class 2 votes in favor of the Plan the Bankruptcy Court may choose not to confirm the Plan.

B. Claims Estimations

There can be no assurance that any estimated Claim amounts set forth in this Disclosure Statement are correct. The actual Allowed amount of Claims likely will differ in some respect from the estimates. The estimated amounts are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, the actual Allowed amount of Claims may vary from those estimated herein.

C. Conditions Precedent to Consummation

The Plan provides for certain conditions that must be satisfied (or waived) prior to confirmation of the Plan and for certain other conditions that must be satisfied (or waived) prior to the Effective Date. As of the date of this Disclosure Statement, there can be no assurance that any or all of the conditions in the Plan will be satisfied (or waived). Accordingly, even if the Plan is confirmed by the Bankruptcy Court, there can be no assurance that the Plan will be consummated and the restructuring completed.

D. Litigation

The Liquidating Trustee may continue pending litigation against former principals of the Debtors and others and may bring and prosecute causes of action for the benefit of holders of Class 2 Claims.

IX. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

EACH HOLDER OF A CLAIM IS STRONGLY URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES (INCLUDING STATE, LOCAL AND NON-U.S.) OF THE PLAN TO SUCH HOLDER.

To ensure compliance with United States Internal Revenue Service Circular 230, (a) any discussion of U.S. federal tax issues in this Disclosure Statement is not intended or written to be relied upon, and cannot be relied upon by, U.S. Holders for purposes of avoiding penalties that may be imposed on such U.S. Holders under the Code; (b) such discussion is written to support the promotion of the Plan; and (c) each U.S. Holder of a claim should seek advice based on such U.S. Holder's particular circumstances from an independent tax advisor.

A. U.S. Federal Income Tax Consequences to the Debtors

The Debtors are tax neutral limited liability companies that do not pay taxes. The Debtors' tax attributes pass directly to non-Debtor affiliates of the Debtors. Accordingly, the Chapter 11 Trustee anticipates that there will be no adverse tax consequences to the Debtors under the Plan and that there will be no Allowed Priority Tax Claims.

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B. U.S. Federal Income Tax Consequences to Claim Holders

A holder of a claim will recognize loss equal to the difference between the amount realized on the exchange and the holder's tax basis in the property exchanged. In the case of property held as a capital asset, gain or loss recognized on the exchange will be treated as capital gain or loss, and will be long-term capital gain or loss if the property has been held for more than one year at the time of the exchange, except to the extent any gain is treated as ordinary income under the market discount rules discussed below. In addition, ordinary interest income may be recognized to the extent of accrued interest not previously included in income. The deductibility of capital loss is subject to limitations.

C. Other Tax Matters

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A U.S. HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS SHOULD CONSULT THEIR TAX ADVISORS ABOUT THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

X. FEASIBILITY OF THE PLAN AND BEST INTERESTS OF CREDITORS

A. Feasibility of the Plan

In connection with confirmation of the Plan, the Bankruptcy Court will be required to determine that the Plan is feasible pursuant to section 1129(a)(11) of the Bankruptcy Code, which means that the confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors. Because the Plan is a liquidating plan that requires no funding, the Chapter 11 Trustee asserts that the Plan is feasible.

B. Acceptance of the Plan

As a condition to Confirmation, the Bankruptcy Code requires that each Class of Impaired Claims vote to accept the Plan, except under certain circumstances.

Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of impaired claims as acceptance by holders of at least two-thirds ($\frac{2}{3}$) in dollar amount and more than one-half ($\frac{1}{2}$) in number of Allowed claims in that class, but for that purpose counts only those who actually vote to accept or to reject the Plan. Thus, Holders of Claims in Class 2 will have voted to accept the Plan only if two-thirds ($\frac{2}{3}$) in amount and a majority in number of the Claims actually voting in Class 2 cast their ballots in favor of acceptance. Holders of Claims who fail to vote are not counted as either accepting or rejecting the Plan.

C. Best Interests Test

Even if a plan is accepted by each class of claims and interests, the Bankruptcy Code requires a bankruptcy court to determine that the plan is in the best interests of all holders of claims or interests that are impaired by the plan and that have not accepted the plan. The "best interests" test, as set forth in section 1129(a)(7) of the Bankruptcy Code, requires a bankruptcy court to find either that all members of an impaired class of claims or interests have accepted the

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plan or that the plan will provide a member who has not accepted the plan with a recovery of property of a value, as of the effective date of the plan, that is not less than the amount that such holder would recover if the debtor were liquidated under chapter 7 of the Bankruptcy Code.

