

**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 INITIAL STATUS REPORT

Patrick M. Collins, not individually, but solely in his capacity as chapter 11 trustee (the "Trustee") of the above-captioned Debtors' estates¹ provides the following as an initial report on the status of his investigation and the insurance policies identified in the Schedules of Assets and Liabilities (the "Schedules") filed by the Debtors on or about October 8, 2009.

I. BACKGROUND

The Trustee's appointment was approved by the Bankruptcy Court on September 21, 2009. As identified in the Schedules filed by the Debtors, the primary current assets of the Debtors' estates are life insurance policies.² Accordingly, this Status Report focuses principally on those policies. In the three weeks since the Trustee's appointment, he has focused significant attention on attempts to ascertain the status of the insurance policies in which the various Debtor entities allegedly have interests. Among other things, the Trustee has collected the policies, investor files and voluminous documents from the Debtors' offices, corresponded and communicated with insurance companies, and had conversations with various investors and law enforcement officials familiar with the insurance policy issues.

¹ 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").

² The Trustee was not involved in the preparation of the Schedules, nor did he review them before they were filed.

While the Trustee's investigation into the Debtors and potential assets for these estates will continue, the Trustee believes that it is important that credible and reliable information be obtained and disseminated to investors efficiently and responsibly. The Trustee recognizes that interested individuals have many questions, and this Initial Report will by no means answer all of them. The Trustee hopes, however, that it will be a start, and expects and intends to continue to provide updates to the Court and investors as to the status of his investigation in a timely and responsible manner. In addition, the Trustee will continue to advise interested parties of developments in these proceedings through the website www.lifefundtrustee.com.

Importantly, at this time, the Debtors' estates do not have cash on hand available to pay upcoming premium obligations, and every pursuit to preserve or pursue assets will involve an investment of time and resources. The Trustee will therefore continue to attempt to address and tackle the various issues posed in these proceedings in an efficient and prioritized manner.

II. STATUS AND PRESERVATION OF INSURANCE POLICIES³

In order to determine the status of the various insurance policies, the Trustee obtained copies of the insurance files and other documents from the Debtors. The Trustee then communicated with the insurance companies directly on all policies. The following provides an overview of the status of the policies identified in Debtors' Schedules:

LAPSED POLICIES (according to insurance companies):

According to insurance company records, the following policies identified on the Debtors' Schedules⁴ have lapsed on various dates beginning in March 2009:

³ By providing information in this section and throughout this report, the Trustee does not concede that any policy has properly lapsed under its terms and/or applicable law or has been properly terminated. The Trustee expressly reserves all rights and claims he may have against any individual or entity with respect to the policies and all other assets of the Debtors' estates, including because the information provided in this Report is based primarily on information from third parties and the Trustee's investigation will continue.

Interested Entity per Bankrupt Debtors' Schedules ⁵	Policy Number	Policy Face Amount	Insurance Co. Name	Status	Lapse Date
5.1	6793810	\$1,000,000.00	Genworth	Lapsed	3/27/2009
LS	6793833	\$1,500,000.00	Genworth	Lapsed	3/31/2009
Assets; 5.2	1615843	\$3,000,000.00	ING ReliaStar Life	Lapsed	4/25/2009
5.2	6793787	\$1,000,000.00	Genworth	Lapsed	4/26/2009
LS	6802507	\$2,000,000.00	Genworth	Lapsed	5/1/2009
LS	H145750	\$2,000,000.00	Genworth	Lapsed	5/21/2009
LS	Z06029958	\$1,200,000.00	West Coast	Lapsed	5/27/2009
LS; AO	VF51228580	\$5,000,000.00	Pacific Life	Lapsed	5/30/2009
LF	97509733	\$6,500,000.00	Phoenix Life	Lapsed	5/30/2009
LS	z06027370	\$1,000,000.00	West Coast Life	Lapsed	5/31/2009
LS	RL3172453K	\$2,500,000.00	ING ReliaStar Life	Lapsed	6/1/2009
5.2	4611885	\$2,500,000.00	Principal Financial Group	Lapsed	6/2/2009
5.2	Z06027381	\$2,000,000.00	West Coast	Lapsed	6/11/2009
LF	01N1291796	\$5,000,000.00	Lincoln Benefit	Lapsed	6/12/2009
5.2	01N1348312	\$1,000,000.00	Lincoln Benefit	Lapsed	7/26/2009
LS	Z06032775 ⁶	\$2,000,000.00	West Coast	Lapsed	9/11/2009
AO; HTP	B05020454 ⁷	\$5,000,000.00	AVIVA Life	Lapsed	9/19/2009
LF; 5.1	6802499 ⁸	\$1,900,000.00	Genworth	Lapsed	10/4/2009

The Trustee believes that protections in the Bankruptcy Code may allow for additional time to take action on the three policies that lapsed after the filing of the bankruptcies on September 2, 2009, and is in ongoing discussions with the insurance companies on these issues.

