

## **Background:**

On July 28, 2010, an online blog entitled “Citron Research” issued a negative report about Life Partners. While the blog purports to provide independent research, the author of this report, Mr. Andrew Left, is well known as a purveyor of exclusively negative information, presumably in order to successfully short trade the stocks on which he reports. Life Partners has previously weathered his baseless attacks. Unlike well-staffed, legitimate research firms, Mr. Left’s goal is not to provide unbiased investment research. His goal is to identify companies whose stock can be shorted and to create sufficient short-term market panic in order to profit from panic-induced selling. You and your clients should understand this context as you read the article.

## **Questions/Answers:**

**Q. The primary premise of this article is that LPI’s business is severely threatened by recently issued reports by the Securities and Exchange Commission (“SEC”) and the Government Accountability Office (“GAO”). Is LPHI under attack from state and federal regulators?**

The SEC Task Force report contains recommendations to the SEC, most of which must be implemented by petitioning Congress to change existing federal laws. So, although there could be changes in the laws eventually, the report has no immediate effect on LPI’s business model.

Even if life settlements (irrespective of their transaction structure) are eventually included in the definition of a security, exemptions from securities registrations would still be available and LPI already utilizes such exemptions in many states which define life settlements as securities (e.g. the accredited investor exemption). Many members of our licensee network are already securities licensed and it may be that many more broker/dealers will want to work with LPI to offer life settlements to their clients once the regulatory environment has become more stabilized. Whatever changes may be required by future laws or regulations, we have the capital and the existing infrastructure to make any necessary adjustments to our business model in order to fully comply with applicable federal law.

The report also recommends that the Commission monitor for the development of a life settlement securitization market. Derivatives such as securitizations are already covered by federal securities law and, after passage of the latest financial reform bill, should be more closely scrutinized by the SEC. LPI is not involved and does not expect to be involved in any securitizations, so this recommendation should have no effect on our business.

As is also noted in the report, even with the decision in *SEC v. LPI*, the SEC has successfully prosecuted fraudulent schemes which were structured as a security, so it is difficult to argue that criminals are being “given a pass.”

The GAO report appears to be far more objective than the SEC Report and clearly demonstrates that life settlements are a substantial value to insurance consumers. Insurance consumers want access to a secondary market, and regulation should not impede that access.

The GAO report also identifies the advantages of consistent consumer and investor protection and consistent financial oversight for similar institutions and products and recognizes that these two elements have not been fully achieved under the current regulatory structure of the life

settlement market. LPI has testified before Congress in favor of uniform laws. Stability in these two areas will provide an environment in which well established companies such as LPI will grow and flourish, but will likely make growth more difficult for small or start-up companies due to the expense of compliance.

Mr. Left cites a press release issued by Colorado regulators to support a “doom and gloom” conclusion for the company. However, had Mr. Left thoroughly researched and recounted the settlement, he would have reported that this action has been resolved, that many Colorado investors were pleased with the transaction and declined our offer to purchase their interests, and that despite the initial claims of the Commissioner’s complaint, there was no finding of fraud in the Court’s order. Finally, and of greatest importance, the Colorado Securities Commissioner acknowledged and stipulated to the court that *“no investor has alleged or asserted any impropriety against LPI with respect to their investment and all purchasers represented themselves to be accredited investors prior to investing.”*

Because life settlements are a relatively new asset class, there are complex and sometimes contradictory regulations between states and the federal government. LPHI has been working with state and federal regulatory agencies throughout its existence to develop rules which make it easier for senior Americans to unlock the hidden value in the insurance policies.

**Q. Mr. Left accuses LPI’s transactions of not being transparent. Is this true?**

Every purchaser has access to the Confidential Case History (“CCH”) for each policy which they may be considering purchasing. Information in this CCH includes a synopsis of the health of the insured as well as information on the insurance company that issued the policy, current and future premiums, and amount escrowed for premiums. Each purchaser also has access to our ROI calculator through which they can illustrate the ROI for a particular policy under different holding periods. The above information, combined with the financial reporting required of our publicly traded parent company, provides our clients enjoy a high degree of transparency.

**Q. Mr. Left asserts that LPI’s fees are higher than other life settlement companies? Is this true?**

A. LPI is the only publicly traded company operating exclusively in life settlements today. Thus, information on other companies is difficult to obtain and can be unreliable. In our business model, we are required to work on behalf of our client to obtain policies with a target ROI and sufficient discount to make the transaction profitable, even if the insured outlives his life expectancy by a number of years. Thus, the transaction costs (including our fee) are “baked into” the acquisition cost for the policy. Unlike mutual funds, hedge funds or other derivatives, LPI’s business model is the most cost-effective way for accredited investors to own life settlements. LPI does not charge any annual management fees, nor does it take a percentage of investors’ profits. As noted by Conning Research & Consulting, Inc. “This approach ... lowers their [investors’] investment costs because they do not pay management fees to a portfolio manager. *Life Settlement Market: Increasing Capital and Investor Demand 2007 p. 56.*

**Q. Mr. Left asserts that LPI’s business model is not sustainable in the face of additional regulation. Is this true?**

A. All new businesses face challenges from older, established businesses that do not want competition. In the case of life settlements, this includes the life insurance industry and traditional stock and bond dealers. It is expected that these industry participants will use whatever leverage they have to stifle competition through regulatory and political means. However, as we are all aware, traditional financial-service companies have lost a great deal of credibility with the public and some politicians as they have abused their market positions to the

detriment of the entire U.S. economy. Thus, there is substantial demand for life settlements from both insurance consumers who desire the opportunity to sell their policy when it is no longer needed as well as demand from accredited investors who want an asset-based investment they can understand and upon which they can rely. Because of these economic realities, politicians are unlikely to impose regulations which will substantially impede life settlement transactions. From LPI's standpoint, most states already treat life settlements as securities and, since we already comply with federal securities laws at our holding company level, we are well positioned to make whatever adjustments to our business model that may be necessary for continued operations in the years to come.