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10 Debtor-in-Possession  
11 Willard J. Blankenship

12 UNITED STATES BANKRUPTCY COURT  
13 EASTERN DISTRICT OF CALIFORNIA  
14 SACRAMENTO DIVISION

15	In Re:	)	Case No. 15-28108-E-11
16	Willard J. Blankenship,	)	DCN: RLC-6
17		)	Date:
18	Debtor	)	Time:
19		)	Dept: E
20		)	Courtroom 34
21		)	Hon. Ronald Sargis

22 **DISCLOSURE STATEMENT TO FIRST AMENDED PLAN OF REORGANIZATION**

23 **DATED JUNE 1, 2016**

24 **ARTICLE I**

25 **SUMMARY**

26 This is the Disclosure Statement to the First Amended Plan of Reorganization (the  
27 “Plan”) under Chapter 11 of the Bankruptcy Code (the “Code”) filed by Willard J.  
28 Blankenship (the “Debtor”) in their Chapter 11 case. This Disclosure Statement contains  
information about the Debtor and describes the Plan of Reorganization filed by Debtor. A full  
copy of the Plan accompanies this Disclosure Statement.

*Your rights may be affected. You should read the Plan and this Disclosure  
Statement carefully and discuss them with your attorney. If you do not have an attorney,  
you may wish to consult one.*

The proposed distributions under the First Amended Plan are discussed beginning at

1 Page 8 of this Disclosure Statement. General unsecured creditors are classified in Class 3,  
2 and will receive a dividend of approximately 34.6% of their allowed claims.

3 **A. Purpose of This Document**

4 This Disclosure Statement describes:

- 5 ● The Debtor and significant events during the bankruptcy case,
- 6 ● How the Plan proposes to treat claims or equity interests of the type you hold  
7 (*i.e.*, what you will receive on your claim or equity interest if the plan is  
8 confirmed),
- 9 ● Who can vote on or object to the Plan,
- 10 ● What factors the Bankruptcy Court (the “Court”) will consider when deciding  
11 whether to confirm the Plan,
- 12 ● Why the Debtor believe the Plan is feasible, and how the treatment of your  
13 claim or equity interest under the Plan compares to what you would receive on  
14 your claim or equity interest in liquidation, and
- 15 ● The effect of confirmation of the Plan.

16 Be sure to read the Plan as well as the Disclosure Statement. This Disclosure  
17 Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your  
18 rights.

19 **B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing**

20 The Court has not yet confirmed the Plan described in this Disclosure Statement. This  
21 section describes the procedures pursuant to which the Plan will or will not be confirmed.

22 *1. Time and Place of the Hearing to Finally Approve This Disclosure*  
23 *Statement and Confirm the Plan*

24 The hearing at which the Court will determine whether to approve this Disclosure  
25 Statement will take place on \_\_\_\_\_, at 3:00 p.m. in Courtroom 33 at the United States  
26 Courthouse, Department E, 6<sup>th</sup> Floor, 501 I Street, Sacramento, California, 95814.

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*2. Identity of Person to Contact for More Information*

If you would like additional information about the Plan please contact Stephen M. Reynolds, of Reynolds Law Corporation, 424 Second Street, Ste. A, Davis, CA 95616. Telephone 530 297 5030 and facsimile 530 297 5077.

*3. Deadline for Voting to Accept or Reject the Plan*

*If you are entitled to vote to accept or reject the plan, vote on the enclosed ballot and return the ballot to Reynolds Law Corporation 424 Second Street, Suite A, Davis, CA 95616. Your ballot must be received by [insert date] or it will not be counted.*

**C. Disclaimer**

*The Court has approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Court has not yet determined whether the Plan meets the legal requirements for confirmation, and the fact that the Court has approved this Disclosure Statement does not constitute an endorsement of the Plan by the Court, or a recommendation that it be accepted.*