⁴ The Trustee has identified nine additional policies which were not identified on any Schedule and are not identified on the charts below, most of which lapsed prior to the bankruptcy filings. The Trustee is continuing to investigate these policies.

⁵ In light of information received by the Trustee regarding the status and handling of the Debtors' accounts, the Trustee is not yet in a position to speak to the accuracy of the Debtors' Schedules filed on October 8, 2009, especially as it relates to the interests each entity has in various policies.

⁶ The Debtors have represented that the insured on Z06032775 died prior to the policy lapse. The Trustee is working to independently verify this information. If true, the policy is still in the two year contestability period, and the Trustee is informed that the insurance company would therefore undertake an investigation of any claim.

⁷ The grace period for Policy B05020454 purportedly ran on September 19, 2009 (prior to the Trustee's appointment) after a missed payment on July 20, 2009.

⁸ Policy 6802499 apparently was converted prior to bankruptcy to Policy No. 2974450. The insurer originally notified the Trustee on October 2, 2009 that the policy had lapsed and had no value. Only after repeated follow up inquiries did the insurer advise the Trustee, on October 9, 2009, that a significant payment on October 4, 2009 would have maintained the policy in force.

Of course, the Trustee, in consultation with his experts, is continuing to investigate whether any of the “lapsed” policies can be reinstated and whether it will be cost-effective to attempt to do so.

IN-FORCE POLICIES (according to insurance companies):

The following policies identified on the Debtors’ Schedules currently remain in force:

Interested Entity per Debtors' Schedules ⁵	Policy Number	Policy Face Amount	Insurance Co. Name	Accumulated Value ⁹	Surrender Value	Premium Date
Assets; LS; 5.1	U10033937L	\$10,000,000.00	American General	\$52,417.78		10/24/2009
5.2	JJ7002605	\$1,500,000.00	Lincoln National	\$5,982.85		11/9/2009
AO; 5.1	VP60832870	\$6,000,000.00	Pacific Life	\$151,712.00	\$515.712	11/18/2009
5.2	JP5578112	\$1,000,000.00	Lincoln National	\$9,916.98		11/27/2009
AO	U7403296	\$1,500,000.00	Metlife			12/2/2009
LS; AO; HTP	ULA341379	\$13,700,000.00	West Coast			12/4/2009
LF	JF5571385	\$2,000,000.00	Lincoln National	\$57,959.49		12/8/2009
5.2	JF5571244	\$1,000,000.00	Lincoln Financial	\$40,525.11		12/15/2009
LS; AO; HTP	JG5462406	\$2,200,000	Jefferson-Pilot	\$31,339.53		1/1/2010
AO	VF61029750	\$1,000,000.00	Pacific Life	\$44,852.19	\$42,892.78	2/14/2010
AO	VF51212390	\$1,000,000.00	Pacific Life	\$32,704.00	\$22,251.70	4/8/2010
AO	VF51212400	\$1,000,000.00	Pacific Life	\$46,594.78	\$36,581.78	4/8/2010
HTP	2722294	\$250,000.00	Lincoln Financial	\$32,854.33	\$13,303.33	7/14/2010
LS; AO	57169674	\$650,000.00	John Hancock	\$77,582.70		12/1/2009 (app.)
AO; HTP	7016282	\$1,000,000.00	Lincoln Financial (Connecticut General)	\$229,331.25		Annual
AO; HTP	7000058	\$4,000,000.00	Lincoln Financial	\$342,845.54	\$342,845.54	Annual
AO; 5.1	60134440	\$5,000,000.00	Transamerica	\$167,318.10	\$69,968.10	Monthly
AO; HTP	60134441	\$5,000,000.00	Transamerica	\$167,151.69	\$69,801.69	Monthly
AO; HTP	60134439	\$5,000,000.00	Transamerica	\$167,470.15	\$70,120.15	Monthly
LF; 5.1	60134442	\$5,000,000.00	Transamerica	\$167,151.69	\$69,801.69	Monthly
LS; AO	60059453	\$725,000.00	Transamerica	\$74,692.31	\$53,486.06	Monthly
LF; AO; HTP; 5.1	00060081812	\$21,500,000.00	Transamerica	\$596,289.35	\$136,189.35	Monthly
LF	NL2364882	\$2,000,000.00	National Life	\$195,842.27	\$155,808.94	Monthly
AO; HTP	UL001402937	\$1,000,000.00	John Hancock	\$13,531.30		Monthly
LS; AO; HTP	V1168732	\$10,000,000.00	Prudential	\$143,000 (app.)		Monthly
LS; AO	8275165	\$2,000,000.00	Mass Mutual	\$100,000 (app.)		Quarterly
AO; HTP	UL000267681	\$1,000,000.00	John Hancock	\$129,776.22		Quarterly
5.2	1618622	\$2,000,000.00	Security Life of Denver	\$118,014.74	\$14,574.74	Quarterly
LF; AO; HTP	20068584	\$5,000,000.00	Sun Life Assurance	\$274,119.54	\$122,852.04	Semi-Annual

⁹ If provided, the Accumulated Cash Value and Surrender Value are amounts that have been identified or confirmed by the relevant insurance carrier since the Trustee’s appointment in this matter. In many cases, the amounts differ substantially from amounts listed on Debtors’ Schedules.

