

## HISTORY AND NATURE OF THE BUSINESS

LIC Holdings, Inc. (“LHI” or the “Company”) was incorporated on July 31, 2006 in the state of Florida, as a holding Company for the purpose of providing life insurance products and services.

LHI owns 100% of the following entities:

- Arbitrage International Management, LLC
- Cambridge Financing Company
- CFC of Delaware, LLC.
- Arbitrage International Marketing, Inc.
- National Service Association, Inc.

Although LHI was incorporated in 2006, the operations of its consolidated subsidiaries have been ongoing prior to 2002.

LHI, through its wholly owned subsidiaries, provides the following life insurance products and services:

- Premium Financing
- Wealth Transfer
- Traditional Insurance
- Policy Audit
- Consulting

CFC of Delaware LLC (“CFC”) is a special purpose entity, part of a larger group of related parties which depend on each other to generate business and revenue. The main business of CFC, along with its related parties, is selling and financing high value life insurance policies. Its primary target market is senior citizens who possess high net worth. CFC’s specific role is the lender. CFC generates revenue via lending money, (it earns 5 basis points on the excess of the rate charged to its borrowers compared to the rate it pays for its financing), loan origination fees and a portion of commission income allocated to it from related parties.

CFC borrows funds from a financial institution, New Stream Insurance, LLC (“New Stream”) and in turn loans these funds to borrowers at 50 basis points higher interest rate than it pays to New Stream. BNC National Bank (“BNC”). BNC is the Institutional Trustee for Trusts that have been established to own the policies and borrow from CFC. The Trusts are typically irrevocable and play an integral role in effective estate planning.

BNC acts as Disbursement Agent for CFC. The funds necessary to close a loan are transferred directly to BNC and disbursed according to instructions from CFC. The initial term of the loan

is two years. After the two year period, the individual has the option to extend the policy for an additional 3 months. At the end of the initial loan term, the borrower has options as follows:

- Payoff the loan
- Refinance the loan
- Default

In order to pay off the loan, the borrower may use the proceeds from a sale in the secondary market. Alternatively, he or she may decide to retain the policy and assume the obligation to make future premium payments.

The policies are secured by the financed policies and other Eligible Collateral as reflected in Schedule 1 of the Term Financing Facility Agreement. In lieu of posting Eligible Collateral, the borrower may execute a Limited Personal Guaranty.

New Stream and BNC are unrelated parties.

CFC's affiliate, Arbitrage International Marketing, LLC ("Arbitrage") acts in a sales capacity in that it will source the high net worth individuals to be insured. Arbitrage then receives a commission from the insurance company once the policy is sold. Arbitrage then allocates a percentage of this commission to CFC, which varies discretionally.

### **Business Cycle**

- A potential loan/insurance policy to be issued commences when someone in the marketing group (Arbitrage), sources a policy to be considered for loan underwriting. The agent from whom the policy is sourced must secure a bona fide underwriting offer from and insurance company prior to CFC beginning its loan underwriting process.
- In addition to sourcing business from third-parties, Arbitrage also conducts business on a retail basis.
- The third-party producers or CFC, depending on whether the business is retail or wholesale, will provide a prepared policy illustration using life insurance company software to CFC.
- Insurance agent obtains HIPPA form from the insured.
- CFC sends insured's medical information to a medical underwriter who represents New Stream. The medical underwriter assesses the insured's medical condition and makes a determination of how long the individual is expected to live. If a range is provided, CFC uses the average in determining the actuarial value of the insurance policies.