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MANAGEMENT, LLC

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF OREGON

PORTLAND DIVISION

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

No. 3:16-cv-00438-PK

NOTICE OF FILING RECEIVER'S
REPORT DATED SEPTEMBER 14, 2016

Page 1 - NOTICE OF FILING RECEIVER'S REPORT DATED
SEPTEMBER 14, 2016

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v.

AEQUITAS MANAGEMENT, LLC;
AEQUITAS HOLDINGS, LLC;
AEQUITAS COMMERCIAL FINANCE,
LLC; AEQUITAS CAPITAL
MANAGEMENT, INC.; AEQUITAS
INVESTMENT MANAGEMENT, LLC;
ROBERT J. JESENİK, BRIAN A. OLIVER;
and N. SCOTT GILLIS,

Defendants.

Ronald F. Greenspan, the duly appointed Receiver of the entity defendants and 43 related entities, hereby files the attached Report of Ronald F. Greenspan, Receiver, dated September 14, 2016.

Dated this 14th day of September, 2016.

Respectfully submitted,

SCHWABE, WILLIAMSON & WYATT, P.C.

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RONALD GREENSPAN
COURT-APPOINTED RECEIVER OVER
AEQUITAS MANAGEMENT, LLC, AEQUITAS HOLDINGS, LLC, AEQUITAS CAPITAL MANAGEMENT, INC., AEQUITAS
INVESTMENT MANAGEMENT, LLC AND CERTAIN RELATED ENTITIES
(the “Receivership Entity”)

In re AEQUITAS MANAGEMENT, LLC, et al.

Case No. 3:16-cv-00438-PK

United States District Court

District of Oregon

Portland Division

Report

of

Ronald F. Greenspan, Receiver

September 14, 2016

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Aequitas Receiver Report

I. Introduction

During the course of an investigation into the business practices of Aequitas Management, LLC (“AM”); Aequitas Holdings, LLC (“AH”); Aequitas Commercial Finance, LLC (“ACF”); Aequitas Capital Management, Inc. (“ACM”); and Aequitas Investment Management, LLC (“AIM”) (collectively “Entity Defendants”), as well as 43 subsidiaries and/or majority-owned affiliates (collectively “Receivership” or “Receivership Entity”), the Securities and Exchange Commission (“Commission” or “SEC”) concluded that the appointment of a receiver was necessary and appropriate for the purposes of marshaling and preserving all assets of the Receivership Entity (the “Receivership Property”). Accordingly, on March 10, 2016, the Commission and the Entity Defendants filed a Proposed Stipulated Order Appointing Receiver (the “Proposed Receivership Order”) [Dkt. 2-2].¹

On March 16, 2016, pursuant to the Stipulated Interim Order Appointing Receiver (the “Interim Receivership Order”), Ronald Greenspan was appointed as Receiver for the Entity Defendants and 43 related entities on an interim basis. On April 14, 2016, pursuant to the Order Appointing Receiver, Mr. Greenspan was appointed as Receiver for the Receivership Entity on a final basis (the “Final Receivership Order”) [Dkt. 156].

In accordance with the Final Receivership Order, the Receiver is required to file a report with the Court within thirty (30) days after the end of the first full calendar quarter occurring after entry of the Final Receivership Order (which entry date was April 16,

¹ All Dkt (or Docket) references are available at the Receiver’s website - <http://www.kccllc.net/aequitasreceivership>

2016, making the required reporting date October 31, 2016). Due to the complexity of this receivership and the Receiver's wish to keep the various constituencies apprised of progress being made, the Receiver files this voluntary report and recommendations to the Court for the first "stub quarter" ending June 30, 2016. The findings and recommendations of the Receiver should be considered preliminary and subject to change due to the volume of material and information acquired, the shortness of time, the complexity of matters analyzed and the need for additional information, verification and analyses. The Receiver may need to materially modify the findings and recommendations contained within this Report after further consideration.

II. Limitations of Report

The information contained herein has been prepared based upon financial and other data obtained from the Receivership Entity's books and records and provided to the Receiver and FTI Consulting, Inc. from the staff employed by the Receivership Entity as well as its contract staff and advisors, or from public sources.

The Receiver has not subjected the information contained herein to an audit in accordance with generally accepted auditing or attestation standards or the Statement on Standards for Prospective Financial Information issued by the American Institute of Certified Public Accountants (the "AICPA"). Further, the work involved so far did not include a detailed review of any transactions, and cannot be expected to identify errors, irregularities or illegal acts, including fraud or defalcations that may exist. Also, most of the Receivership Entity's assets discussed herein are not readily tradable, have no public value indication, are illiquid, are often minority and/or other partial interests, and might be detrimentally affected by affiliation with Aequitas and uncertain consequences of past and future events involving Aequitas. Accordingly, the Receiver cannot express

an opinion or any other form of assurance on, and assumes no responsibility for, the accuracy or correctness of the historical information or the completeness and achievability of the projected financial data, valuations, information and assessments upon which the following report (the “Report”) is rendered.

III. Case Background

A. Introduction

On March 10, 2016, the Commission filed a complaint (the “SEC Complaint”) against the Entity Defendants, as well as Robert J. Jesenik, Brian A. Oliver and N. Scott Gillis (collectively the “Individual Defendants”), for alleged violation of federal securities laws in what the Commission describes as a “Ponzi-like” scheme [Dkt. 1]. The Commission alleges that the Individual Defendants, all principals of one or more of the Entity Defendants, defrauded investors who were led to believe that they were purchasing indirect interests in trade receivables and misused investor funds to pay operating expenses and to repay earlier investors [Dkt. ¶¶ 1-7]. The Commission further alleges that “[b]y the end of 2015, [Aequitas] owed investors \$312 million and had virtually no operating income to repay them.” [Dkt. ¶ 5].

On June 6, 2016, the Court entered the Consent of the Entity Defendants [Dkt. 188]. Without admitting or denying the allegations of the SEC Complaint, the Entity Defendants consented to the entry of the Judgment of Permanent Injunctive Relief, which was entered on June 15, 2016 [Dkt. 192]. The Judgment provides for no financial penalty to be assessed against the Entity Defendants, although the SEC reserves the right to petition the Court for disgorgement and penalties in the future. Although the Aequitas Entity Defendants are no longer contesting the merits of the SEC enforcement action, the Receivership Estate will continue to be involved in the litigation as it proceeds

through the discovery phase. The SEC has agreed to make available to the Receiver certain non-privileged discovery.

Defendants Jesenik and Oliver have answered the SEC Complaint [Dkt. 169 and 170]. Defendant Gillis filed a Motion to Dismiss, which was heard on August 10, 2016 [Dkt. 172].

B. Focus of the Activities to Date

The Aequitas Defendant entities listed in the SEC Complaint are just five of forty-eight Receivership Entities and nine Extended Entities.^{2 3} These entities were generally used to 1) acquire consumer loan portfolios, 2) acquire equity interests in operating companies and 3) provide fund raising and finance vehicles in the furtherance of items 1 and 2.

The Receiver's primary focus since entry of the Final Receivership Order has been the stabilization of the Receivership Entity to preserve value and facilitate asset monetization. Many of the operating companies were experiencing extreme levels of financial distress – devoid of operating capital, unable to make payroll and on the verge of collapse. As such, it was imperative to ascertain the needs and viability of each enterprise in an effort to enhance the potential return of investor funds.

Accordingly, the Receiver focused initially on analyzing and staving off the economic failure of the operating companies in order to provide the Receivership with some breathing room in which to operate. Without the time to perform necessary functions, the loss to the investors would have been amplified and the value of several of the operating companies would have been severely diminished. The Receiver

² The five Defendant entities are AM, AH, ACF, ACM, and AIM.

³ An additional nine extended entities list in Exhibit B to the Final Receivership Order (the "Extended Entities") must cooperate with the Receiver, but are not under Receivership control. The Extended Entities are CarePayment Technologies, Inc.; EdPlus Holdings, LLC; Marketing Services Platform, Inc.; Ivey Performance Marketing, LLC; Gridbox Media, LLC; Skagit Gardens, Inc.; Synchronex, LLC; Aequitas International Opportunities, LP; and CP Funding I Trust.

undertook immediate steps to increase available cash through focusing on collections of cash-generating receivables portfolios, effectuating the sale of assets and decreasing the expense burn through operational consolidation. In the first stub quarter, the Receiver sold assets and collected receivables totaling approximately \$100 million and reduced headcount to 17 as of June 30, 2016 (from pre-receivership levels of 129 in December 2015).

The Receiver assumed control of a receivership estate that was under extreme pressure exerted by senior secured creditors' intent on enforcing the provisions of their loan agreements. The desire of the secured creditors to promptly realize on their collateral conflicted with the efforts of the Receiver to maximize the possible return to investors and other creditors, in this case under a distribution plan yet to be formulated and confirmed by the Court. The Receiver's efforts saved the investors millions of dollars of fees and default interest and allowed the Receivership Entity to retain control of the collateral, thus preserving the inherent value for the investors.

Additionally, as discussed above, the Receiver has avoided a potentially costly and long-drawn out litigation by reaching a settlement with the SEC regarding its complaint against the Receivership Entity [Dkt. 192].

With the assistance of counsel, the Receiver enforced the stay of litigation against Enviso Capital Group, LLC, which filed suit in California and sought to proceed against parties within the Receivership Entity, thereby avoiding litigation costs which would have depleted the Receivership estate. With the assistance of counsel, the Receiver enforced the stay of litigation against American Student Financial Group, Inc. ("ASFG"), which was prosecuting a suit in California against ACM. Additionally, the Receiver secured an order requiring the clerk of the California Court to disburse \$2.48 million from the registry to the Receiver, which funds will be held in a segregated

account pending resolution of the matter. The California Court held its disbursement order in temporary abeyance, to permit ASFG to move to lift the litigation stay imposed by this Court. ASFG's motion to lift the litigation stay was filed on July 29, 2016 [Dkt 229]. ASFG and the Receiver entered into negotiations and resolved the dispute. In response to the negotiated settlement, ASFG's motion was ruled moot on August 8, 2016 [Dkt 235].

When the Receiver assumed control over the Receivership Entity upon entry of the Final Receivership Order on April 16, 2016, the Receivership Entity was operating with significantly reduced staffing and without basic accounting support to the operating companies and the investor groups. Prior to appointment of the Receiver, Aequitas had performed a preliminary close of the accounting records for January 2016, but was not able to close the books for the following months and had not engaged an auditor or a professional for tax preparation. Reporting to lenders and several investor groups was significantly deficient. As described further herein, the Receiver is undertaking efforts to bring current the books and records of the Receivership Entity, having hired contract staff to further those efforts and retained ordinary-course tax and audit professionals to comply with reporting requirements.

