

Notice to Investors from the Examiner
August 17, 2004

Investors:

Many, perhaps all of you, have received a letter, along with a request for funds and power of attorney form, from Ernest Bustos on behalf of an entity known as the IP Fund.

On Friday, August 13, I took sworn testimony of Mr. Bustos. At first he refused to answer any questions regarding the IP Fund. After the Judge was consulted, Mr. Bustos answered my questions.

As regards the letter's assertion that the Receiver proposes to distribute \$86 million, he could not point me to any statement or document that contains such a statement. He indicated that the number came from a calculation that he did but he was unable to recreate that calculation. The sheet of paper marked as an exhibit for him to perform his calculation remains blank.

Ultimately he said that the \$86 million figure was an assumption on his part. Similarly, I asked about his assertion that the Receiver planned to expend \$44 million in administrative and legal fees. Again he could not refer to any statement or document which would support such an assertion and again characterized this as an assumption.

When asked about his expert's opinion regarding the amount of money necessary to pay premiums, Mr. Bustos said that was based on his being told that the individual insureds were all over 80 years old. (They are not; approximately 30% are over 80.)

The letter further mentions that he has a qualified administrator that has a bank which will lend sufficient funds to pay premiums without "giving away the farm." He identified the "qualified administrator" as a former officer of LifeTime who he says supplied him with the investor list for his mailing to you. He was unable to identify the bank referred to and agreed that no loan terms have been negotiated. This former LifeTime officer was also identified as the expert referred to in other parts of the letter.

Mr. Bustos has not examined the portfolio from an actuarial standpoint and consequently does not know anything about the life expectancies of the insureds.

He did start the Payphone Owners Legal Fund in 2002 regarding the failure of other investments that he sold. That entity has filed a lawsuit but has not returned any money to the investors. He is also the subject of a disgorgement action by the Receiver in the Payphone litigation. This litigation seeks recovery of commissions received by Mr. Bustos as a result of the placement by him of investors' money with the Payphone entities now in receivership. He is currently the object of an Internal Revenue Service enforcement action. He admitted to having been convicted of engaging in organized criminal activities in the late 1970's although he believes that that has been dismissed and his record has been expunged.

If successful in his bid for a “hostile takeover,” Mr. Bustos contemplates the former LifeTime officer mentioned above will act as administrator “if he has a good business plan.”

He created the power of attorney that he forwarded to you by modifying an earlier one prepared by his attorney in another matter. He agreed that his discretion was essentially unlimited when dealing with your LifeTime claim pursuant to that power and stated that the “very limited” language referred to not having power over the balance of your estate, just the LifeTime claims.

If Mr. Bustos is unsuccessful in unseating the Receiver, he will refund whatever is left of your contributions to the IP Fund.

He has not evaluated the Accelerated Benefits portfolio to which his letter refers and has no opinion as to whether the result in that case was appropriate or not.

On Saturday, August 14, I took sworn testimony of the Receiver, H. Thomas Moran. He states that he has never made or authorized anyone to make any projection as to the amounts investors may receive as the portfolio evaluation that the Court recently authorized is as yet incomplete. Likewise he has not projected administrative and legal fees in the amount of \$44 million, stating it would not cost that much to operate for 20 years.

Referring to page three of the Notice to Investors regarding the motion to pool, Mr. Moran indicated that the paragraph dealing with pro rata distribution and the example of a \$100 thousand investment was an illustration that if you invested that amount you would have a .0010331 interest in the pool of money to be distributed, whatever size the pool may be. He did not intend to give the impression that there was any projection as to amounts that become available to distribute.

Mr. Moran was conservator for Accelerated Benefits Corporation. It is true that the investors in that case will receive approximately 55 cents return out of each dollar invested. He attributed that to the condition of the portfolio. He states that the actual life expectancies of the ABC portfolio ranged from 4 to 20 years longer than represented at the time of sale and consequently the portfolio was of much less value.

He also stated that, in his opinion, the life expectancies in the LifeTime portfolio were very understated.

He states there have been several maturities in the LifeTime portfolio. One viator insured under two Prudential policies died just before Mr. Moran’s appointment, and that notice of the viator’s death and the funds were received thereafter. Another small maturity occurred after his appointment. He advised the Court of these maturities some months ago. As he has now been named successor Trustee, he will seek direction from the Court as to what becomes of those funds. He does not believe he has the legal authority to disburse those funds absent an order of the Court.

I hope this information is of value to you.

Andrew Storar, Examiner