

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 04-60573-CIV-MORENO/SIMONTON

SECURITIES AND EXCHANGE
COMMISSION

Plaintiff,

v.

MUTUAL BENEFITS CORP.
JOEL STEINGER a/k/a JOEL
STEINER, LESLIE STEINGER a/k/a
LESLIE STEINER, PETER
LOMBARDI and STEVEN STEINER,

Defendants,

VIATICAL BENEFACTORS, LLC,
VIATICAL SERVICES, INC.
KENSINGTON MANAGEMENT, INC.
RAINY CONSULTING CORP.,
TWIN GROVES INVESTMENTS, INC.,
P.J.L. CONSULTING, INC., SKS
CONSULTING, INC. and CAMDEN
CONSULTING, INC.,

Relief Defendants,

TWENTY FIFTH REPORT OF RECEIVER

Roberto Martinez, court-appointed receiver (the "Receiver") of Mutual Benefits Corp., Viatical Benefactors, LLC, Viatical Services, Inc. ("VSI"), and Anthony Livoti, Jr. and Anthony Livoti, Jr. P.A. solely in their capacity as trustee (collectively the "Receivership Entities") files this Twenty Fifth Report of Receiver to advise investors and clarify how death benefits will be distributed in certain unusual situations that have arisen.

The issue that has arisen is how the Receiver should properly determine which investors to pay death benefits to when an insured on a "Keep Policy" happens to die in the middle of a billing cycle when some investors have paid their share of the premiums, some have not, and some have sent in payments to cover part or all of the premium shortfall as a result of their fellow investors' non-payment. The Court's Order on Disposition of Policies and Proceeds (the "Disposition Order") and subsequent orders, not surprisingly, do not squarely address such a specific issue, which has only arisen as the disposition process has played itself out. There have been inquiries by investors and their counsel on this issue though, and so the Receiver has set out his approach in detail in this Report.

In order to understand the issue, it is first necessary to review the billing process used by the Receiver for the "Keep Policies."

A. The Initial Premium Billing Period for Keep Policies.

The so-called Keep Policies are the policies where a majority of the investors voted during the disposition process not to sell the policy and instead to maintain it by assuming responsibility for the premium payments themselves. The Receiver had to establish a billing process from scratch for such policies to be implemented for the first time by Viatical Services, Inc. ("VSI"). During the first round of billing for premiums on the Keep Policies (the "initial premium billing period"), the policy premiums could not all be invoiced by VSI and paid for by the investors on a billing cycle that coincided exactly with the policies' anniversary dates with the insurance companies. This happened because the premium billing system was just being created and, in order to conserve cash and reduce the possibility of lapses, VSI focused on getting the bills out for

policies for which the premiums were much higher as a first step. VSI then caught up with other policies with lower premiums.

As a result, in some cases, the Receiver continued to pay premiums even on Keep Policies to protect against lapses until the premium billing process caught up. Under the terms of the Disposition Order, these premium payments are now the ultimate responsibility of the investors on the Keep Policies, but were advanced on an interim basis by the Receiver simply to protect against lapses. On such policies, the amount reflected on the premium invoices subsequently sent out by VSI to the investors includes both the premiums advanced by the Receiver (for which the Receivership will be reimbursed) as well as the future premium now due to the insurance company. By sending in their share of the premium payment, the investor accepts the premium obligation and secures their interest in the policy for the dates of coverage.

Billing cycles after this initial premium billing cycle will for the most part be "caught up" to the cycles used by the insurance companies and will not require any reimbursements to the Receiver. Until the initial premium billing cycle is completely over for all of the Keep Policies, it is unknown whether the investors will ultimately accept the full premium obligation for a policy. As a result, the investors' final interest in a policy remains uncertain until the end of the billing cycle.

B. How the Receiver Has Been Collecting Premium Payments (and "Shortfall Premium" Payments) from Investors on Keep Policies.

During the initial premium billing cycle, investors were sent a "Notice of Premium Due" and given 45 days to send in their share of the policy's premium obligation. At the end of this 45-day period, the premium shortfall (if any) is calculated. If there is no premium shortfall, then every investor's interest in the policy will remain

unchanged and, if the policy matures after this point, the question of to whom the death benefits get paid and in what amount is straightforward. If there is a premium shortfall, however, one of the options that the Receiver has – and has been utilizing in the initial premium billing cycle – is to send the remaining investors on the policy a “Notice of Premium Shortfall” (a copy of which is attached as Exhibit A). The “Notice of Premium Shortfall” gives the investors three options (Option A, B or C).