Lastly, the Receiver has undertaken efforts to maximize recovery under the various insurance policies while, at the same time, clearing a path for investors to pursue recovery on claims against third-party professionals which are not held by the Receivership Entity.

C. Recommendation regarding Continuance of the Receivership

It is the Receiver's recommendation that the Receivership be continued. The conditions under which the Receivership was imposed still exist. As of June 30, 2016, the Receivership was less than seventy-five days old. While much has been accomplished, there is still much more to do. Based on the lifecycle of a typical receivership, this Receivership is still in the first stage – the stabilization and monetization of assets. The Receiver must continue to focus efforts on monetizing the remaining assets in a manner and timeline consistent with reasonably maximizing the value to the investors. As more progress is made in the stabilization and monetization stage, if prudent, the Receiver will commence the investigation stage to (i) develop a historical factual understanding which will assist the Receiver to develop a proposed distribution plan and assist investors to evaluate such plan, and (ii) ferret out additional claims and causes of actions for the benefit of the investors. As the Receiver concludes the investigation stage (if it is undertaken), based on the investigation results, the Receiver may, with the approval of the Court, initiate the litigation stage, pursuing recovery from third parties for the benefit of the Receivership Entity. The final stage of the receivership is the development and execution of the distribution plan. Ideally, the Receiver will secure the consent of all interested parties to the proposed distribution plan.

The various loan portfolios and operating companies require daily management until they are monetized. The Receiver and his team fill the management gap left after the termination of the Individual Defendants and the departures of other management and staff. Absent that day-to-day, hands-on management, the Receivership Entity's, and, ultimately, the investors' value would languish.

Feedback from SEC staff and the Aequitas investors regarding our progress thus far has been overwhelmingly positive. The Receiver believes he has their support and encouragement to continue his efforts, and that they also support the continuation of the Receivership.

IV. Overview of the Receiver's Activities

A. Retention of Professionals

On March 16, 2016, pursuant to the Interim Receivership Order, the Receiver engaged FTI Consulting, Inc. ("FTI"), as well as the law firms of Pepper Hamilton LLP ("Pepper Hamilton"), Schwabe, Williamson & Wyatt PC ("Schwabe") and Pachulski Stang Ziehl & Jones LLP ("Pachulski") on an interim basis. On April 14, 2016, pursuant to the Final Receivership Order, the Receiver engaged FTI, Pepper Hamilton, Schwabe and Pachulski on behalf of the Receivership Entity.

On July 18, 2016, pursuant to Order Granting Receiver's Application To Employ Counsel [Dkt. 227], the Receiver employed the Law Offices of Stanley H. Shure ("Shure"), Akin Gump Strauss Hauer & Feld LLP ("Akin Gump"), Morrison & Foerster LLP ("MoFo") and Ater Wynne LLP ("Ater Wynne") *nunc pro tunc* to March 10, 2016.

1. FTI – Receiver, Financial Advisor and On-Site Management

The Receiver is employed as a Senior Managing Director of FTI, which bills and collects for the Receiver's time. To support his Receivership, the Receiver has retained FTI and has access to FTI professionals and resources. As set forth in greater detail below, FTI is serving as financial advisor to the Receiver and providing daily, on-site management supervision over the operations of the Receivership Entity. Additionally, FTI has been instrumental in preparing assets for market and running certain sales

processes – saving the estate the significant investment banking fees that otherwise would have been paid in those situations.

2. Pepper Hamilton – SEC Counsel

Pepper Hamilton represents the Receiver in connection with SEC-related matters, including the SEC Complaint and discovery promulgated thereunder. Pepper Hamilton also represents the Receiver regarding other ongoing regulatory inquiries and is now the primary point of contact for the Receiver with the Consumer Finance Protection Bureau (the “CFPB”). Pepper Hamilton has also assisted the Receiver with certain transactional work.

3. Schwabe – Local Counsel and General Counsel

As local counsel and general counsel to the Receiver, Schwabe provides general outside counsel advice, majority of transactional support and litigation support for all matters not related to the SEC action. As periodically requested by the Receiver and as required of local counsel, Schwabe participates in and appears in Court on SEC related matters. Schwabe also communicates directly with the SEC on operational, sales, and other issues related to the administration of the Receivership.

4. Pachulski – Bankruptcy Counsel

Pachulski has been retained to provide advice involving bankruptcy related matters, if needed.

5. Shure – Insurance Counsel

The Law Offices of Stanley H. Shure was retained to provide counsel with respect to all insurance coverage issues pertaining to the Receivership Entity, including but not limited to: (a) reviewing and analyzing the Receivership Entity’s liability insurance policies with respect to the claims made against it, (b) providing counsel in the event of insurance coverage disputes with the Receivership Entity’s insurers, (c) evaluating the

“Bankers Bond” policy for scope of coverage and whether the Receivership Entity holds any claims under the policy, and (d) analyzing and providing counsel with respect to claims, if any, that the Receivership Entity may have against former directors and officers of the Receivership Entity.

6. MoFo – CFPB Counsel

Prior to the Filing Date, MoFo was counsel for three entities within the Receivership Entity: ACM, ACF, and Campus Student Funding, LLC (“CSF”) on two matters. Specifically, MoFo represented those three entities with respect to (a) the Corinthian Colleges bankruptcy case, and (b) an investigation initiated by the CFPB relating to loans owned by Aequitas through its arrangements with Corinthian Colleges (the “CFPB Matter”). The Receiver has retained MoFo with respect to ongoing representation in the CFPB Matter only.

7. Akin Gump – ASFG Counsel

Prior to the Interim Receivership Order, Akin Gump was counsel to certain entities within the Receivership Entity in two matters. First, Akin Gump has represented ACM in the matter of ASFG, et. al. v. ACM, Case No. 12-cv-02445-CAB-JMA (S.D. Cal.). Akin Gump also represented Robert Jesenik and Andrew MacRitchie, but claims against them were disposed of via summary judgment. Second, Akin Gump has represented the following companies in the Receivership Entity in the matter of ASFG v. CSF, et. al., Case No. 37-2013-00028562-CU-IP-CTL (San Diego Superior Court): ACF; AIM; Aequitas Income Protection Fund, LLC (“IPF”); Aequitas Income Opportunity Fund, LLC (“IOF”); and ACM. Akin Gump has also represented CSF, formerly known as ASFG, LLC, Thomas Szabo, and Thomas Reiter in this matter.

8. Ater Wynne – Conflicts Counsel regarding Wells Fargo Bank, NA

Ater Wynne was retained to represent the Receiver with respect to matters adverse to Wells Fargo Bank and other matters where the Receiver's retained counsel had a conflict of interest. Ater Wynne may provide future services as conflicts counsel, as and when the need arises.

B. Summary of Operations of the Receiver

1. Day-to-Day Management

The Final Receivership Order provided that the trustees, directors, officers, members, and managers of the Receivership Entity were dismissed and that the powers of any general partners, directors, members and/or managers were suspended.⁴ Further, the Receiver was imbued with all powers, authorities, rights and privileges heretofore possessed by prior management.⁵ With the termination of management, the Receiver has been supervising the day-to-day operations of the various Receivership Entities. In addition to the daily management duties, the Receiver has focused on several key areas to his mandate, including the marshaling and preserving all assets for the benefit of the investors.

2. Restructured Lease Obligations

Prior to the Receiver's appointment, Aequitas had sought to terminate the lease of the New York office. Despite Aequitas being in breach of the lease agreement, the Receiver was successful in terminating the lease and obtaining a return of a significant portion of the cash deposit, as well as the related letter of credit totaling \$329,000.

Further, the Receiver oversaw the Receivership Entity vacating the fourth floor premises and consolidating operations (which process was commenced prior to the

⁴ Final Receivership Order, section III, paragraph 4.

⁵ Final Receivership Order, section III, paragraph 3.

Interim Receivership Order) on a portion of the third floor of the Lake Oswego office building located at 5300 SW Meadows Road, on an existing shorter-term sublease. This consolidation reduced rental payments by \$105,000, or 74%, per month.

3. Suspension of Interest Payments and Redemptions

Other than to third party, secured institutional lenders, the Receiver discontinued the payment of any interest and the redemption of any notes or other interests to preserve necessary operational cash and ensure an equitable distribution pursuant to a distribution plan to all investors and creditors. Senior secured lenders with perfected liens which were deemed over-secured have been paid interest at the pre-default rate and principal pay-downs in accordance with their loan agreements.

4. Bank Accounts

As part of the cash management duties assumed by the Receiver, he and/or his assigned staff approve all of the Receivership Entity expenditures – including all wires and checks. Shortly after entry of the Final Receivership Order, the Receiver took control of 69 existing bank accounts with several financial institutions and he and/or his assigned staff became the sole signatories on all bank accounts.

At the insistence of Bank of America (which desired to conclude its relationship with Aequitas) and in a further effort to lockdown the cash accounts, most existing bank accounts were transitioned to Union Bank of California. These accounts remain segregated by legal entity. Further, the Receiver has instituted an integrated on-line platform that facilitates banking, future claims processing and cash reporting for receivership cases. The reports for the initial reporting period are attached as Exhibit E.

5. Staffing

a. *Headcount Reduction*

The Receiver continues with planned, targeted staffing reductions based on the needs of the enterprise. As of December 31, 2015, the Aequitas entities had 129 employees (excluding the employees of the Extended Entities, such as CarePayment Technologies, Inc.). Shortly after the appointment of the Receiver, the headcount had been reduced to 26 employees. As of June 30, 2016, the Receivership Entity had 16 full-time employees and 1 part-time employee. The Receiver instituted an employee retention plan which provides for bonuses on a quarterly basis to the employees whose services are necessary for the operations of the Receivership Entity. Even with a robust plan in place, retention continues to be an issue at all levels and across the portfolio companies.

b. *Contractors*

In response to some staff attrition in addition to the planned reductions, the Receiver necessarily backfilled key accounting and technology positions with local independent contractors. Where possible, these contractors were first selected from a pool of former Aequitas employees to leverage their institutional knowledge. The contractors are paid on an hourly basis and are continually re-evaluated.

As of June 30, 2016, the Receivership employs three full-time equivalent accounting contractors and three part-time IT contractors.

