

(Trustee's First Status Report)

Deborah C. Menotte

Federal Bankruptcy Trustee

United States Bankruptcy Court
Southern District of Florida

Post Office Box 211087
West Palm Beach, Florida

33421

May 1, 2013

Re: CLSF III/IV, INC., Debtor (and all related cases)
Case No. 12-30081-BKC-EPK, et al

Dear Investors, Creditors and other interested parties:

I am the Chapter 7 Bankruptcy Trustee for CLSF III/IV, Inc. and related cases, appointed by the Office of the United States Trustee ("the UST") for the United States Bankruptcy Court for the Southern District of Florida ("Bankruptcy Court" or "Court"), which appointment was approved by Order of the Bankruptcy Court on March 19, 2013 after a contested election. (See Doc#320 under "Pleadings - Court Filings"). As Trustee, I am charged with the responsibility for, among other things, taking control of the Debtor entities' assets and records in order to investigate the business affairs and to determine the best course of action to maximize the value of estate assets for creditors.

This status letter is posted to advise you of the circumstances leading to my appointment as trustee and to provide you with information on the case filings and significant actions undertaken thus far.

Chronology

August, 2012: Involuntary Bankruptcy Petition was filed on August 22, 2012 against CLSF III/IV, Inc. The petitioning creditors filed an Emergency Motion for Appointment of Interim

Trustee which motion was set for hearing and heard before the Bankruptcy Court, Honorable Erik P. Kimball, Bankruptcy Judge, on August 24, 2012. The motion was granted (See Doc#13 under "Pleadings – Court Filings"). On August 28, 2012 the UST appointed me as Interim Trustee in the Chapter 7 case (See Doc#17 under "Pleadings – Court Filings").

September, 2012: Deborah Peck's deposition was scheduled and taken, although not concluded. I accompanied Ms. Peck to her residence and copied records and emails from her computer relating to the Debtor's affairs.

October, 2012: Debtor's counsel filed a Motion to Dismiss the Involuntary Petition, but before the matter was set for hearing, after significant discussions and negotiations, an agreement was reached whereby Debtor's Counsel agreed to the entry of an Order for Relief. The order was entered on October 16, 2012 (See Doc#77 under "Pleadings – Court Filings"). As Trustee, I retained the services of the law firm of Berger Singerman LLP, as my General Counsel. On October 16, 2012 the \$3,000,000.00 life insurance policy in CLSF VIII, Inc. matured.

Litai Assets LLC located in Pompano Beach, Florida is servicing the existing insurance policies pursuant to Court Order, effective October 25, 2012 (See Doc#277 under "Pleadings – Court Filings").

November, 2012: After the entry of the Order for Relief, the UST appointed me as Interim Trustee on November 1, 2012 (See Doc#86 "Pleadings – Court Filings"). Further negotiations took place and Ms. Peck agreed to file voluntary bankruptcy petitions for several other related entities (See Related Cases). I was appointed Interim Trustee in each of these cases by the UST and Section 341 Creditor Meetings were scheduled and set for December 11, 2012.

An emergency motion was filed in the CLSF VIII, Inc. case seeking turnover of the \$3,000,000.00 in insurance proceeds from the insurance company, MetLife.

December, 2012: On December 4, 2012 the Trustee received from MetLife the insurance proceeds on the CLSF VIII, Inc. policy and those funds are on deposit in trust with the Trustee. A motion was also filed seeking turnover of all monies remaining on deposit in the Peck Trust Account(s). The Trustee received from Wells Fargo the sum of \$198,660.10.

After Motion by petitioning creditors and hearing, an Order was entered jointly administering all of the Debtor and Related Debtor cases under the first Debtor case, CLSF III/IV, Inc., Case No. 12-30081-EPK. (See Doc#120 under "Pleadings – Court Filings"). The Section 341 Meetings of Creditors in all cases were held on December 11, 2012, and the petitioning creditors and others requested an election of a different person to act as permanent trustee in all cases. The UST conducted an election in each case, and all elections were contested. Several parties cast votes in each election.