III. POLICY ISSUES

The Trustee has interviewed and had preliminary substantive consultations with multiple potential life settlement experts in order to identify preliminary issues and potential solutions surrounding the Debtors' insurance policies. Next week, the Trustee expects to seek the Court's authority to formally retain one or more experts and for other relief directed at keeping available insurance policies in force.

Evaluation of the policies is complicated by numerous issues. For example, there are ownership questions and/or disputes with respect to numerous in-force policies. Specifically, there are investors other than the Debtor entities that have direct interests in certain policies according to insurance company records. And, for many policies, the ownership interest is held by a trust, which then in most cases assigned rights to one or more Debtors. Finally, two significant policies (Transamerica 60134441 and 60134442), are the subject of litigation to determine the rightful owner(s).

In addition, many of these policies have premium obligations coming due in the coming weeks and months. While some of these policies currently have cash value sufficient to carry the policies in force for a period of time, others will require cash payments. If not kept current, the policies could lapse. As noted above, the Debtors' estates do not have cash on hand available to make such payments, and the Trustee is in discussions with experts and others regarding the most appropriate method to obtain cash.

In addition, the type and nature of investments that investors were told they were making often did not correspond to how funds and investments were subsequently handled by the Debtor entities or others working with the Debtor entities. For example, it does not appear that the Debtors appropriately adhered to corporate formalities between and among the Debtor entities

and other related entities with respect to the transfer of funds and other assets. Likewise, there are numerous instances where the insurance companies' records regarding ownership status do not comport to the information provided to investors or the information set forth in the Schedules. Life Expectancy reports, where available, were not prepared by one of the four or five entities that are widely recognized in the market. Each of these issues present challenges.

Since his appointment, the Trustee also has had written and telephone communications with Provident Capital Indemnity ("PCI"), the entity that purportedly issued bonds that investors were apparently told would help protect their investments. These communications, and other information received by the Trustee, raise significant questions regarding the status of the bonds issued by Provident Capital Indemnity and the likelihood of recovering on such bonds in accordance with investors' underlying expectations. On October 13, 2009, following several written communications, the Trustee had a wide-ranging conference call with the principal of Provident Capital Indemnity that reinforced the significant hurdles to recovery from Provident Capital Indemnity on the bond obligations.¹⁰ At a minimum, the process of submitting and receiving responses to claims from Provident Capital will take time. The Trustee's communications with Provident Capital Indemnity representatives and others on these issues are ongoing.

The Trustee expects to raise various issues and requests with the Court in the coming weeks in an attempt to salvage the value remaining in the policies, for the ultimate benefit of investors. There will be public disclosure and notice before any proposed sale of any policy interests held by the debtors.

¹⁰ The Trustee has also talked to an SEC Receiver in an unrelated life settlement case who conducted an investigation into PCI.

IV. PURSUIT OF ASSETS

The insurance policies are not necessarily the only assets of the Debtors' estates, because the estates may also have claims against various individuals and entities in connection with the sale, distribution, and handling of the investments and Debtors' business. The Trustee has begun a review of the actions of individuals and entities that solicited or received funds in connection with the Debtors' business activities. As noted in prior filings with the Court, the Trustee has also had communications and received information from the Texas State Securities Board, and has worked to identify individuals and entities that received and/or handled investor money in connection with the Debtors' business. Information received from the Texas Securities Board has been helpful in putting the issues and scope of potential inquiries in context, and the Trustee expects to continue to work with the Texas Securities Board and other authorities, as appropriate. Pursuit of claims against individuals and entities is a time-consuming and resource intensive endeavor, however, and therefore the Trustee intends to prioritize activities in an effort to maximize the potential benefits to the Debtors' estates. The Trustee intends to use his authority under the bankruptcy process to pursue appropriate claims, and has already begun the information gathering process.

V. TRANSPARENCY AND COMMUNICATION

The Trustee continues to seek and obtain information regarding the status of the insurance policies, and other potential assets and claims. The Trustee did not want to delay disclosure of this information, however, even though he expects to continue to receive additional information.

The Trustee will continue to provide information to interested parties through the website www.lifefundstrustee.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: October 14, 2009

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 October 14, 2009 he caused a copy of the *Trustee's Initial Status Report* to be served on the parties listed below via email. Service was also made via the Court's ECF System to the parties registered to receive electronic service.

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