6. Audit and Tax Preparation

In the ordinary course of business, the Receivership has many reporting and tax preparation responsibilities to investors and taxing authorities. With the resignation of

Deloitte LLP as Aequitas' auditor and tax preparer, the Receiver was required to seek out and engage new professionals to fulfill those requirements.

a. Audit

The Receiver engaged Burr Pilger Mayer ("BPM") to audit the 2015 financial statements for several Receivership entities where the Receiver believes an audit is likely to be helpful in connection with a sales or refinancing process. Prior to the selection of BPM, the Receiver contacted five Portland-area audit firms and two other firms outside the immediate area for consideration. No local firms expressed an interest and BPM, based in San Francisco, California, was selected.

b. Tax Preparer

The Receiver hired Barbara Smith ("BMSA"), a tax specialist, to prepare approximately 25 federal and 150 state returns, as well as over 1,500 information returns (K-1s and 1099s), and to provide tax consulting services on an as-needed basis at the request of the Receiver. BMSA is well-versed in multi-jurisdictional tax preparation and possesses considerable experience in serving bankruptcy and receivership clients.

7. Non-Essential Vendor Contracts

a. Contract review

Prior to the appointment of the Receiver, Aequitas managed its vendors at a department level, with no comprehensive repository of vendor contracts at the corporate level. As Aequitas began to experience liquidity issues, members of various departments contacted many vendors to request the termination of their services; however, no consistent effort to terminate unnecessary contracts was in place. Shortly after the appointment of the Receiver, the retained professionals and Aequitas staff began identifying remaining active contracts that were not necessary for the operations of the Receivership Entity and/or its affiliates, and issued termination notices to the vendors.

This effort was necessary to both reduce the cash drain on the estate and to minimize the potential future trade claims. This effort, as well as the documentation of previously cancelled contracts, is on-going.

b. Dell Financial Services (“DFS”)

In December 2015, Aequitas entered into a \$1.2 million sale lease-back transaction (the “DFS Lease 506”) with DFS pursuant to which Aequitas “sold” and then leased back certain technology and office furniture. The schedule supporting DFS Lease 506 lacks sufficient detail to identify the specific equipment included in the transaction. Further, it includes soft assets such as warranty programs, software licenses, computer supplies and service agreements. As a result, the Receiver cannot identify specific assets underlying DFS Lease 506 to determine what equipment is being utilized in operations and those assets that might be returned to DFS in partial satisfaction of their claim.

Notwithstanding, the Receiver has engaged DFS in negotiations regarding disposition of nine other leases and the return of equipment no longer needed. For the leased equipment that is utilized in operations, the Receiver agreed to bring the subject lease agreements current. For excess equipment, the Receiver is negotiating to either return the equipment to DFS in partial satisfaction of its claim or dispose of the equipment on behalf of DFS with proceeds remitted as mitigation against the claim.

8. Other Receivership Actions

As discussed more fully herein, Aequitas provided administrative support to its affiliates and subsidiaries under a shared services agreement. Rather than continue that practice, the Receiver has unwound those various costs and, to the extent possible, pushed the related contracts and expenditures down to the appropriate entity. This provides for a more accurate view of the economic viability of each entity. However,

payroll and benefits for the remaining former Aequitas employees retained by the Receivership who provide services to the entire Receivership Entity remain predominantly paid out of Aequitas Enterprise Services, LLC (“AES”).

Further, the Receiver evaluated the cash needs of Skagit Gardens, Inc. against the future potential value to be delivered to the Receivership. As a result of that evaluation, the Receiver decided to forego the continued funding of Skagit Gardens, Inc. As described more fully herein, Skagit Gardens, Inc. filed for Chapter 11 bankruptcy in May 2016.

As described in more detail in the following sections of the Report, the Receiver has expended significant resources in the preservation of the CarePayment platform. These efforts have included negotiating forbearance agreements with Bank of America and Wells Fargo, supporting a capital infusion to CarePayment Technologies, Inc. (“CPYT”), and restoring healthcare receivable purchase activity by CarePayment, LLC (“CPLLC”) and CP Funding I Trust (“CPFIT”).

Finally, the Receiver has assumed the former Aequitas positions on the Board of Directors of three portfolio companies – CPYT; ETC Global Group, LLC (“ETC”); and Marketing Services Platform, Inc. (“MSP”) a/k/a Ivey Marketing). The Receiver also monitors the operations of other Extended Entities to protect the Receivership’s interests in those entities.

V. Assets/Interests Sold

A. Consumer Loan Portfolios

The Receiver has worked diligently to preserve value in the two consumer loan portfolios which are important sources of recovery to the Receivership Entity.

Beginning in 2014, Aequitas purchased unsecured subprime consumer loans that had been originated by Freedom Financial Network (“FFN”).⁶ As of March 31, 2016, the principal balance receivable totaled \$70.8 million, net of charge-offs. Prior to the sale described below, Receivership Property included two portfolios of unsecured consumer loans (the “Consumer Loan Portfolios”) held by receivership entities, as follows:

ACC Funding Trust 2014-1 (“ACCFT-1”) held a portfolio of unsecured consumer loans denominated as “F+” loans (the “F+ Loans”). As of March 31, 2016, there were approximately 1,847 loans in the F+ Loans portfolio, with a cumulative principal balance receivable of approximately \$22.5 million.

ACC Funding Trust 2014-2 (“ACCFT-2”) held a portfolio of unsecured consumer loans denominated as “C+” loans (the “C+ Loans”). As of March 31, 2016, there were approximately 2,929 loans in the C+ Loans portfolio, with a cumulative principal balance receivable of approximately \$48.2 million.

The Consumer Loan Portfolios were collateral for two secured loans from Comvest Capital, III, L.P. (“Comvest”) and Atalaya Asset Income Fund II LP and certain of its affiliates (“Atalaya” and, collectively with Comvest, “Comvest Lenders”) (the “Comvest Loans”). The Comvest Loans provided acquisition financing to ACCFT-1 and ACCFT-2 with respect to the Consumer Loan Portfolios. As of March 31, 2016, the approximate balance owing on the Comvest Loans was the principal amount of \$59.0 million, plus accrued and unpaid interest of \$1.5 million.

The acquisition of the Consumer Loan Portfolios was financed at a specified advance rate via draws on a senior secured note (the “Comvest Note”) bearing interest

⁶ Technically, Aequitas acquired the loans from Cross River Bank, for whom FFN had performed certain origination services and, subsequently, serviced and administered the loans.

at 12.5% and, if in default, 15.5%. The Comvest Note also contained a prepayment penalty starting at 6% and sliding to 0% over a three year period.

On February 2, 2016, Comvest provided notice of multiple alleged events of default under the credit agreement. In addition to reserving its default rights, remedies, and powers under the credit agreement, Comvest's notice purported to impose the "Default Rate Interest for all outstanding Obligations retroactive to April 14, 2015" – effectively increasing the interest rate from an already high 12.5% to 15.5% retroactively and effective just two weeks after the closing of the initial loan. The combination of the default interest rate and the multi-million dollar prepayment penalty created an untenable hardship for the Receivership Entity and, when combined with other costs, rendered the portfolio unprofitable for the borrowing entities.

In addition, the equity for the transaction (difference between the purchase price of the receivables and the advance rate on the Comvest Note) was provided by junior debt bearing a blended interest rate of 16.2% – pushing the current yield of the portfolio further negative.

To minimize the damage to the value of the Consumer Loan Portfolios, the Receiver went to market immediately with both portfolios. The Receiver began a formal sale process to identify a buyer on April 6th with 18 potential bidders contacted. The Receiver developed and administered a very focused and competitive marketing campaign that the Receiver believes produced the highest and best results possible with the least cost to the Receivership Entity. The pool of potential purchasers was comprised of a combination of both industry participants who initiated contact with the Receiver as a result of the significant publicity attendant to the Receivership and a list of industry participants developed and directly contacted by FTI.

Following the Receiver's marketing efforts and the interest of numerous potential bidders, the Receiver distributed non-disclosure agreements, established an electronic data room, assisted multiple interested parties to conduct due diligence, responded to their questions and inquiries and conducted multiple rounds of bidding for the Consumer Loan Portfolios. Additional negotiations followed conclusion of the formal bidding process. Ultimately, the Receiver determined that Freedom Financial Asset Management, LLC ("Freedom") submitted the highest and best bid for the Consumer Loan Portfolios.

Through the sale process, the Receiver negotiated an increase in the Consumer Loan Portfolios purchase price by \$2.8 million, or 4%, as compared to the original offer that was submitted to Aequitas on March 3rd. Further, the Receiver negotiated a reduction in the Comvest accrued interest and prepayment penalties by \$3.6 million — these adjustments increased the Receivership's net recovery by approximately 55%. The Receiver and Freedom executed a Letter of Intent dated May 3, 2016. The purchase price, subject to certain adjustments at closing, was \$70,665,216, or about 101.5% of the aggregate principal balance of the Consumer Loan Portfolios.

On May 20, 2016, the Receiver filed Receiver's Motions to (1) Sell Personal Property Free and Clear of Liens, Interests, Claims and Encumbrances, and (2) Approve Settlement (Freedom Loan Portfolios F+ and C+) ("Freedom Sale Motion") [Dkt. 181] and Declaration of Ronald Greenspan in support of the Freedom Sale Motion [Dkt. 182]. The proposed settlement included a compromise of the amounts claimed by the Comvest Lenders, and was the result of lengthy and often difficult negotiations. Ultimately, the Comvest Lenders agreed to accept a payoff that did not include default interest on the Comvest Loans or a prepayment penalty of 4% of the payoff balance (approximately \$2.0 million based on the balance owing under the Comvest Loans).

Thereafter, and pursuant to the Letter of Intent, the parties continued to negotiate the final terms of the definitive Portfolio Purchase Agreement (“PPA”). Following intense negotiations, a final agreement was ultimately reached on or about June 15, 2016. The PPA was filed that same day [Dkt. 190].

On June 16, 2016, the Court approved the PPA and entered the Amended Order Granting Receiver’s Motions to (1) Sell Personal Property Free and Clear of Liens, Interests, Claims and Encumbrances, and (2) Approve Settlement (Freedom Loan Portfolios F+ and C+).

With the closing of the sale of the Consumer Loan Portfolios pursuant to the PPA, the Receivership Entity has realized approximately \$64.2 million in gross proceeds or \$10.1 million in proceeds, net of the payment to the Comvest Lenders in satisfaction of the Comvest Loans; plus additional \$9.2 million of collections that had been previously retained by Comvest Lenders were released to the Receivership.