**II. BACKGROUND**

**A. Description and History of the Debtors' Assets and Source of Income**

Dr. Blankenship is an eighty two year old retired physician. His career involved medical research and teaching. He helped found U.C. Davis School of Medicine. He was also associated with the Vanderbilt University Medical Center for a number of years. His practice was primarily concerned with research and the care of premature infants. His research, advanced studies and teaching included extended stays in England and Sweden. His home base for many years was Laguna Beach, California. Dr. Blankenship receives monthly social security benefits of \$1,627.50 and monthly annuity benefits from a TIAA-CREF account in the amount of \$694.22. He also receives occasional dividends on account of an 8% interest in Apnea Analysis Center, Inc. a closely held California Corporation.

1 From October 1997 onward Mr. Charles Hoffmeister maintained Dr. Blankenship's  
2 home. This was a significant benefit to Dr. Blankenship as his career often demanded  
3 extended stays away from Laguna Beach. The agreement between Dr. Blankenship and Mr.  
4 Hoffmeister was that upon retirement Dr. Blankenship would provide Mr. Hoffmeister with a  
5 small property. After selling his Laguna Beach home Dr. Blankenship provided that property  
6 in the form of a small farm (39.83 acres) located in Spencer, Indiana. Dr. Blankenship  
7 purchased the farm in 2009 for \$135,000, subsequently made improvements to it and  
8 harvested timber. The farm does not generate crop income and the primary revenue  
9 associated with the farm is the occasional timber sales. Mr. Hoffmeister has lived on the farm  
10 since 2009 and has maintained it. Dr. Blankenship transferred title to Mr. Hoffmeister in  
11 June, 2015. Mr. Hoffmeister has deeded his interest in the Property back to Dr. Blankenship,  
12 who now owns it free and clear of all encumbrances. Spencer, Indiana is a very rural  
13 community and there is not an active market for property. The marketing and sale of the farm  
14 may take months or years.

15 **B. Events Leading to the Chapter 11 Filing**

16 In 2008 Dr. Blankenship decided to leave Laguna Beach, California and move to  
17 Davis, California where his children and grandchildren live. At the time he was 74 years old.  
18 He listed and sold his residence located at 31401 Holly Drive, Laguna Beach, California to  
19 Michael Kletchko and Patrick Ruedin. Dr. Blankenship used a licensed realtor Susan Neely  
20 associated with Prudential a real estate brokerage firm. Mr. Kletchko and Mr. Ruedin sued  
21 Dr. Blankenship on a variety of tort theories regarding failures to disclose defects in Dr.  
22 Blankenship's former residence in the Superior Court for the State of California, County of  
23 Orange in 2010. A trial was held in February 2015 and a judgment in the amount of \$664,000  
24 for economic damages on theories of breach of contract, negligence, intentional  
25 misrepresentation, and concealment was entered on March 18, 2015. The jury specifically  
26 found that Dr. Blankenship did not engage in the conduct with malice, oppression or fraud.  
27 The judgment was increased to include attorney's fees (\$175,000), costs (\$40,468.56) and  
28 interest (\$37,293.60) on October 30, 2015 for a total of \$916,762.16. Mr. Kletchko and Mr.

1 Ruedin filed an abstract of judgment against Dr. Blankenship's Davis residence on July 22,  
2 2015 within ninety days of the date the present case was filed. Dr. Blankenship is seeking the  
3 avoidance of the abstract of judgment. Kletchko and Ruedin have filed a proof of claim in  
4 this case (POC 2) on December 22, 2015 in the amount of \$1,164,436. If the claim is not  
5 reduced to the amount awarded by the Orange County Superior Court on October 30, 2015  
6 the Debtor will need to file a claim objection. In consideration for the treatment granted  
7 Class 2 under this Plan, Kletchko and Ruedin have voluntarily reduced their claim to  
8 \$916,762.16, released the lien against the residence as well as a lien against the Indiana  
9 property, in addition to releasing their Complaint for Non-Dischargeability. Further the  
10 bankruptcy estate shall irrevocably assign all of the estate's legal and equitable rights and  
11 remedies against Prudential Realty and any other known or unknown tortfeasors relating to  
12 the sale of 31401 Holly Drive, Laguna Beach, California to Messrs. Kletchko and Ruedin.