A Chapter 7 liquidation would produce no greater liquidation proceeds than the proceeds that will be produced under the Plan. Moreover, the Chapter 11 Trustee believes that costs and expenses incurred by a Chapter 7 trustee and his professionals in liquidating and administering the Estates would be duplicative of work already performed by the Chapter 11 Trustee and his professionals and likely greater than the marginal costs that will be incurred by the Liquidating Trustee under the Plan. Accordingly, the Chapter 11 Trustee believes that the “best interests” test of section 1129 of the Bankruptcy Code is satisfied.

D. Confirmation Without Acceptance of All Impaired Classes: The “Cramdown” Alternative

In the event any Class of Impaired Claims rejects the Plan, the Debtors may seek confirmation of the Plan pursuant to the “cramdown” provisions of the Bankruptcy Code.

XI. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Chapter 11 Trustee believes that the Plan is fair and equitable and in the best interests of all holders of Claims. If, however, the requisite acceptances are not received, or the Plan is not confirmed and consummated, the theoretical alternatives include: (a) formulation of an alternative plan or plans of reorganization; or (b) liquidation of the Debtors under chapter 7 of the Bankruptcy Code.

A. Alternative Plan(s) of Reorganization

If the requisite acceptances are not received or if the Plan is not confirmed, the Chapter 11 Trustee or any other party in interest could attempt to formulate and propose a different plan or plans of reorganization. Given the Debtors’ lack of operations and assets, it is unclear what form such an alternate plan may take. The Chapter 11 Trustee believes that the Plan enables Creditors to realize the greatest possible value under the circumstances and has the greatest chance to be confirmed and consummated.

B. Liquidation under Chapter 7

If the Plan is not confirmed, the Debtors’ cases may be converted to cases under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be elected or appointed to liquidate the Debtors’ assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Chapter 11 Trustee believes that a liquidation under chapter 7 is inferior to the Plan because: (1) a Chapter 7 trustee may incur additional costs and expenses of liquidation, and (2) the Liquidating Trust established under the Plan facilitates the holding and collection of illiquid assets that may eventually accrue to the benefit of creditors, including proofs of claim against other estates and interests in illiquid life insurance Policies.

XII. THE SOLICITATION ORDER AND DISPUTED CLAIMANTS

Not approved by the Bankruptcy Court.

A. Solicitation Order

Upon approval of this Disclosure Statement, the Bankruptcy Court entered an order that, among other things, determines the dates, procedures and forms applicable to the process of soliciting votes on the Plan and establishes certain procedures with respect to the tabulation of such votes (the “Solicitation Order”). Parties in interest may obtain a copy of the Solicitation Order through the Bankruptcy Court’s electronic case filing system, by downloading the Solicitation Order from the Debtors’ case website at www.lifefundtrustee.com or by making written request upon the Debtors’ counsel or the Voting Agent.

B. Voting Rights of Disputed Claimants

Holders of Disputed Claims in Class 2 whose Claims are: (a) asserted as wholly unliquidated or wholly contingent in Proofs of Claim filed prior to the Distribution Record Date; or (b) whose Claims are asserted in Proofs of Claim as to which an objection to the entirety of the Claim or Interest is pending as of the Distribution Record Date (collectively, the “Disputed Claimants”) are not permitted to vote to accept or reject the Plan except as provided in the Solicitation Order. Pursuant to the procedures outlined in the Solicitation Order, Disputed Claimants may obtain a Ballot for voting on the Plan only by filing a motion under Bankruptcy Rule 3018(a) seeking to have their Claims temporarily Allowed for voting purposes (a “Rule 3018 Motion”). Any such Rule 3018 Motion must be filed and served upon counsel to the Chapter 11 Trustee and the Voting Agent no later than September 29, 2011. The ballot of any creditor filing such a motion will not be counted unless temporarily allowed by the Bankruptcy Court for voting purposes, after notice and a hearing.

RECOMMENDATION AND CONCLUSION

For all of the reasons set forth in this Disclosure Statement, the Chapter 11 Trustee believes that confirmation and consummation of the Plan is preferable to all other alternatives and urges all holders of Claims in Classes 2 and 3 to vote to ACCEPT the Plan and to complete and return their ballots so that they will be RECEIVED on or before October 13, 2011.

Dated: September 6, 2011

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