B. EdPlus Holdings, LLC/Unigo Group sale

EdPlus Holdings, LLC, doing business as Unigo Group (“EdPlus”), is an Extended Entity and, as such, its assets are indirectly subject to this receivership proceeding. In June 2016, EdPlus and EducationDynamics, LLC (“Education Dynamics”) reached an agreement for Education Dynamics to purchase substantially all of the assets of EdPlus. Because EdPlus’ controlling owner, Aequitas Capital Opportunities Fund, LP (“COF”), and manager, ACM, are part of the Receivership Entity, out of an abundance of caution, Education Dynamics requested, and the Receiver sought, this Court’s authority for the controlling owner and manager to execute such instruments as may be necessary to effectuate the sale of the EdPlus assets to Education Dynamics.

In connection with the sale, the Receiver negotiated a resolution of the amount of secured creditor Global Structure Solutions, Inc.'s ("GS2") alleged claim against a Receivership Entity, ACF. Specifically, GS2 agreed that upon the closing of the EdPlus sale to Education Dynamics, GS2 would release its security interest in certain of the assets sold to Education Dynamics, terminate its UCC-1 Financing Statement, and reduce the amount of its claim from approximately \$900 thousand to \$500 thousand. GS2 also agreed that its claim would be treated as an unsecured claim, consistent with the treatment of other holders of "private notes" issued by ACF, as such treatment shall be determined by this Court under an approved distribution plan. Education Dynamics agreed to provide certain services to GS2 as a material aspect of the agreement with GS2.

On June 21, 2016, the Receiver filed the Receiver's Motions for an Order (1) Authorizing Receivership Entities to Execute Instruments to Sell Extended Entity Assets, and (2) Approving Compromise of Creditor Claim Against ACF [Dkt. 199]. As reflected in the motion and the Declaration of Ronald Greenspan filed in support of the motion [Dkt. 200], the consideration for the sale is \$500 thousand to be paid to EdPlus at closing (the "Initial Cash Proceeds"), \$100 thousand to be paid sixty days after the closing (based upon working capital true-up calculations), and an "earn out" based on the performance of EdPlus during the 12 months following the sale (the "Earnout") which may or may not result in additional payments of up to \$12.9 million. The Initial Cash Proceeds are to be used to repay debt owed by EdPlus, which includes \$100 thousand lent to EdPlus by the Receivership Entity to cover EdPlus payroll. If any funds are received on the Earnout, it is expected that they will be distributed (after costs) substantially to the Receivership Entity on account of its pre-Receivership loans to EdPlus.

On June 28, 2016, the Court approved the motion, and entered the Order (1) Authorizing Receivership Entities to Execute Instruments to Sell Extended Entity Assets, and (2) Approving Compromise of Creditor Claim Against ACF [Dkt. 207].

C. Skagit Gardens, Inc.

Skagit Gardens, Inc., headquartered in Mount Vernon, Washington, is a producer of high quality annual and perennial plants sold primarily to premium independent garden centers, landscapers, and other growers. Skagit Gardens, Inc., along with its subsidiaries will be referred to collectively as “Skagit Gardens.”

Aequitas Partner Fund, LLC (“APF”) owns 95.4% of the equity in the parent company – Skagit Gardens, Inc.

ACF and Aequitas Private Client Fund, LLC (“PCF”), over a period of years beginning in 2010, loaned approximately \$11.5 million to Skagit Gardens, Inc. Such loans were secured by all of Skagit Gardens’ assets, but subordinate to Skagit Gardens’ other secured lenders (Sterling National Bank and Bank of the West), who were owed approximately \$8.0 million at the time this Receivership action was filed.

In 2015, Skagit Gardens retained an investment banker to assist in the marketing and sale of the company. In the first quarter of 2016, Skagit Gardens received an offer from Early Morning, LLC to purchase the company at a price insufficient even to pay the secured lenders in full, with little or no distribution to the Aequitas lenders.

On May 27, 2016, Skagit Gardens filed for Chapter 11 bankruptcy protection. Just three days after filing bankruptcy, Skagit Gardens filed a motion under bankruptcy code section 363 to approve Early Morning, LLC as the stalking horse bidder, bid procedures, bid protections, and an auction for the sale of all of Skagit Gardens’ assets free and clear of liens, claims, interests and encumbrances.

On June 29, 2016, Skagit Gardens conducted an auction. Prior to the auction, four bids were received. Two were credit bids submitted by Sterling National Bank and Bank of the West, and two were made by strategic buyers looking to maintain the operations of the business (one of which was Skagit Horticulture). After the completion of the auction, Skagit Gardens determined that Skagit Horticulture's net bid in the amount of \$5.3 million was the highest and best bid. Subsequent to the auction, Skagit Horticulture agreed to increase its bid by approximately \$500 thousand.

On July 14, 2016, over the objection of the Official Committee of Unsecured Creditors, the Court approved the sale to Skagit Horticulture. Based on the increased purchase price and Skagit Gardens' cash on hand, the secured claims of Sterling National Bank and Bank of the West were paid in full. After the payment of the break-up fee to Early Morning, LLC, professional fees and priority claims, general unsecured creditors, including the Aequis lenders will share on a pro rata basis in the remaining proceeds of \$100 thousand.

D. Furniture/Equipment Liquidation

Pursuant to the Receivership Orders entered on March 16 and April 14, 2016 [Dkt. Nos. 30 and 156], the Receiver has undertaken to determine the nature, location and value of all Receivership Property. Prior to the sale described below, Receivership Property included certain office equipment and furniture (the "OEF") located at the Entity Defendants' business premises at 5300 SW Meadows Road, Suite 400, Lake Oswego, Oregon (the "Premises").

The Premises were previously leased by one or more of the Entity Defendants. The last lease payment made by Aequis (or the Receiver) was for the month of February 2016. The Receivership Entity ceased using the Premises on March 31,

2016 and surrendered them to the landlord, which had provided notice for the Entity Defendants to vacate no later than May 15, 2016.

Promptly after receipt of the landlord's letter, the Receiver contacted potential buyers for the OEF (which is believed to have a cost basis of approximately \$625 thousand). Twelve liquidator parties were contacted. Four prospects viewed the OEF, and three bids were submitted to the Receiver. After negotiating material increases in the bids, the Receiver selected the bid that provided the highest guaranteed recovery for the Receivership Entity.

The OEF were sold to NW Office Liquidations for \$50 thousand. The OEF were sold without warranty of any kind from the Receivership Entity, and the purchaser removed the OEF from the Premises at its own expense within the deadline established by the landlord.

The sale of the OEF was completed following Court approval on May 2, 2016 [Dkt. 162].

E. Strategic Capital Alternatives/SCA Holdings

Strategic Capital Alternatives LLC, a Washington limited liability company ("SCA") and SCA Holdings LLC, a Washington limited liability company ("SCAH") are each entities operating in the investment advisory industry. Although SCA and SCAH are neither part of the Receivership Entity nor Extended Entities, they have financial relationships with the Receivership Entity as set forth below.

Pursuant to a Membership Interest Purchase Agreement dated June 30, 2013, ACM, an Oregon corporation and Receivership Entity, purchased 25,000 Common Units of SCA, representing 25% of the total outstanding ownership interest in SCA. ACM continues to hold these Common Units as of the date hereof.

Pursuant to a Business Loan Agreement dated July 1, 2014, ACF, an Oregon limited liability company and Receivership Entity, extended a loan to SCAH (as Borrower) in the maximum amount of \$1.6 million (the “SCAH Loan”). As of the date of this Report, the sum of all principal, interest, and fees and expenses due from SCAH to ACF under the Loan is approximately \$1.7 million. In connection with the SCAH Loan, ACF has a valid, first priority, perfected security interest and lien in all assets of SCAH as evidenced by a UCC Financing Statement filed with the Washington Secretary of State.

SCA is operating at a significant negative cash flow position. The equity holders other than Aequitas lent money to SCA during the second quarter of 2016 in order to maintain SCA's business operations. The Receiver is not willing to provide further funds which are needed in the third quarter. The other equity holders will provide such funds if the Receiver will allow the Receivership Entity's equity position to be redeemed by SCA.

The Receiver has been negotiating with SCA and SCAH regarding a global resolution of the interests of ACM and ACF in and related to SCA and SCAH. The parties are in the process of negotiating a Loan Payoff and Redemption Agreement pursuant to which: (i) SCA would redeem the membership interests of SCA held by ACM, and (ii) SCAH would retire its indebtedness to ACF under the SCAH Loan. This agreement would allow SCA and SCAH to continue business activities without the involvement of the Receivership Entity, and would allow the Receivership Entity to realize significant value in the proceeds of the SCAH Loan, and nominal value in the underlying equity investment.

The combined consideration payable to the Receivership Entity in connection with the Loan Payoff Transaction and the Redemption Transaction is anticipated to be \$815,000, payable as follows: (i) \$300,000 payable upon the closing of the Loan Payoff Transaction and Redemption Transaction, (ii) \$257,500 payable on or before September 30, 2016, and (iii) \$257,500 payable on or before April 1, 2017 (the “Final Payment”).

Receivership Entity will retain the right to reacquire the membership interests in SCA at any time prior to the receipt of the Final Payment, and the lender will not release its security interest in the assets of the borrower or permit the termination of the Financing Statement until the Final Payment is received.

The closing of the Loan Payoff Transaction and Redemption Transaction will be subject to several conditions, including a condition that the Court enters an order setting forth the final approval and authorization of the Agreement and the Loan Payoff Transaction and Redemption Transaction (a “Sale Approval Order”). The Receiver intends to submit a motion requesting the entry of a Sale Approval Order once a final definitive form of the agreement has been agreed upon by the lender, ACM, SCAH and SCA.

F. Miscellaneous Other Asset Sales

In addition to the intensive sales efforts described above, the Receiver was instrumental in initiatives of some of the smaller Receivership Entity assets. Aequitas had previously sold one of its private aircraft and the second corporate jet was leased by Aequitas entity Executive Citation LLC – which lease was put back to the lessor, KeyBank. With the elimination of all corporate aircraft, Aequitas’ interest in its airplane hangar owned by Aequitas entity EC Hanger was sold for \$297 thousand.

The Hill Land, LLC was formed for the sole purpose of owning approximately 7.44 acres of land at 8200 SW Pfaffle, Tigard, OR 97223 (the “Hill Land Property”) and leasing it to Westside Christian High School, Inc. (“WCHS”). Hill Land Property was sold to WCHS on February 23, 2016 for \$1.4 million when Aequitas experienced a severe liquidity crisis. The Receiver is reviewing the history of the property ownership, lease and purchase option, subsidies provided to WCHS in connection therewith, and the circumstances of the sale of the asset.