Under “Option A,” the investor can choose to pay their pro rata share of the premium shortfall amount based on their current percentage of interest in the policy. If they do so, they will also see a resulting increase in their percentage interest in the policy. Under “Option B,” the investor can choose to pay an even greater share of the premium shortfall amount up to the full amount of the premium shortfall. If they do so, again, they will also see a resulting increase in their percentage interest in the policy (depending on whether other investors also pay additional amounts and how much). Under “Option C,” the investor can choose to make no additional payment, in which case their percentage interest in the policy will remain unchanged. Under any of the options, unless an investor pays the full amount of the premium shortfall, the investors still run the risk that not enough investors will agree to pay additional premiums in order to cover the premium shortfall.

The investors receiving the “Notice of Premium Shortfall” are given an additional 45 days to pick one of these three options and to send in payment in the event they pick either Option A or Option B. At the end of this additional 45-day period (the “premium shortfall billing period”), the investors’ interests in the policies can be re-determined to reflect the additional interests of the investors who made additional premium payments.

(If, on the other hand, there is still a premium shortfall, the Receiver may take other steps to try to protect the policy.)

C. **How the Receiver Has Been Handling the Changing Interests of Investors on the Keep Policies.**

At the outset of the premium billing process, each policy "case file" contains a list of the policy's "beneficiaries of record" (the "Case File List"). This Case File List reflects all of the investors on the policy and the percentage interest held by each investor. The list remains the same throughout the first 45 days of the premium billing period. When the first 45-day billing period is over, VSI is able to determine who has paid and who has not paid their share of the premiums. The interests held by those investors who failed to pay their share of the policy premium are forfeited; the interests held by those investors who did pay their share are maintained; and, the Case File List is updated to reflect this.

After the "Notices of Premium Shortfall" are sent out and the second 45-day period has passed, the Case File List is again updated to reflect any changes in the ownership of the interests based on investors who chose to pay for the premium shortfall. The Case File List is not updated until the second 45-day period has come and gone, and so does not reflect the shortfall payments as they are received. It is not possible to determine everyone who will agree to pay additional premiums (or how much) until the 45-day period is over. (And, it is also possible in the final tally that the investors will have agreed to pay more than the total premium shortfall amount, in which case some funds need to be returned to the investors.)

D. How the Receiver Will Pay Death Benefits When a Policy Happens to Mature During the Middle of the Initial Premium Billing Cycle.

There are a limited number of policies where the insured has died during the middle of this initial billing cycle. The question has thus arisen as to which investors should be paid the death benefits, and in what amount, when the billing cycles are not completed – and the investor's percentage of interest is not finally determined.

The Receiver's policy will be to pay the investors who are reflected on the current Case File List as of the date of death of the insured. If a policy matures before the first 45-day billing period is over, the initial Case File List will be used to determine which investors to pay and what their percentage interests are in the death benefit. In such a case, some investors may have already sent in their share of the premiums due, others may have been planning to send in their share, and still others may have decided not to send in their share. However, because the policy matured before the end of the 45-day period, it is impossible to tell everyone who would have and who would not have sent in their shares. As a result, the Case File List in effect at the start of the billing process is the best practical way to determine which investors should be paid a share of the death benefit and in what amount.

If a policy matures after the first 45-day billing period is over, but while the additional 45-day day premium shortfall billing period is underway, the same sort of issues arise. In such a case, some investors may have already sent in money to cover part or all of the premium shortfall, others may have been planning to send in a share, and still others may have decided not to send in any additional money. However, because the policy matured before the end of the second 45-day period, it is impossible to tell everyone who would have and who would not have sent in additional money. As a result,

the Case File List that was updated after the first 45-day billing period was completed and was in effect at the start of the additional 45-day billing process is the best practical way to determine which investors should be paid and in what amount.