13 **C. Management Before, During, and After the Bankruptcy**

14 Dr. Blankenship intends to continue to manage his affairs during the course of this  
15 Bankruptcy Case.

16 **D. Projected Recovery of Avoidable Transfers**

17 The Debtor intends to avoid the Kletchko and Ruedin lien obtained within 90 days of  
18 the filing of this case. The Debtor has recovered the transfer of the farm to Mr. Hoffmeister.  
19 Kletchko and Ruedin have agreed to release the lien that they recorded against the Indiana  
20 Farm. The Indiana lien was recorded well before the present Chapter 11 case was filed and  
21 related to a default judgment that was set aside.

22 **E. Claims Objections**

23 Except to the extent that a claim is already allowed pursuant to a final non-appealable  
24 order, the Debtor reserves the right to object to claims. Therefore, even if your claim is  
25 allowed for voting purposes, you may not be entitled to a distribution if an objection to your  
26 claim is later upheld. The procedures for resolving disputed claims are set forth in Article V  
27 of the Plan. In the event of a claim objection the deadline to object shall be the earlier of the  
28 hearing on a motion to close case or sixty (60) days after Plan confirmation. (Italics used in

1 original Disclosure Statement.) Debtor shall assign his right to object to the claims of the  
2 Davis Law Firm (claims 3 and 4) and the Lieber Law Firm to Kletchko and Ruedin.

3 **H. Current and Historical Financial Conditions, Plan Feasibility**

4 The identity and fair market value of the estate's assets are listed in Exhibit 1.

5 **I. Liquidation Analysis**

6 The Class One secured creditor will be paid in full; the Debtor shall maintain regular  
7 monthly payments until the claim is paid in full. The source of these payments shall not  
8 impact any proceeds to be paid to Kletchko and Ruedin as set forth herein. Class two and  
9 three unsecured creditors will receive approximately 35.1 % of their allowed claims. In  
10 Chapter 7 liquidation general unsecured creditors would receive an estimated 29.8% of their  
11 allowed claims. Generally distributions to unsecured creditors take longer in Chapter 7  
12 liquidation than under the proposed Plan of Reorganization.

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14 **III. SUMMARY OF THE PLAN OF REORGANIZATION**

15 **A. What is the Purpose of the Plan of Reorganization?**

16 As required by the Code, the Plan places claims and equity interests in various classes  
17 and describes the treatment each class will receive. The Plan also states whether each class of  
18 claims or equity interests is impaired or unimpaired. If the Plan is confirmed, your recovery  
19 will be limited to the amount provided by the Plan.

20 **B. Unclassified Claims** under 11 U.S.C. §1123(a) (1) certain types of claims are  
21 automatically entitled to specific treatment under the Code. They are not considered  
22 impaired, and holders of such claims do not vote on the Plan. They may, however, object if,  
23 in their view, their treatment under the Plan does not comply with that required by the Code.  
24 As such, the Plan Proponent has *not* placed the following claims in any class:

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1                                    1.        *Administrative Expenses*

2                                    Administrative expenses are costs or expenses of administering the Debtor' Chapter  
3 11 case which are allowed under § 507(a) (2) of the Code. The Code requires that all  
4 administrative expenses be paid on the Effective Date of the Plan, unless a particular claimant  
5 agrees to a different treatment.