Two other small sale transactions occurred subsequent to December 31, 2015 and prior to the Interim Receivership Order. Unigo Student Funding owned a small portfolio of NYU student loans which was liquidated for \$704 thousand. Additionally, Aequitas sold its 2.7% interest in Spouting Rock Financial Partners, LLC for \$100 thousand (original acquisition price of \$400 thousand). The purchaser was the managing member, with the valuation based on pricing for a new equity raise that was underway at the time.

G. Ongoing Sales Efforts

The Receiver continues to prepare assets for future sales and actively market other assets. Significant resources have been expended to support the ongoing sale process and due diligence of potential buyers of COF's assets, including the Receivership Entity's interest therein. The Receivership Entity can monetize these assets through either a sale of its equity interest in COF or sales of the individual assets owned by COF, such as CPYT and the associated healthcare receivables portfolios at CPLLC and CPFIT. Additionally, the Receiver has spent considerable time "scrubbing" the underlying loan tapes for the MotoLease Financial Holding, LLC ("MLF") portfolio in preparation of taking that portfolio to market. The Receiver has also engaged in preliminary negotiations and discussions regarding the disposition of the Receivership Entity's interests in several other COF portfolio companies, including MotoLease, LLC ("ML") and ETC.

Finally, there are a number of smaller investments, such as Aequitas WRFF I, LLC ("WRFF I"); Innovator Management LLC; and Aequitas Senior Housing, LLC ("ASH") where the Receiver is evaluating purchase offers. These activities are described more fully further in this Report.

VI. Communications to Interested Parties

A. Investors

1. Website

In order to facilitate communication with his various constituencies and the public at large, the Receiver retained Kurtzman Carson Consultants LLC ("KCC") to develop and maintain a public website that contains key information about the Receivership matter, posts all docket entries to facilitate public access to filed papers, a Frequently Asked Questions (FAQ) section (updated regularly) and an inquiry link that allows viewers to direct questions to the Receiver –

<http://www.kccllc.net/aequitasreceivership>

2. Noticing

The Receiver provided notice of the Receivership and the provisions of the Final Receivership Order to 2,275 parties, including investors, lenders, employees and vendors. The Receiver also provided additional notice to 108 former executives and employees regarding the return of company devices – including laptops and/or cell phones.

3. Ongoing Communication with Investors/Counsel

To facilitate regular communication regarding significant opportunities, challenges and actions, the Receiver formed the Investor Advisory Committee (the "IAC"). At present, the IAC is comprised of 49 members, including registered investment advisors ("RIAs") and individual investors representing approximately 1,100 of the investors and more than \$406 million in investor funds. The initial formation meeting took place on March 6, 2016 (pre-receivership) with subsequent meetings on April 27, 2016, June 22, 2016, and August 24, 2016 (the latter is outside of the current reporting period). In addition, the Receiver has conducted telephone conferences with the IAC to

solicit input when presented with time-sensitive opportunities and/or challenges. The Receiver also provides substantially similar information to interested counsel immediately following IAC meetings. On April 28, 2016, June 23, 2016, and August 24, 2016 (the latter is outside of the current reporting period) the Receiver met with counsel for the various investor interests, to both convey information regarding the receivership and also discuss strategy to maximize recovery to the Receivership Entity. Future IAC meetings are scheduled on November 2, 2016. Copies of presentation materials utilized in the meetings were provided to SEC staff, and an SEC staff-representative attended the April 27, 2016 meeting in person. The Receiver and his counsel regularly apprise SEC staff of significant developments affecting the Receivership Entity. In addition, the Receiver provided an in-person report to SEC staff at the SEC's San Francisco office on May 9, 2016.

4. Inquiries from the Website

The Receiver assigned the responsibility of monitoring and responding to investor inquiries to an Aequitas employee familiar with the investors and their specific investments. All draft responses are reviewed by the Receiver or his assigned staff before transmission and relevant responses are added to the FAQ section of the website. In addition, this Aequitas employee manages the communications and logistics for the IAC meetings.

5. Individual Discussions with Stakeholders

The Receiver, as well as his staff and counsel, have all consistently made themselves available to answer questions and discuss various matters on an individual basis with various stakeholders. The Receiver attempts to keep these communications as efficient as possible and recognizes that they can become a significant operational expense. However, the Receiver views this hands-on approach as a necessary and

beneficial adjunct to his other communication channels, including the website and regular IAC meetings, and believes that the frequent investor communication has contributed to the cooperative relationship between the Receiver and the investors who, to date, have supported the Receiver's initiatives including proposed asset resolutions.

6. Account Custodians

The Receiver conducted conferences with Equity Trust, one of the two main custodial firms for Aequitas investments, and had its Legal and Compliance group review current information and status of the Receivership. The corresponding negotiations resulted in a termination/prospective waiver of investor account fees.

Similar discussions followed with Integrity Bank and Trust ("IBAT"), and the Receiver achieved a similar result as IBAT has also agreed to waive investor account fees.

Although these steps do not benefit the Receivership Entity directly, they are of significant benefit to the investors.

B. SEC and Other Governmental Agencies

1. SEC

As previously discussed, on March 10, 2016, the SEC filed a complaint in this Court alleging that certain Aequitas executives and five entities had violated various federal securities laws. Concurrently, the SEC filed a stipulated motion seeking the appointment of Mr. Greenspan as Receiver, along with a Proposed Receivership Order that would enable the Receiver to marshal and preserve assets of the Aequitas companies and to ensure an orderly distribution of any assets at the appropriate time.

On June 6, 2016, the SEC and the Receiver, acting on behalf of the Aequitas Entity Defendants, filed a consent judgment with the Court, which resolved the claims set forth in the SEC Complaint, without admitting or denying the numerous allegations.

On behalf of the Aequitas Entity Defendants, the Receiver also agreed to the entry of a permanent injunction, which prohibits the Aequitas Entity Defendants from further participation in the offer and sale of any securities, except as necessary for the Receiver to carry out his responsibilities under the Final Receivership Order. The consent judgment leaves open the question of whether the Aequitas Entity Defendants will be required to pay disgorgement and/or a penalty.

The SEC enforcement action is still pending against the former Aequitas executives, or Individual Defendants. As part of the consent judgment, the Receiver has a continuing obligation to cooperate in the matter and therefore participates in status conferences and is required to gather documents and other information in response to requests.

During the course of the SEC enforcement action, the Receiver has also spent considerable time and resources addressing various business and regulatory issues that have arisen as a result of the terms and conditions of the Final Receivership Order. The Receiver has, for example, addressed certain investment adviser registration obligations, tax implications, and potential avoidance action options related to the activities of different companies within the Receivership Entity and affiliated RIAs.

2. CSF and CFPB

CSF, which is part of the Receivership Entity, was engaged in the purchase and financing of Corinthian Colleges, Inc. (“Corinthian”) private student loans. Corinthian operated post-secondary career schools throughout the country. In May 2015, Corinthian filed for bankruptcy protection.

Both before and after Corinthian’s bankruptcy filing, various state and federal agencies had begun investigating Corinthian’s business practices, including its advertisement of job placement rates. Subsequently, government regulators, including

the CFPB and state attorney general, began investigating CSF with the stated goal of obtaining some form of private debt relief for Corinthian's former students.

The Receiver has devoted much time and energy to activities related to discussions with CFPB and other constituents and also in responding to their requests for information. The Receiver's goal, which he continues to pursue, is to achieve a balanced, negotiated resolution with all interested parties that provides meaningful relief for student borrowers, while also preserving value for the benefit of Receivership Entity investors. Per agreement with the CFPB, the student receivables cannot be sold prior to entering into a binding settlement with the CFPB.

Subsequent to June 30, 2016, the Receiver and the CFPB have agreed in concept to terms for relief and efforts are underway to document such agreement and to broaden the constituents to such settlement in order to afford more "global" relief.

3. Other Governmental Inquiries

Following the commencement of the SEC enforcement action, other federal and state enforcement agencies also made demands upon the Receiver for information regarding the Receivership Entity. The Receiver has been cooperating fully with these agencies—gathering and producing documents in response to their requests, taking reasonable steps to ensure the preservation of physical and electronic data, and providing additional assistance as required. The Receiver intends to maintain a positive working relationship with enforcement agencies as they look into the pre-receivership activities of the Aequitas group of companies and to minimize, to the extent possible, the cost to the Receivership Entity of such inquiries and investigations.

VII. **Lender Relationships**

A. The Bank of America Financing

On or about November 6, 2013, Bank of America entered into a financing transaction with CPLLC (the “Bank of America Financing”) for the acquisition of certain health care receivables generated at hospitals and physician groups. The Bank of America Financing was secured by all of the assets of CPLLC, which include the receivables, the proceeds thereof and its contracts with customer hospitals to acquire future health care receivables.

On or about November 10, 2015, Bank of America enforced the imposition of a credit reserve against the Bank of America credit facility. Under the credit reserve, availability under the Bank of America credit facility was reduced on a cumulative basis \$75,000 a day, or \$1.5 million a month, and up to \$24 million in total. The reserve effectuated an amortization of the loan balance and significantly impaired Aequitas’ ability to acquire new health care receivables.

In late January 2016, Aequitas informed Bank of America that for several months various Events of Default had occurred and were continuing under the Bank of America Financing. On or about February 3, 2016, Bank of America declared the Bank of America Financing in default, suspended availability under the agreement, and enforced acceleration clauses including turbo amortization – applying all payments received from the receivables as a reduction to the outstanding loan balance, which starved CPYT of its servicing fees and CPLLC of the cash equity due to the investors.

On or about February 19, 2016, CPLLC and Bank of America entered into a Forbearance Agreement, which was subsequently amended on February 26, 2016 and March 4, 2016. Under the March 4, 2016 amendment, Bank of America asserted default interest retroactive to December 31, 2015, and took actions to transfer the servicing of the health care receivables. The SEC Complaint and Proposed Receivership

Order were filed on March 10, 2016 – prior to the expiration of the March 4, 2016 forbearance agreement.

While the powers of the Receiver provide protection from default remedies (including default interest, foreclosure and moving of servicing), those powers do not compel anyone to extend additional debt.