There are different ways that this issue could be handled. For example, even though the second 45-day period was not over when the policy matured, VSI could try to make adjustments to the Case File List as premium payments are received, or could wait until the end of the 45-day period to determine who eventually sent in additional premium payments. However, the Receiver believes that this would lead to inequities and other problems. First, it seems to run against the purpose and spirit of the disposition process, which is to preserve the value of the greatest number of policies for the greatest number of investors possible, not to provide investors with opportunities to increase their investments in viatical settlements. Second, it is not necessarily fair to investors who are overseas or who do not receive their "Notice of Premium Shortfall" as quickly as other investors. For foreign investors, it can also take longer to send in a payment (both for geographical and banking reasons). Third, it can (and apparently has in at least one situation) led to investors rushing to make additional premium payments when they have learned of an insured's death by their own means (e.g., by obituaries or on the Internet). Fourth, it can lead to situations where some investors on a policy get windfalls, while the investors who have had to forfeit their interests lose their entire investment.

This still leaves the question about what happens with the death benefits on the "forfeited interests." In other words, if a policy matures during the second 45-day billing period, some investors will have already forfeited their interests, but the insurance company will still be paying out a death benefit that includes those interests. The advanced premiums for the forfeited interests (during the initial premium billing cycle

only) were paid for by the Receiver. So, the Receivership has in effect preserved those forfeited interests in the Keep Policies. Accordingly, the Receiver intends to use the death benefits paid out on the "forfeited interests" for distribution to the investors more generally. It is important to understand that these death benefits are not going to "the Receiver," but to "the Receivership" to be used for distribution to all of the investors and creditors of the Receivership. It seems only fair that, because it was general Receivership funds that were used to keep these "forfeited interests" in force, all of the investors (and not just particular investors on the particular policy that matured) should receive the benefit of the funds received.

E. The Payment of Death Benefits During Future Billing Cycles.

This issue will only apply to the limited number of policies where maturities have happened to occur in the middle of the initial premium billing cycle. Once the billing cycles have "caught up" with the policy anniversary dates and policies become fully funded, either by the existing investors or through the auction of unfunded interests or reduction of the policy's face amount, a defined period of coverage will have been established. As a result, the Receiver will no longer need to advance premiums to protect policies, and there should be no "unfunded interests" in policies. As a result, it is anticipated that the investors' exact percentage of interest in policies will be known with certainty throughout future premium and shortfall premium billing cycles. Consequently, if a maturity occurs during any phase of the billing cycle, any applicable premiums

collected during the premium and shortfall billing cycles would be refunded to investors with interest along with their pro-rata share of the death benefit proceeds.

DATED: DECEMBER 3, 2007

Respectfully submitted,

s/ROBERTO MARTINEZ
ROBERTO MARTINEZ
RECEIVER

s/CURTIS B. MINER - Fla. Bar No. 885681
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Counsel for Receiver Roberto Martinez

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 3rd day of December, 2007, I electronically filed the foregoing document with the Clerk of the Court using CM/ECF. I also certify that the foregoing document is being served this day on all counsel of record or pro se parties identified on the attached Service List in the manner specified, either via transmission of Notices of Electronic Filing generated by CM/ECF or in some other authorized manner for those counsel of parties who are not authorized to receive electronically Notices of Electronic Filing.

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EXHIBIT A

Viatical Services, Inc.
 43 South Pompano Parkway, PMB #101
 Pompano Beach, FL 33069

General Policy Information

MBC CF / AP Number: 99-0009999
 Investor Number: 31-0011111
 Insurance Company: Prudential Life Ins. Co.
 Policy Number: 987654321
 Plan of Insurance: Universal Life
 Current Death Benefit: \$100,000.00
 Current Number of Investors: 4
 Current Percentage of Interest: 8.5000%

Billing Information Enclosed

[REDACTED]
 [REDACTED]
 [REDACTED]

Premium Shortfall Options (Please Read Important Information Section Below)	Remittance Amount	Increased Percentage of Interest	Resulting Percentage of Interest
A) Pro-Rata Premium Shortfall (for period June 30, 2006 to Dec. 31, 2007)	\$ 2,152.15 *	2.5784%	11.0784%
B) Total Premium Shortfall (for period June 30, 2006 to Dec. 31, 2007)	6,857.19 *	0.7367%	9.2367%
C) No Additional Payment	0.00	0.0000%	8.5000%

Important Information (Please Read Below To Understand Your Options Regarding This Notice)

One or more Investor(s) on this policy has failed to remit their initial pro-rata share of premium due. Accordingly, Investors who remitted their initial pro-rata share of premium due are receiving this *Notice of Premium Shortfall*. Investors now have three "Options" as indicated above. Following is an explanation of "Options" A, B and C: Any payment remitted pursuant to this Notice is due on the Payment Due Date indicated on the payment coupon below.