6                                    The following chart lists the Debtor' estimated administrative expenses and their  
7 proposed treatment under the Plan:

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<u>Type</u>	<u>Estimated Amount Owed</u>	<u>Proposed Treatment</u>
Expenses Arising in the Ordinary Course of Business After the Petition Date	Estimated current at confirmation.	Paid in full on the Effective Date of the Plan, or according to terms of obligation if later
Professional Fees, as approved by the Court	Estimated to be \$30,000 <del>or less</del> .	Paid in full upon the refinance of Debtor's residence, as may be limited by the Court in consideration of Creditors' objections.
Clerk's Office Fees	Estimated none.	Paid in full on the Effective Date of the Plan
Other administrative expenses	\$3,821.73	Paid in full on the Effective Date of the Plan or according to separate written agreement
Office of the U.S. Trustee Fees	Estimated current at confirmation.	Paid in full on the Effective Date of the Plan

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TOTAL	\$36,151.61	

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2. *Priority Tax Claim*

Priority tax claims are unsecured income, employment, and other taxes described by § 507(a) (8) of the Code. Unless the holder of such a § 507(a)(8) priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding 4 years from the order of relief. The Internal Revenue Service has filed a proof of claim for 2012 taxes in the estimated amount of \$4,218.19. The proof of claim alleges that no return was filed in 2012. ~~Debtor is reviewing his records to either find a copy of the filed return or will file the return.~~ *The IRS has amended the proof of claim for 2012 taxes to \$0.00.*

3. *Other Priority Claims.*

Debtor used his American Express card post petition for some ordinary course expenses as well as the purchase of a computer, payment of the property taxes secured by his residence and flood insurance. He believed that he was cashing out accumulated frequent flyer points. The total of these charges are \$3,821.73 these are charges for property taxes and flood insurance charged to Debtor’s American Express card on October 20 and 22 just after the case filing.

**C. Classes of Claims and Interests and Plan Treatment**

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

4.01 Claims and interests shall be treated as follows under this Plan:

Class	Impairment	Treatment
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1 2 3 4 5 6	Class 1 Amerihome Mortgage Co. LLC	Unimpaired	The secured claim of Amerihome Mortgage Co. LLC is a first priority deed of trust secured by 1304 Aspen Place, Davis, CA. This is Debtor's residence. Debtor shall continue to make monthly payments until the residence is refinanced and this claim is paid in full. It is anticipated that the refinance will occur in June 2016
7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27	Class 2 Michael Kletchko and Patrick Ruedin	Impaired	The secured claim of Michael Kletchko and Patrick Ruedin is second priority abstract of judgment secured by 1304 Aspen Place, Davis, CA and recorded July 22, 2015. Debtor will seek to avoid the secured claim pursuant to 11 U.S.C. §547(b) (2). To the extent allowed the unsecured claim will share pro rata with allowed Class 3 claims. Debtor estimates that the allowed unsecured claim will be \$916,762.16. Payment to Class 2 shall be made in part upon the completion of the reverse mortgage, estimated within thirty days of the Effective Date of this Plan, with the balance of the reverse mortgage proceeds twelve months after the initial payment when the loan facility of the reverse mortgage is available and upon the sale of the Indiana property which shall be within twelve months of the Effective Date. However, this deadline may be extended for good cause show and upon noticed motion. Kletchko and Ruedin are the only creditors who shall be paid upon the completion of the reverse mortgage in the first tranch with the entirety of the proceeds realized less administrative expenses.
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<p>1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17</p>	<p>Class 3 General Unsecured Claims</p>	<p>Impaired</p>	<p>The allowed general unsecured claims will be paid as follows: Payment to Class 2 shall be made in part upon the completion of the reverse mortgage, estimated within thirty days of the Effective Date of this Plan, with the balance of the reverse mortgage proceeds twelve months after the initial payment when the loan facility of the reverse mortgage is available and upon the sale of the Indiana property estimated to be within twelve months of the Effective Date. Class 3 claims will be paid pro rata with allowed Class 2 claims. However, Class 3 claims will receive their pro rata share of reverse mortgage proceeds only from the second round of proceeds available approximately twelve months after the initial payments. This distribution shall be within twelve months of the Effective Date. However, this deadline may be extended for good cause show and upon noticed motion.</p>
<p>18 19 20 21 22 23 24</p>	<p>Class 4 Interest of the Debtor</p>	<p>Impaired</p>	<p>The Debtor shall retain his interest in his post-petition social security and TIAA-CREF income. He shall also retain his interest in his residence subject to the Class 1 secured claim of Amerihome Mortgage and the contemplated reverse mortgage. The property of the estate shall revert to the Debtor upon the Plan Effective Date.</p>