B. The Direct Lending Income Fund, LP (“DLIF”) Financing

In the months prior to the Receivership, CPLLC and CPFIT were in severe distress, operating based on weekly forbearance agreements with Bank of America, the lender to CPLLC, and Wells Fargo, the lender to CPFIT. The weekly forbearance regime placed great restrictions on the funding of new receivables, consumed enormous amounts of management’s time and put the entire CarePayment platform on the brink of collapse. The situation was not sustainable as it threatened the very existence of the entire platform. Immediately prior to and after appointment, the Receiver and his team of professionals worked closely with the CPYT management team to facilitate an emergency capital infusion from a new source, DLIF. DLIF agreed to extend \$45 million to CarePayment, of which approximately \$18 million was used to replace Bank of America, which was the senior secured lender to CPLLC. Despite the filing of the SEC enforcement action on the eve of funding, DLIF effectively stepped into Bank of America’s “shoes” while waiving defaults. Replacing Bank of America with DLIF and the additional capital provided by DLIF brought much needed short-term stability to CarePayment by allowing CPLLC to resume the funding of receivables and preserving CPYT as a going concern in the near term. However, the interest rate and other terms associated with the DLIF financing makes it uneconomic as a permanent solution.

On or about March 16, 2016, DLIF agreed to purchase the Bank of America credit facility and the Receiver was able to reinstate the terms to their pre-default state. DLIF also purchased \$6.5 million of debt owed by CPYT, known as the RIPA notes.

C. The Wells Fargo Financing

On or about January 12, 2015, Wells Fargo entered into a financing transaction with CPFIT (the “Wells Fargo Financing”) for the acquisition of health care receivables generated at hospitals and physician groups around the country. The Wells Fargo Financing is secured by all of the assets of the Separate Trust, which include the receivables and the proceeds thereof. The Separate Trust was established as a special purpose vehicle to be operated separate and apart from the management and control of the Defendants and any of their affiliates. The Separate Trust’s governing documents expressly provided that the Separate Trust was to be operated independently from the Defendants and that there shall be no commingling of the Separate Trust’s assets with the assets of the Defendants.

In late January 2016, Aequitas informed Wells Fargo that for several months various Events of Default had occurred and were continuing under the Wells Fargo Financing. On or about February 19, 2016, certain of the Defendants, the Separate Trust, and Wells Fargo entered into a Forbearance Agreement which was subsequently amended on February 26, 2016 and March 4, 2016. The SEC Complaint and Proposed Receivership Order were filed on March 10, 2016 – prior to the expiration of the March 4, 2016 forbearance agreement.

On March 11, 2016, Wells Fargo, a secured lender, filed a Limited Objection to Stipulated Order Appointing Receiver [Dkt. 5]. Specifically, Wells Fargo objected to the inclusion of CPFIT as part of the Receivership Entity, claiming that CPFIT, whose assets provide collateral for the Wells Fargo Financing, cannot fall under the control of the

Receiver because it was created to operate separate and apart from certain Receivership Entities based on its governing documents and in accordance with the Delaware Statutory Trust Act (“DSTA”).

On March 14, 2016, the Commission filed its response to Wells Fargo’s limited objection [Dkt. 9]. The Commission asserted that the Wells Fargo agreement was within the purview of this receivership and that the Court should block any action by Wells Fargo “seeking to place itself at the front of a long line of defrauded victims and creditors.” On the same day, the Entity Defendants filed a response [Dkt. 12], arguing that the receivership was in place to prevent this specific action, wherein the additional rights Wells Fargo seeks to exercise, such as transferring the servicing of healthcare receivables, will severely degrade and take away value from investors. Further, granting the requested relief jeopardized the recovery for investors, since other creditors would likely make similar claims, laying waste to the remaining assets of the Entity Defendants and their affiliated entities.

At the urging of the Court, the parties engaged to settle Wells Fargo’s limited objection and present a consensual resolution of the dispute. The Receiver and Receiver’s professionals, working in consultation with the SEC, engaged in extensive negotiations with representatives of Wells Fargo to resolve the objection. Following days of intense negotiations, document review, detailed legal and financial analyses, and document drafting, the Receiver and Wells Fargo reached an agreement that included moving CPFIT from an Exhibit A Receivership Entity to an Exhibit B Extended Entity of the Receivership. As part of the agreement, the Receivership Entity was able to continue utilizing the Wells Fargo credit facility to maintain CPFIT receivables and fund limited amounts of new receivables at the pre-forbearance interest rate – all of which helped preserve the value of the entire CarePayment platform. Importantly, the agreement

allowed the Receivership Entity to maintain CPYT as the servicer of the CPFIT portfolio, and provides for some incremental cash flow to the Receivership Entity from the collection of the portfolio receivables. The agreement also amended the loan documents to allow the Receivership Entity to avoid certain technical defaults going forward. The actions of the Receiver preserved value in CPYT and the waiver of default interest and elimination of certain events of defaults substantially benefitted the Receivership Entity and, ultimately, the recovery by the investors.

On April 26, 2016, the Court entered a stipulated order resolving Wells Fargo's limited objection [Dkt. 157].

D. Comvest

ACC Holdings 1, LLC and ACC Holdings 2, LLC (collectively the "Subsidiary Parents") are the subsidiary parents of ACCFT-1 and ACCFT-2, respectively (collectively the "Trusts"). The Subsidiary Parents and the Trusts are part of the Receivership Entity as set forth on Exhibit A of the Final Receivership Order [Dkt. 156]. ACF and AH are the corporate parents of these 100% owned entities and are two of the five Entity Defendants in the SEC Complaint pending before the United States District Court. The books and records state that Aequitas investors had more than \$27 million of equity and funds invested in the Trusts.

In 2014, the Trusts entered into certain loan purchase agreements (the "Loan Purchase Agreements") pursuant to which the Trusts purchased non-prime consumer installment loans arranged by FFN. In connection with the Loan Purchase Agreements, the Trusts entered into certain servicing agreements pursuant to which FFN would service the consumer loans in accordance with the usual standards of practice of prudent services of similar loans, provided that such services would at all times be

performed on a basis consistent with applicable law, certain service level standards and FFN's Policy and Procedures Guide.

On March 30, 2015, the Subsidiary Parents, each as a parent, and the Trusts, each as a borrower (collectively, the "Borrowers") and the Comvest Lenders, in its capacity as both Agent and Lender, entered into a credit agreement (the "Credit Agreement"). The purpose of the credit agreement was to provide funds for the purchase of consumer credit receivables from FFN. Specifically, ACCFT-1 purchased Freedom Plus loans which were used by FFN customers to refinance existing consumer debt and ACCFT-2 purchased Consolidated Plus loans which were used by FFN customers to settle negotiated enrolled debts during a debt settlement process (collectively the "Consumer Loans").

The Credit Agreement provided for \$35 million in initial funding to facilitate the Trusts' refinance and acquisition of the Consumer Loans. Subsequent amendments to the Credit Agreement increased the principal amount of the loan to an aggregate principal amount of \$65 million.

To secure the Credit Agreement, the Subsidiary Parents, as pledgors, entered into that certain Pledge Agreement dated March 30, 2015 (the "Pledge Agreement"). Pursuant to the Pledge Agreement, the Subsidiary Parents each pledged as security for the obligations owing by the Trusts under the Credit Agreement "all beneficial or trust interests of [the Trusts] held by such Pledgor and [the certificates representing 100% of the beneficial interests in the Trusts (the "Trust Certificates")]. The Pledge Agreement granted Comvest control of the Trust by allowing Comvest to re-register the Trust Certificates in the name of Comvest's agent.

As additional security, the Trusts and Comvest entered into that certain Collateral Agreement dated March 30, 2015 (the "Collateral Agreement"). Pursuant to the

Collateral Agreement, the Trusts granted, pledged, and assigned to Comvest all of the Trusts' right, title, and interest in substantially all of their property to secure the obligations owed to Comvest under the Credit Agreement.

On February 2, 2016, Comvest provided notice of multiple alleged events of default under the Credit Agreement (the "Default Notice"). Comvest also alleged that it exercised its rights under the loan documents to take ownership and control of the Trusts by re-registering the Trust Certificates in the name of Comvest Administration, replacing ACF as the administrator of the Trusts, and exercising their rights under certain deposit account control agreements.

Moreover, and in addition to reserving its default rights, remedies, and powers, the Default Notice purported to impose the "Default Rate Interest for all outstanding Obligations retroactive to April 14, 2015" – effectively increasing an already high interest rate from 12.5% to 15.5% retroactive to almost a year prior to the Default Notice and essentially two weeks after the closing of the initial loan. Equally onerous was the six percent (6%) prepayment penalty that was intended to prevent the Trusts from refinancing their way out of the loan.

Based on the alleged events of default and the purported exercise of its various remedies, Comvest filed an objection to the appointment of the Receiver. Comvest argued that by the exercise of its remedies it assumed total and complete control and ownership of the Trust Certificates and the Trusts. Based on its purported control and ownership of the Trusts, Comvest alleged that no Entity Defendant retained any legal, equitable or beneficial interests in the Trusts and had no ability to consent to the entry of the Final Receivership Order on behalf of the Trusts.

The Receiver, on the other hand, argued that the Receivership Entity had not been divested of the ownership and control of the Trusts, the Trust assets or the Trust

Certificates as a consequence of Comvest's purported actions. The Receiver acknowledged that Comvest was a secured creditor, with a number of rights against the Subsidiary Parents, the Trusts and the Trusts' assets, but regardless of whether Comvest had exercised some of its rights, Comvest had not foreclosed on its collateral. Until Comvest completed a foreclosure it could not transfer ownership and control of the Trusts, the Trusts' assets, or the Trust Certificates or divest the Receiver of the right to control and liquidate those assets. Article 9 of the Uniform Commercial Code provides that even if a secured creditor has obtained bare legal title to its collateral, the secured creditor must still sell or dispose of the collateral in accordance with the foreclosure provisions of Article 9 before the debtor loses ownership of the collateral. Comvest conceded in its briefing that no Article 9 sale or other disposition of the collateral had occurred as of the date of this receivership.

While the Receiver and Comvest were actively litigating Comvest's objections to the Final Receivership Order, the Receiver was also actively marketing and negotiating a sale of the Trusts' Consumer Loan Portfolios. As the Receiver made progress toward a potential sale of the Consumer Loan Portfolios to a Freedom-related entity, the Receiver and Comvest agreed to continue the hearing on Comvest's objections without prejudice to any party.

