

**IN THE CHANCERY COURT FOR LEWIS COUNTY
AT HOHENWALD, TENNESSEE**

IN RE:)
)
 SENTINEL TRUST COMPANY) NO. 4781
)
)

**COMMISSIONER-IN-POSSESSION’S AND SENTINEL TRUST RECEIVER’S REPLY
TO DANNY BATES’ OBJECTION TO MOTIONS SEEKING APPROVAL OF
RECEIVER, OUTSIDE COUNSEL AND THIRD PARTY CONTRACTORS FEES**

I. INTRODUCTION

Danny Bates’ Objection (filed February 27, 2006) to the two pending motions¹ which seek approval of receivership fees and expenses a) is based on the erroneous assumption that trust funds are being used to pay Sentinel Trust receivership expenses and b) is in disregard to previous rulings of this Court that have decided the issue with finality.

**II. BATES’ OBJECTION IS WITHOUT MERIT
AND SHOULD BE OVERRULED**

Bates’ Objection is based upon his position that trust funds cannot be used to pay Sentinel Trust receivership fees and expenses. On this point there, is no disagreement. Long ago in this receivership, it was agreed that no funds held in trust would be used to pay receivership expenses, absent order of this Court. Where the disagreement arises is that Bates accuses the Commissioner-in-Possession and Receiver of using trust funds to pay for receivership fees and expenses. But, the record is undisputed that the funds which Bates contends are “trust assets” being used by the Receiver to pay fees and expenses are the amounts retained, through Court orders, by the Receiver when collateral proceeds of defaulted bond issues are collected. These

¹ These Fee Approval Motions were filed on January 17, 2006 and February 8, 2006, respectively.

amounts represent what is owed to Sentinel Trust for the pre-receivership and post-receivership Sentinel Trust fees and expenses relating to the particular defaulted bond issue.

This Court, in numerous final orders which Bates chose not to appeal, has consistently held that Bates' position on this issue is incorrect. See e.g., May 23, 2005 Order Granting Motion to Alter or Amend; May 23, 2005 Order Approving Fort Pierce, Florida Bond Issue Distribution; May 23, 2005 Order Approving Hernando County, Florida Bond Issue Distribution and May 23, 2005 Order Approving Tarrant County, Texas Bond Issue Distribution. By virtue of these and other Court orders, the Receiver has retained funds from the sale of collateral of numerous defaulted bond issues because those funds have been found to be owing to, and, thus, assets of Sentinel Trust Company. By so finding, the Court has also found that the funds retained by the Receiver are not funds owed to the Pooled Fiduciary Account and, thus, are not trust funds. Since those funds that have, pursuant to Court order, been retained by the Receiver are assets of Sentinel Trust Company, then those funds may be used to pay the expenses of the receivership. T.C.A. § 45-2-1502(f). That having been said, it has always been the position of the Commissioner-in-Possession and the Receiver that, at the close of the Sentinel Trust receivership estate, all excess funds held by the Receiver would be used to make further distributions to the claimants upon the Pooled Fiduciary Account shortfall.

As long ago as July 19, 2004, this Court had entered on the docket an order -- the form of which was approved by Bates' counsel -- that approved "payment of Sentinel receivership expenses from recovery of Sentinel fees arising from recoveries on defaulted bond issues" See Court's July 19, 2004 Order Allowing Payment of Sentinel Receivership Fees, copy attached as **Exhibit A**. As long ago as May 23, 2005, when the Court granted the Commissioner-in-Possession's Motion to Reconsider and when the Court, through separate orders, approved the