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**ARTICLE V**

**ALLOWANCE AND DISALLOWANCE OF CLAIMS**

5.01 Disputed Claim. A disputed claim is a claim that has not been allowed or

1 disallowed by a final non-appealable order, and as to which either: (i) a proof of claim has  
2 been filed or deemed filed, and the Debtor or another party in interest have filed an objection;  
3 or (ii) no proof of claim has been filed, and the Debtor have scheduled such claim as disputed,  
4 contingent, or unliquidated.

5 5.02 Delay of Distribution on a Disputed Claim. No distribution will be made on  
6 account of a disputed claim unless such claim is allowed by a final non-appealable order.

7 5.03 Settlement of Disputed Claims. The Debtor will have the power and authority  
8 to settle and compromise a disputed claim with court approval and compliance with Rule  
9 9019 of the Federal Rules of Bankruptcy Procedure.

10 5.04 Disallowed Claim. Disallowed claims as contemplated by 11 U.S.C. §502(d)  
11 shall receive no distribution through this Plan.

12 **ARTICLE VI**

13 **PROVISIONS FOR EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

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15 6.01 Assumed Executory Contracts and Unexpired Leases.

16 (a) Debtor assume the following executory contracts and/or leases effective upon Plan  
17 confirmation as may be modified under the terms of the Plan: None.

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19 The Debtor will be conclusively deemed to have rejected all executory contracts  
20 and/or unexpired leases not expressly assumed under section 6.01(a) above before the date of  
21 the order confirming this Plan, or upon the Effective Date of this Plan. A proof of a claim  
22 arising from the rejection of an executory contract or unexpired lease under this section must  
23 be filed no later than thirty (30) days after the date of the order confirming this Plan.

24 **ARTICLE VII**

25 **MEANS FOR IMPLEMENTATION OF THE PLAN**

26 Debtor shall retain the property of the estate and obtain a reverse mortgage which will  
27 provide proceeds at least equal to what creditors would receive in a hypothetical Chapter 7  
28 case. The distribution to Classes 2 and 3 will be in three steps. First, when the reverse

1 mortgage is funded which is estimated to be June 2016 the Debtor shall distribute funds which  
 2 are immediately available. These funds are estimated to be in the approximate amount of  
 3 \$132,567. These funds will be distributed exclusively to Kletchko and Ruedin less priority  
 4 claims. Second, twelve months later when the line of credit secured by the reverse mortgage is  
 5 available a distribution in the amount of \$168, 635, and finally when the Apnea Analysis  
 6 stock which is estimated to be worth \$5,000 and the Spencer Indiana farm is sold which is  
 7 projected to net \$112,500, to be realized no later than the second distribution. The court will  
 8 retain jurisdiction for approval of a sale of the Spencer Indiana farm and Apnea Associates  
 9 stock to be realized no later than the second distribution

<b>Creditor</b>	<b>Amount</b>	<b>Payment Schedule</b>
Class 1	\$108,500(est.)	At close of refinance, full amount then owing.
Class 2	\$132,567	To be distributed in July 2016
Class 2 and 3	\$168,635	To be distributed in July 2017
Class 2 and 3	\$117,500	To be distributed upon the sale of the Spencer Indiana farm and Apnea Associates stock, no later than July 2017.

24 **ARTICLE VII**

25 **GENERAL PROVISIONS**

26 7.01 Definitions and Rules of Construction. The definitions and rules of  
 27 construction set forth in §§ 101 and 102 of the Code shall apply when terms defined or  
 28 construed in the Code are used in this Plan.