As a result of the Receiver's marketing efforts and the interest of numerous potential bidders, the Receiver ultimately negotiated a sale of the Trusts' Loan Portfolios to Freedom. The Purchase Price, subject to certain adjustments at closing, was \$70,665,216, or about 101.5% of the aggregate principal balance of the Consumer Loan Portfolios.

As part of the sale transaction, the Receiver also negotiated a complete resolution of the Comvest disputes. As a result of these negotiations, Comvest agreed to

waive substantially all of its claims for default interest, as well as its claim for the prepayment penalty, reducing the payoff of the obligations owed to Comvest by several million dollars.

On June 16, 2016, the Court approved the PPA and entered the Amended Order Granting Receiver's Motions to (1) Sell Personal Property Free and Clear of Liens, Interests, Claims and Encumbrances, and (2) Approve Settlement (Freedom Loan Portfolios F+ and C+) [Dkt. 196].

Based on the purchase price, the compromise of the Comvest payoff amount and the cash balance in the consumer loan collection accounts transferred to the Receiver on the date of closing, the Receivership Entity obtained a net benefit of approximately \$18 million.

E. Scottrade

On or about June 28, 2013, Aequitas entered into a \$25.4 million transaction to acquire a portfolio of student loan receivables related to Corinthian financed in part by Scottrade. The current principal amount of the financing is approximately \$1.3 million and is secured by \$8.7 million of student loans. The debt is expected to be retired within 10 to 12 months, depending on collections and other credits.

VIII. Settled and Pending Litigation

A. Settlement of the SEC Complaint

As set forth above, on June 6, 2016, the Receiver, on behalf of the Aequitas Entity Defendants, agreed to resolve the SEC enforcement action. Without admitting or denying the allegations of the complaint, the Receiver consented to the entry of a permanent injunction against future violations of the federal securities laws, and agreed

to cooperate in the ongoing SEC matter. The settlement left open the question of disgorgement and/or civil penalties, which will be addressed at a later date.

The settlement documents also contain a provision that the settling parties understand and agree to comply with the SEC's policy "not to permit a defendant or respondent to consent to a judgment or order that imposes a sanction while denying the allegation in the complaint or order for proceedings." Consequently, the Receiver has refrained from commenting on the settlement.

Although the Aequitas Entity Defendants are no longer contesting the merits of the SEC enforcement action, the Receivership will continue to be involved in the litigation on a limited basis as it proceeds through the discovery phase. Pepper Hamilton will continue to represent the Receiver in connection with the SEC matter, as well as other ongoing regulatory inquiries.

B. Directors and Officers Liability ("D&O") Insurance

The three former Aequitas executives sued by the SEC, Robert Jesenik, Brian Oliver and Scott Gillis (otherwise known as the "Individual Defendants"), moved the Court for an order allowing, inter alia, Catlin Insurance to pay the attorney's fees and related costs ("Defense Costs") they have and will incur in connection with their defense of the SEC investigation (collectively the "Individual Defendants' Motion").

The Receiver, after consultation with insurance coverage counsel Stan Shure, did not believe he could successfully object to the foregoing request. However, the Receiver did find other aspects of the Individual Defendants' Motion objectionable, including, their request to allow Catlin Insurance to pay: (i) the Individual Defendants' Defense Costs for claims that were not identified and, in fact, may have yet to be made and (ii) the Defense Costs of unnamed members of the former management of Aequitas. The Individual Defendants' Motion also failed to: (i) mention the existence of two additional D&O

policies, each with separate limits of \$5 million that are in excess of the Catlin Insurance Policy; (ii) mention that the Aequitas Receivership Entity also qualifies as insured under the D&O policies, thereby inferring that the Aequitas Receivership Entity did not have rights to access the proceeds of the Catlin and excess D&O policies if a covered claim was brought against one or more of them; and (iii) contain any provisions for monitoring or oversight of the Individual Defendants' use of the policy proceeds.

The Stipulation & Order that the Receivership Entity negotiated with the Individual Defendants resolved all the deficiencies in the Individual Defendants' Motion in a manner favorable to the receivership. Specifically, the order the parties stipulated to, and which the Court entered on May 23, 2016, is limited in scope only to the payment of the Individual Defendants' Defense Costs incurred in connection with the SEC claim. It contains language referencing the existence of the excess D&O Policies and that the Receivership Entity qualify as insured and may have rights to D&O Policy proceeds if a covered or potentially covered claim is made against one or more of its entities, and requires the Individual Defendants on a quarterly basis to report to the Receiver the total amount paid to them by Catlin Insurance during the preceding quarter. Subsequent to June 30, the Receiver received the first such report.

C. Genesis Lending Services, LLC ("Genesis")

Genesis claims that CSF and Aequitas SPV, owning pools of Corinthian student loans, failed to pay certain de-boarding fees to Genesis owed as part of the termination of the servicing relationship between Aequitas and Genesis. The claims were settled prior to the receivership for a total of \$285,655, in six monthly installments of \$47,609 beginning on February 29, 2016. The February 2016 installment was paid.

The Receiver has suspended further payments to Genesis.

D. Insurance causes of action

Shure, with the assistance of FTI's and the Receivership Entity's staff, has been involved in discovering and submitting to National Union – an AIG company that provided coverage for the Aequitas Receivership Entity – matters that trigger coverage under the "Fidelity" section of the Financial Institutions Bond that expired on June 30, 2016.

Additionally, Shure – in conjunction with FTI, Pepper Hamilton and Schwabe – has been analyzing the historic and current management and professional liability insurance coverage issued to Aequitas for purposes of determining, inter alia: (i) whether coverage is triggered under these policies for the various claims that have and may be asserted against Aequitas and its former management personnel; (ii) when such claims, under the terms of the policy, were first made; (iii) what policy year(s) were triggered by the claims; and (iv) the coverage positions the insurers have or may be expected to assert with respect to such claims. Finally, Shure in conjunction with FTI's and the Receivership Entity's staffs has: (i) been involved in the receivership's attempts to obtain new policies replacing the expiring Financial Institution Bond, Employment Practices Liability and Fiduciary Liability policies issued to Aequitas; and (ii) been obtaining missing policies where coverage was previously bound but where the corresponding policies had not been issued.

E. ASFG

At the time of the Receiver's appointment, lawsuits were pending against Aequitas entities in California federal and state courts. ASFG and affiliates had filed suits against Aequitas and certain of its executives in the Southern District of California and San Diego County, asserting state law claims for money damages arising out of the

companies' former business relationship, which involved brokering and financing loans to students of the now bankrupt Corinthian Colleges.

Following this Court's issuance of the Receivership Order, the Receiver worked with his counsel to inform the California courts of the litigation stay imposed to protect Receivership Property and to provide the Receiver with the necessary time to carry out his many duties without the distraction and expense of defending litigation claims. Both California courts promptly stayed their pending cases.

Shortly thereafter, in furtherance of the Receiver's duty to take custody of Receivership Property, the Receiver filed a motion in the Southern District of California to release \$2.4 million from the court's registry that had been deposited by Aequitas years earlier pursuant to a pre-judgment attachment lien. ASFG fought the disbursement and lost. The California District Court held that ASFG had no right of possession to the funds, which remain property of the receivership.

Before releasing the funds, however, the California District Court provided ASFG with time to seek relief from this Court. As previously discussed, ASFG's motion to lift the litigation stay, which the Receiver, SEC, and certain investors opposed, has been resolved.

IX. Assets in the Possession, Custody and Control of the Receivership Estate

A. Cash and Cash Equivalents

The Receiver has possession of cash balances in excess of \$39 million as of June 30, 2016. At the time of the Interim Receivership Order establishing the Receivership, there were very limited unrestricted funds in the estate to pay prospective operating expenses. The Interim Receivership Order and Final Receivership Order have provided

the Receiver with the flexibility of using any funds across the Receivership Entity for the purpose of paying for operating expenses. Additionally, over the period from March 16, 2016 to June 30, 2016, the overall cash balance of the Receivership Entity increased by approximately \$23.4 million, plus release of additional previously retained cash by Comvest.

These funds are segregated by legal entity based on the proceeds of asset sales and collections and deposited in accounts controlled solely by the Receiver at Union Bank of California (with some smaller balances at a few other financial institutions). While bank accounts are maintained for each entity, the expenses of the Receivership Entity can be covered from any of the entities in accordance with the Final Receivership Order.

Attached as Exhibit E to this Report is the Report of Cash Receipts and Disbursements in the form of the Standardized Fund Accounting Reports as prescribed by the SEC. The reports, together with the accompanying footnotes and detailed schedules, provide an accounting of the Receivership Entity's cash activities through June 30, 2016.

B. Notes Receivable

Aequitas used intercompany notes (and accounts receivable/payable) to document the transfer of funds among its affiliates and subsidiaries. The largest of these intercompany notes is a \$180 million note from AH to ACF. Exhibit C lists the notes receivable for ACF as of year-end 2014 and 2015. As indicated, Aequitas transferred intercompany notes between various entities during 2015. The Receiver, as part of his future investigation, will review all of these transfers.

For notes receivable from non-Receivership entities, the Receiver and staff continues to pursue collection and will continue to provide progress updates.

C. The 48 Receivership Entities and 9 Extended Entities

The section below discusses the major entities relevant to the Receivership, their assets and a general description of the businesses. An organizational chart is attached to this report as Exhibit A.

1. Aequitas Management LLC ("AM")

AM is the ultimate parent company for the Aequitas enterprise. The ownership of AM has evolved as managers and partners have entered and exited Aequitas. The corporate governance of AM is discussed in further detail in Section XI below. The ownership interests in AM, as of December 31, 2015 and June 30, 2016, are represented in the table below.

	Ownership at 12/31/15		Current Ownership	
Name	Units	Percentage	Units	Percentage
Bob Jesenik	1,198,015	40.1%	1,198,015	41.3%
Brian Oliver	727,511	24.4%	727,511	25.1%
Andy MacRitchie	391,670	13.1%	391,670	13.5%
Craig Froude	391,670	13.1%	391,670	13.5%
Atherton Capital Holdings	194,481	6.5%	194,481	6.7%
William Malloy	83,193	2.8%	0	0.0%
Total:	2,986,540	100.0%	2,903,347	100.0%

AM owns 83.6% of AH with the remainder held as represented in the following table.

