

at fire-sale rates that would result in an immediate \$80,000,000 loss without the consent of the affected purchasers. In fact, on numerous occasions, Defendants were promised that no wholesale liquidation of the policies would be made. If this promise had not been made, Defendants would have never agreed to the consent order establishing the conservatorship.

With that in mind, Defendants hereby submit that the following will realize the most funds for the purchasers. The Defendants agree to guarantee funding for:

1. Maintaining, at all times, a six (6) month reserve for the payment of expenses for operation of a conservatorship;
2. Maintaining, at all times, a six (6) month reserve for the payment of premium shortfalls; and
3. Reestablishment of an adequate system for the billing of purchasers for premiums and the establishment of proper bookkeeping for the collections thereof.

In order to encourage premium payments, the premium shortfalls would be considered a loan against the policy at a rate of 9%, but only against the portion of the policy due to the purchaser who failed to make the premium payment. Thus, at maturity, if a purchaser paid all of the premiums that were due, that purchaser would be entitled to their full pro-rata share of the maturity proceeds. The repayment of the loan would only be paid from the pro-rata share of those purchasers who did not pay their share of premiums. The "loan proceeds" would be added to the conservator reserve fund to pay future premium shortfalls and expenses if needed.

The initial funding for the premium shortfalls and the conservatorship expenses would be from the assets currently in the possession of the Conservator. These assets total over \$3,500,000, of which over \$1,000,000 is currently liquid. Defendants would guarantee to maintain the reserve

fund at the \$1,000,000 level in liquid assets at all times as determined by an independent third party. At the end of each year, as policies mature and premium shortfalls are in lesser amounts, an audit would determine the amounts that would be required to be maintained for six months premium shortfalls and conservatorship expenses. The minimum amount would then be adjusted, after approval by the Court, to such amount.

This plan, to be successful, requires the use of personnel knowledgeable and experienced in the viatical provider business. Defendants have been servicing these policies for up to six (6) years and had been doing the billings for premiums for over a year. This system was in place and fully functional prior to the conservatorship. Defendants realization under this premium billings system was about 70-80%. Defendants realized this high rate without outside threats or pressure. The purchasers clearly complied and are interested in such a system, but were not given this option as part of these proceedings. Instead, the conservator has never truly considered Defendants' model, and, instead, has focused on the wholesale liquidation to sell the policies, which will result in over a \$80,000,000 loss to the purchasers. As a result, the Conservator has indicated that premium collections are running about 50 - 60%. Defendants believe this is, in part, the result of the lack of experience of the Conservator in properly billing for premiums due and not continuing the billing procedures that were in place at the time the conservator took over. The conservator has not sent re-billings or otherwise followed up when a purchaser has not paid. These factors, and the mere threat of a sale of the portfolio, has caused the purchasers to not pay at the higher rate realized under the prior billing system. Accordingly, Defendants would suggest that the prior staff responsible for billings (who are ready, willing and able), perform the billing functions under the prior system.

Oversight of this function, and the reserve fund, would be by D. R. Payne & Associates or someone else skilled in accounting and familiar with serving viatical policies.

Defendants would also be willing, if the Court desired, to submit an offer to the purchasers to sell their specific policies on a policy by policy basis. The Court would have to determine if all, or a lesser percentage, of the purchasers in a specific policy would be needed to sell a particular policy. But, this would allow those that truly want to sell their policy an attempt to do so and would allow for proper evaluation of the value of that specific policy. Additionally, this would cure title issues that the current offers do not address. More importantly, it would allow those that did not want to sell, the option to continue to pay premiums and to keep the policy in force. Defendants would have an evaluation of the viator of each specific policy that is to be sold. The evaluation would be done by an independent company experienced in the viatical business, such as those named in the Life Alliance Option #2 or other experienced and qualified company approved by the Court. That information would then be provided to anyone that wanted to bid on that policy. The bids would then be relayed to the purchasers for a decision on whether to sell the policy. Even for those wishing to liquidate, Defendants submit that this plan would allow purchasers to receive much more than the current offers before the Court.

As security for the plan, Defendants would guarantee the funding thereof, as outlined above. Defendants have established their ability to fund these obligations. As the Court is well aware, Defendants have already infused, in the last nine months, well over \$1,000,000 to pay expenses, premiums, and premium shortfalls. This is in addition to the \$1,500,000 to \$3,000,000 that are

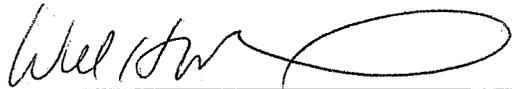
currently in the hands of the Conservator (excluding maturities and premium collections¹), which ABC provided at the beginning of the Conservatorship to be used for this specific purpose. Currently, the conservator has over \$1,000,000 in liquid assets and additional amounts will or can be realized from the policies as they mature. The conservator has already received and spent over \$500,000 of these realizable funds for his expenses. Unfortunately, none have been used to pay premiums. Those funds would also be added to the reserve fund and be available for future premium shortfalls and expenses if needed. The required reserve would serve as a backup and provide the Court with ample time to continue to fund or sell the policies in the unlikely event Defendants fail to maintain the minimum funding levels, particularly because of the reduced funding requirements as the policies mature.

Defendants submit that the plan outlined herein is the only plan that will allow the purchasers to realize the value of the policy as provided for in their agreements, and that is legal and consistent with not only the consent order, but with the intent of the conservatorship. All other plans result in, at the least, an immediate \$80,000,000 loss to purchasers. Moreover, these other plans are not consistent with the consent order or the laws of many states, and will undoubtedly be challenged.

CONCLUSION

For the reasons set forth above, the Conservator's Motion should be denied and Defendants' plan as outlined herein should be adopted and entered by the Court.

¹Notwithstanding assurances over two months ago that the information would be provided, the conservator has still not provided D. R. Payne & Associates with all information required to perform an accounting with respect to the premiums paid by purchasers. As the conservator is well aware, the accounting can not be performed without that information.



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CERTIFICATE OF SERVICE

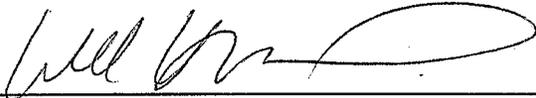
The undersigned hereby certifies that on this 23rd day of December, 2002, a true and correct copy of the foregoing was mailed by first class U.S. Mail, postage prepaid thereon, to the following:

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