1 of the preceding sentence.

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5 Dated: June 6, 2016 Respectfully submitted,

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By: /s/ Willard J. Blankenship

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Willard J. Blankenship

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Plan Proponent

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By: /s/ Stephen M. Reynolds

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Stephen M. Reynolds

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Attorney for Willard J. Blankenship

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**Exhibit 1- Risk Factors**

The success of the proposed Plan depends on successful closing of the reverse mortgage secured by Debtor’s residence at the values described and with the payouts proposed. A secondary risk is the value that the estate will be able to obtain from the liquidation of the Spenser Indiana property and Apnea Analysis stock is less than estimated. This risk is common to both proposed Plan of Reorganization and liquidation by a Chapter 7 Trustee. The value to be recovered and the time it will take to successfully market and sell the property are unknown. The Debtor understands that the property had been on the market for four years before he purchased it. The Court will retain jurisdiction to approve any proposed sale.

1 **Exhibit 2 - What Creditors Would Receive if the Case Were Converted to a Chapter 7**

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3 Personal Property (values per schedules, except Spencer Indiana property and Apnea Analysis  
4 Center that paid a higher dividend than expected post-petition):

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6 Description	Liquidation	Exemption	Secured	Net
7 Value	Claimed	Claim	Proceeds	
8 Residence,	\$561,200 <sup>1</sup>	175,000	108,500	\$277,700
9 Spencer Indiana Property	112,500 <sup>2</sup>	\$0.00	\$0.00	\$112,500
10 Cash Travis FCU account	\$1,500	\$1,500	\$0.00	\$0.00
11 Household goods, including	\$11,590	\$11,590	\$0.00	\$0.00
12 Piano and collectibles,				
13 clothing, jewelry, etc...				
14 1986 Volvo	\$750.00	\$750.00	0.00	\$0.00
15 Apnea Analysis Center, Inc.	\$5,000.00	\$0.00	\$0.00	\$5,000.00

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20 Net Proceeds of Real Property and Personal Property	\$395,200
21 Recovery from Preferences / Fraudulent Conveyances [ADD]	\$0.00
22 Chapter 7 Administrative Claims SUBTRACT	\$0.00
23 Chapter 11 Administrative Claims SUBTRACT	\$25,000

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<sup>1</sup> \$610,000 scheduled value less 8% cost of sale.

28 <sup>2</sup> Estimated net proceeds less costs of sale.

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Priority Claims (debtor does not foresee significant capital gains tax liability from the projected sale of the California or Indiana properties)	SUBTRACT	\$4,218
Chapter 7 Trustee Fees	SUBTRACT	\$30,875
Chapter 7 Trustee's Professionals	SUBTRACT	\$20,000
NET FUNDS AVAILABLE FOR DISTRIBUTION TO UNSECURED CREDITORS		\$315,107

Estimated Amount of Unsecured Claims (Classes 2 and 3)	\$1,056,183.23
Percent Distribution to Unsecured Creditors (Classes 2 and 3) Under Proposed Plan	35.1%
Percent Distribution to Unsecured Creditors Under Liquidation Analysis	29.8%

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**Exhibit 3 – Projected Plan Payments**

	Amount	Amount
A. Projected Total Cash from Reverse Mortgage		\$384,702
B. Cash from Sale of Spencer County Property		\$112,500
C. Cash from Sale of Apnea Analysis Center, Inc.		\$5,000
<b>TOTAL CASH TO ESTATE</b>		<b>\$512,202</b>
Administrative Expense Claims	\$ 25,000	
Priority Claims	\$4,218	
Secured Class 1	\$108,500	
Class 2 and 3	\$370,984	
U.S. Trustee Fees	3500	
Percentage Paid to Classes 2 and 3	35.1%	
<b>C. Total Claims Paid</b>		<b>\$512,202</b>