January, 2013: Trustee retained the services of Kapila & Company as financial advisor and accountant for the estate. Numerous extensions of time for filing Federal Income Tax Returns have been prepared and submitted.

Numerous Reports of Disputed Election were prepared and filed by the UST, which set forth the details pertaining to each election request, voting, claim filings, proxies and objections. The petitioning creditors filed a motion seeking an expedited hearing for the resolution of the contested Trustee elections. A preliminary hearing was set for January 31, 2013 and at this hearing, the Court set March 4, 2013 as a date for legal argument and March 18 – 19, 2013 for an evidentiary hearing on the disputed request for the election of a permanent trustee.

February, 2013: Numerous pleadings were filed by both the Trustee, petitioning creditors and several investors, setting forth discovery to be relied upon with respect to the March hearings, including Memorandum of Law in support of the parties respective positions.

An Adversary Complaint was filed against Life Capital Group II, LLC seeking to recover what the Trustee believes was the fraudulent transfer of a life insurance policy. The parties are scheduled to attend mediation in early May.

March, 2013: The Court heard argument on March 4, 2013 and began the scheduled evidentiary hearing on March 18, 2013 on the contested Trustee election. The Court heard arguments from counsel for the Trustee, petitioning creditors and counsel for several other investors. The Court ruled in open court that Deborah C. Menotte should remain as permanent Trustee in all cases and entered its Order on March 19, 2013 (See Doc#320).

The Trustee, with her counsel and financial advisor, met with representatives of MQIC, SPQI, Schutte and their counsel on March 19, 2013, in an effort to discuss case objectives including substantive consolidation. Trustee's financial advisors have been combing through numerous financial records of the Debtor entities to help provide information to the Trustee to allow her to make a decision on whether all of these Debtor entities should be substantively consolidated. If substantively consolidated, all assets and creditors will be combined into one case. There are many factors which the Trustee must consider and review before making a decision in this regard.

IMPORTANT INFORMATION:

A motion has been filed by the petitioning creditors seeking substantive consolidation. (See Doc#196 under "Pleadings – Court Filings"). The matter will be set for a preliminary hearing on May 16, 2013, and is expected to be set for a final evidentiary hearing the week of July 8, 2013. The motion will be amended prior to the preliminary hearing.

You should read the motion, and the amended motion when filed, as these motions may directly impact your interest in these cases. If you have any response or objection to said motion – you should submit your concerns to the Trustee by email or mail and file your response with the Court at the following address: U. S. Bankruptcy Court Clerk of Court,

1515 N. Flagler Drive, Flagler Waterview Building, #800, West Palm Beach, FL 33401 and reference the case name of CLSF III/IV, Inc., United States Bankruptcy Court in and for the Southern District of Florida, Case No. 12-30081-BKC-ECF on your document.

General Ongoing Case Activities:

Although this is not an exhaustive list of activities ongoing in this case, the Trustee, after interviewing several parties to employ as a consultant to review existing policies for an opinion as to valuation and sale, will be seeking to employ such consultant. Premium payments funded by MQIC are being directed to Litai Assets who has been making the insurance premium payments. All insurance notices are mailed directly to the Trustee, who then forwards all notices to Litai. We have met with and are seeking to employ an attorney in New York who has experience with insurance litigation and policy reinstatements. We are seeking his opinion as to the feasibility and related issues of the possibility of reinstating several lapsed policies. We have had numerous phone calls with both the PCI Receiver and his counsel regarding a distribution from the PCI case to investors. We have issued numerous subpoenas to retrieve information on many transactions involving these debtor entities and the life insurance policies. We have also filed several actions to recover policies sold shortly before the filing of the Debtor and Related Debtor cases, which are listed among the adversary proceedings listed above.

Sincerely,

/s/

Deborah C. Menotte, as Trustee