- A) *Option A* represents a Pro-Rata Reallocation of the Total Premium Shortfall among Investors who remitted their initial pro-rata premium due. Investors who choose *Option A* must remit an amount equal to the Pro-Rata Premium Shortfall amount indicated above. Remittance of this amount will result in an increase in your *Current Percentage of Interest* in the *Current Death Benefit* from that indicated in the *General Policy Information* section above to 9.2367%. By choosing *Option A*, Investors assume certain risks if other Investors do not remit sufficient premium to cover the Total Premium Shortfall amount, including possible forfeiture of this payment, and their total investment.
- B) *Option B* represents the Total Premium Shortfall resulting from Investors who failed to remit their initial pro-rata share of premium due. Remittance of this amount will guarantee sufficient premium collection to cover the period indicated above. Investors who choose *Option B* must remit at least the Pro-Rata Premium Shortfall amount pursuant to *Option A*, and ANY ADDITIONAL AMOUNT up to the Total Premium Shortfall amount. Investors who remit an amount pursuant to *Option B* will first be allocated their pro-rata share based on *Option A*, and any remaining available allocation will be made on a first come basis. The resulting increase in your *Current Percentage of Interest* in the *Current Death Benefit* in the *General Policy Information* section will be reflected on future *Notices*. Any premium amount remitted pursuant to *Option B* that is not allocable will be refunded. By choosing *Option B*, and not remitting the Total Premium Shortfall, Investors assume certain risks if other Investors do not remit sufficient premium to cover the Total Premium Shortfall amount, including possible forfeiture of this payment, and their total investment.
- C) *Option C* represents no additional remittance pursuant to this *Notice* and no response to this *Notice* is required. Your *Current Percentage of Interest* in the *Current Death Benefit* indicated above will remain unchanged. By choosing *Option C*, Investors assume certain risks if other Investors do not remit sufficient premium to cover the Total Premium Shortfall amount, including possible forfeiture of their total investment.

SHOULD THE TOTAL PREMIUM SHORTFALL REQUIRED TO KEEP THIS POLICY IN-FORCE NOT BE COLLECTED, AN ATTEMPT WILL BE MADE TO REDUCE THE POLICY DEATH BENEFIT TO PROTECT THE INTERESTS OF THOSE INVESTORS WHO MADE PAYMENT TO THE RECEIVER. IF A REDUCTION OF THE DEATH BENEFIT OR OTHER NON-FORFEITURE OPTIONS ARE NOT AVAILABLE, APPLICABLE PREMIUM FUNDS COLLECTED WILL BE RETURNED TO INVESTORS AND THE POLICY WILL BE SOLD OR SURRENDERED.

* If your bank fails to honor your check when presented for payment, your selection will default to *Option C*.

KEEP THIS PORTION FOR YOUR RECORDS Prepared on: October 1, 2006

VS I FOR PROPER CREDITING TO YOUR ACCOUNT THIS PORTION MUST BE RETURNED WITH YOUR PAYMENT

Reference Number 900000

Make checks payable in U.S. \$ to "VS I Receiver's Premium Account". Please include your Reference Number on your check. No bank wires or other forms of payment will be accepted.

MBC CF/AP Number 99-0009999
 Investor Number 31-0011111
 Insurance Company Prudential Life Ins. Co.
 Policy Number 987654321
 Payment Due Date December 29, 2006

Viatical Services, Inc.
 43 South Pompano Parkway, PMB #101
 Pompano Beach, FL 33069

Please Check Your Option Selection Below:

<input type="checkbox"/> <i>Option A</i>	\$ 2,152.15
<input type="checkbox"/> <i>Option B</i>	\$

(for *Option B*, please enter amount remitted above)

Check here if there is an address change and complete the reverse side of this Payment Coupon

Please provide your:

E-Mail Address: _____ Telephone Number: _____