

## Comprehensive Medical Strategies Group “CMSG” Acquisition Summary

Comprehensive Medical Strategies Group (“**Company**”) is in the process of issuing various asset-backed securities to qualified investors. The proceeds derived from the issuance of these products will be used to, among other things to cover the costs of the offering, and to invest in the acquisition and management of medical claims, which are existing, in-force United States Worker’s Compensation Medical Insurance Claims (“**Claims**”).

Institutional investors are attracted to **Claims** as an alternative investment because of their (i) limited correlation to financial markets and general economic swings; (ii) statutory right to payment; and (iii) limited credit risk because of various state programs formed to mitigate the effect of any insurance company insolvency, such as the California Insurance Guarantee Association (“**CIGA**”). One of **CIGA**’s mandates is to make payments on **Claims** that cannot be paid by insurers due to insolvency. During its forty years of operations, **CIGA** has never failed to pay **Claims** that remained unpaid by insurance companies due to insolvency or bankruptcy.

This memorandum is provided by **Company** for the purpose of describing **Company**’s process of acquiring and managing **Claims**, including its (A) due diligence process prior to its acquisition, (B) portfolio criteria, (C) acquisition process, and (D) management of acquired **Claims**.

### A. Due Diligence Process

**Company**’s review of **Claims** for potential acquisitions involves four distinct focus areas: (1) verification of the existence, amount, and status of **Claims**; (2) portfolio review; (3); perfecting security interest of **Claims**; and (4) verifying the billing and collection status of **Claims** to determine the cash flow of portfolio.

**(1) Verification of Claim.** For purposes of verifying the existence, amount and status of **Claims**, **Company** will use the following informational data systems:

- Electronic Adjudication Management System (EAMS)
- Electronic Data Exchange System (EDEX)
- P2Plink
- Division of Worker’s Compensation Official Medical Fee Schedule (OMFS)

EAMS’s website, which is administrated by the state and open to the public, is used by

**Company** to confirm the validity of **Claims** prior to acquisition. Once **Company** has verified the existence of **Claims**, **Company** can verify their status on EDEX which is also administrated by the state. If there is no issue with **Claims**, they will be filed on the P2P link website. SB863 mandated that all Insurance Companies that insures Worker's Compensation must accept electronic billing. P2P link offers the provider the service of electronic (communication) (i.e. electronic bill submission of and payment status of **Claims**). All of this makes it easy for a provider -- in this case **Company** -- to verify the existence and the status of **Claims**.

The fee amounts are published by the state in a fee schedule called OMFS, which is the state's Division of Worker's Compensation *Official Fee Schedule*. **Claims'** fees have been determined pursuant to law and stipulate the amount that is recoverable by the medical provider. **Company** verifies the amount of **Claims** by comparing that amount to the OMFS.

(2) ***Portfolio Review***. **Company** will make sure that the size of the portfolio to be acquired is diversified. **Company** will receive for each transaction from the medical provider, an MS Excel Worksheet with acquired **Claims** and will then make sure that the portfolio is diversified, insurance companies are not all the same, and the amount of **Claims** per patient are not too high in relation to the size of the portfolio.

(3) ***Perfecting Security Interest of Claim***. Immediately after purchasing **Claims**, **Company** files a UCC-1 Statement with the governing state to perfect its right to this payment against **Claims** by the medical provider's other creditors. In addition, **Company** executes a comprehensive purchase agreement with each medical provider for the purchase of **Claims**.

(4) ***Verify Billing and Collection***. **Company** will verify billing and collection activity through electronic billing software. Once a month, **Company** will review **Claims'** billing and collecting processes to ensure that **Claims'** bills are active and collectable. **Company** reviews the following information:

- Total amount collected
- Total amount outstanding
- Total number of **Claims** collected
- Total number of **Claims** outstanding
- **Claims'** billing status

## **B. Portfolio Criteria**

On a portfolio basis, **Company's** target portfolio will consist of **Claims** within states that have favorable statutes regarding payment obligations, such as Illinois and California. **Company** will always pay less than 50% of the face value of **Claims** purchased. With respect to the insurance companies' credit risk, **Company** strives to mitigate this risk by being diversified and making sure it has a large number of separate insurance companies responsible for the payment of the medical receivables in acquired portfolios. For example, the State of California has mandated by law that each insurance company that issues Worker's Compensation insurance within the State of California is subject to the rules and regulations issued by **CIGA**.

### **C. Acquisition Process.**

Each acquisition will be subject to its specific terms; in general, the purchase agreement will identify **Claims** to be acquired by **Company** and include certain representations and warranties to be agreed to by the seller and **Company** as the purchaser. Most of these are the typical representations and warranties agreed to in any contract for the sale of assets, including a representation of good standing and authority, compliance with laws, and the absence of any violations or proceedings affecting the condition of the assets.

In regards to **Claims** particularly, the seller will represent and warrant to **Company** that, to the seller's knowledge, (i) the provider is the sole owner and beneficiary of claims listed in Exhibit A in the purchase contract; (ii) **Claims** are free and clear of all claims and encumbrances of any kind whatsoever; and (iii) the agreements between the patients and provider regarding patients' claims, if any, are secured by "Letters of Protection," (LOP's) "Assignments of Interest" (AOI's) and/or claims from the patients which have been duly acknowledged by the patients' attorneys. The remaining terms of the purchase agreement regarding confidentiality, termination and assignment will conform generally to the terms found in asset purchase agreements.

Once the purchase agreement has been executed by both parties, **Company** will transfer the purchase price to the seller pursuant to the purchase contract.

### **D. Management of Acquired Claims.**

**Company** will verify the total amount collected (provided in the monthly review) with the bank account to where collections are transferred to make sure there is no discrepancy. The Company will review the billing status of Claim to certify (i) the billing is being processed in a timely manner; (ii) the Claim's bill is active (getting closer to be collected); and (iii) the Claim is not uncollectable.

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