	Existing AH Ownership		Income Allocation		
Name	Units	Percentage	First 65% to Mgmt	Remain 35% to Common	Total
Aequitas Management, LLC	8,844,175	83.6%	65.00%	29.3%	94.3%
William C. McCormick	64,400	0.6%	0.00%	0.2%	0.2%
PatRick Investments	834,000	7.9%	0.00%	2.8%	2.8%
Rick Terrell	834,000	7.9%	0.00%	2.8%	2.8%
Total:	10,576,575	100.0%	65.00%	35.0%	100.0%

AH in turn owns 100% of ACM, 100% of ACF and a majority interest in COF.

ACM, ACF and COF each own portfolio companies and equity investments as explained below. The portfolio companies and equity investments owned by ACM, ACF and COF are each addressed separately, beginning with COF.

2. COF

Monetization of the Receivership Entity's interest in COF, including through the monetization of COF's interest in its portfolio companies, is one of the Receiver's priorities. CPYT, as the largest of the COF holdings, has significant going-concern value with potential to be monetized for the benefit of Aequitas investors (and the limited partners in COF). The various entities listed in this sub-part 2 are all owned in whole or in part by COF. Note that while COF itself is a Receivership Entity, the various companies in which COF owns an interest are not part of the Receivership Entity.⁷

The Receiver and his staff have been actively marketing Receivership Entity's interests in COF in search of a suitable replacement general partner. To date, those efforts have generated two non-binding letters of intent with a high valuation of about \$63 million for the Receivership Entity's interests.

An analysis of the relative value of selling the interests in COF vs. monetizing each asset owned by COF is underway, with various monetization alternatives and combinations of strategies being considered.

a. The CarePayment Platform

The Receiver has devoted considerable time and energy to preserve value in the CarePayment platform, consisting of CPLLC, CPFIT, CarePayment Holdings, LLC ("CPH") and CPYT.

Healthcare receivables portfolios are owned by CPLLC (part of the Receivership Entity) and CPFIT (not part of the Receivership Entity). Both entities roll up to CPH (part of the Receivership Entity).⁸ As of June 30, 2016, the face values of the receivables owned by CPLLC and CPFIT were \$51.8 million and \$24.4 million respectively, with such

⁷ The COF portfolio companies listed on Exhibit B of the Final Receivership Order include CPYT; EdPlus; ETC; SCAH; MOGL Loyalty Services, Inc.; MotoLease LLC; Independence Bancshares, Inc. and QuarterSpot, Inc.

⁸ CPLLC and CPH are part of the Receivership Entity, per Exhibit A of the Final Receivership Order. CPFIT and CPYT are Extended Entities, per Exhibit B of the Final Receivership Order.

receivables encumbered by senior secured debt of \$33.5 million for CPLLC and \$16.8 million for CPFIT. CPH, which directly owns 100% of CPLLC and, indirectly, 100% of CPFIT, is encumbered by additional debt, including approximately \$10.5 million of secured debt from Weider and Forman as well as \$15.9 million of subordinated debt. In order to preserve the “going concern” value of the platform, CPLLC has been originating new receivables in the ordinary course of its business since the commencement of the receivership.

*b. CPYT*⁹

CPYT services healthcare receivables and develops and manages the CarePayment program. As the operating company, CPYT provides a patient finance and servicing program that has been deployed at healthcare provider sites, including health systems, hospitals, and physician groups across the United States. With respect to the investment in the receivables, CPYT currently works exclusively with CPLLC and CPFIT, providing sales, program management, and servicing of the healthcare receivable portfolios owned by CPLLC and CPFIT. CPYT is majority-owned by COF.¹⁰ Although CPYT is not technically part of the Receivership Entity, it is a critical asset of COF (part of the Receivership Entity) and is integral to maximizing the recovery to a wide range of Aequitas investors. In 2013, Duff & Phelps valued the equity of the company between \$25 million and \$35 million and in 2014 between \$85 million and \$100 million. The 2014 audited financials valued COF’s 92.1% stake at \$92 million, which was later revalued by Aequitas as of 3Q 2015 at \$69 million. The Receiver views these prior valuations as not indicative of current value.

⁹ <https://www.carepayment.com/>

¹⁰ COF has been recently renamed CCM Capital Opportunities Fund, LP

The Wells Fargo credit facility is gradually amortizing, with CPFIT paying down the outstanding loan balance by approximately \$7.0 million¹¹ between March 31 2016 and June 30, 2016. The Receivership Entity has been in regular communication with Wells Fargo, providing weekly reports and running weekly distribution “waterfalls,” as well as coordinating a site visit by Wells Fargo representatives. Although CPFIT is not part of the Receivership Entity, due to its close connection with the Receivership Entity, the Receivership Entity greatly benefits from the Receiver’s efforts to stabilize and maximize the value of CPFIT.

As part of the effort to monetize the Receivership Property, the Receiver, his retained professionals, and Receivership Entity staff have engaged CPYT in active discussions regarding the potential sale of approximately \$76 million receivables owned by CPLLC and CPFIT (as of June 30, 2016, based on face value) to a newly formed affiliate of CPYT. Such a sale would provide significant cash proceeds to the Receivership Entity (and, ultimately, to the investors) and would increase the value of CPYT by improving its marketability, also a benefit to the Receivership Entity and its investors. Receivership Entity staff have worked closely with CPYT management and staff to understand and analyze the CarePayment business model, the complex nature of the flow of flows, including funding transactions, hospital settlements, and various legacy and on-going intercompany obligations between CarePayment-related entities that are part of the Receivership Entity and the non-Receivership Entity CPYT, and to develop a potential approach to pricing the portfolios for sale to CPYT. To effectuate the acquisition of receivables and to stabilize and grow its operations, CPYT will require a new health care receivables funding facility.

¹¹ The outstanding balance on March 31, 2016 and June 30, 2016 was \$23.8 million and \$16.8 million, respectively.

To procure a new, lower-cost source of funding, CPYT, with significant input from the Receiver, has obtained a letter of intent from a bulge bracket financial institution to provide a new large senior credit facility that would allow CPYT to acquire the receivables from CPLLC and CPFIT. However, this transaction does not appear to be moving forward at this time due to conditions required by the potential new lender that CPYT might not be able to meet. CPYT is continuing to explore various alternative funding sources for the acquisition of new receivables.

In anticipation of the potential sale of the CPLLC and CPFIT receivables portfolios, which could produce approximately \$25 million in net proceeds (after payment of institutional debt), the Receiver has been engaged in negotiations with Weider and Forman for a reduced payoff of their secured loans to CPH ("Weider / Forman Loans"). Based on the facts presently known to the Receiver, the Weider / Forman Loans appear to be substantially over-collateralized and validly perfected. These loans bear interest at 17% (default rate of 25%). Weider / Forman have agreed to a payoff of \$8.5 million in full satisfaction of the \$10.5M principal balance of the note and the accrued interest of approximately \$800 thousand. While the Receiver has not yet submitted this matter for Court approval (which is subject to a completed portfolio sale), the Receiver has discussed this matter with the IAC members and, while not unanimous, the reduced payoff proposal has received strong support.

To achieve a beneficial sale, CPYT needs to be able to continue as a going concern and reorganize as an integrated enterprise that directly owns the existing CPLLC and CPFIT receivables portfolios, as well as the newly originated receivables, and have access to stable low-cost funding. Prior to the Receivership, Triple Tree, a health-care industry investment banking specialist, had been seeking minority investors for almost a year and had received 15 indications of interest. The discovery and correction of an

accounting consolidation error in certain CPYT financial statements and Aequitas' recent circumstances caused all but one interested party to drop out of that process.

Subsequently, CPYT has continued to attract potential buyers. In early June, CPYT received an offer from a private equity firm sourced by Triple Tree interested in acquiring a majority stake in CPYT – a transaction that would allow the repayment of the CPYT Receivership Entity notes receivable and the redemption of some of the existing shareholders. The potential buyer is familiar with the CarePayment platform and is continuing additional due diligence.

c. *ETC*¹²

ETC offers clearing, settlement and custodial services to securities industries participants. COF owns 24.3% of ETC via common stock with Aequitas ETC Founders Fund LLC ("ETCF") owning an additional 28.9% via preferred stock. In 2013, Duff & Phelps valued the COF interest in ETC at between \$5.3 million and \$8.1 million. The 2014 audited financials valued the COF holdings at \$9.1 million, which value was later affirmed by Aequitas as of 3Q 2015. The Receiver has not yet determined an estimate of value.

d. *ML*¹³

ML is a lease originator that offers consumers leasing programs that allow near-prime and subprime consumers to lease new and used motorcycles, ATVs, jet skis and other power sport vehicles. ML provides an alternative means of financing to prospective lessees who may not qualify for leasing programs offered by traditional financial institutions. ML solicits its customers by working with a network of motorcycle and motor vehicle dealerships primarily located in the states of California, Texas, and Florida. Ordinarily, the leases are contracted for 12 to 60 months. Utilizing a lease

¹² <https://www.etcgh.com/>

¹³ <http://motolease.net/>

structure rather than a retail installment contract structure allows ML to apply a cost of financing appropriate to the credit risk of the consumer and collateral class, and it provides more control of the collateral, which is vital when serving subprime customers. In 2013, Duff & Phelps valued the COF interest at between \$5.3 million and \$8.1 million. The 2014 audited financials valued the COF holdings at \$8.5 million, which value was later affirmed by Aequitas as of 3Q 2015. The Receiver has not yet determined an estimate of value.

*e. Independence Bancshares, Inc.*¹⁴

Independence Bancshares, Inc. operates as a bank holding company. The company through its subsidiary, Independence National Bank, provides banking services to consumers and small- to mid-size businesses, principally in Greenville County, South Carolina. It provides traditional checking and savings products and commercial, consumer and mortgage loans to the general public, as well as ATM and online banking services, commercial cash management, remote deposit capture, safe deposit boxes, bank official checks, traveler's checks, and wire transfer capabilities. The company also offers digital banking, payments and transaction services. Independence Bancshares was founded on September 21, 2004 and is headquartered in Greenville, SC. COF purchased \$2.5 million of preferred stock in May 2015 bearing 6%.

f. SCAH

SCAH develops model portfolios and offers back office integration to third-party investment management firms. The 2014 audited financials valued COF's 25% stake at \$4 million, which was later revalued by Aequitas at \$4.6 million as of Q3 2015. SCAH operates at a loss and requires quarterly infusions of cash to maintain operations. The Receiver is currently in negotiations with the other partners in the venture for a

¹⁴ <http://independencenb.com/>

repurchase of the Receivership Entity's interest with a purchase price of approximately \$817 thousand, with \$300 thousand paid at closing and the additional consideration paid in equal installments in September 2016 and January 2017.

*g. MOGL Loyalty Services, Inc.*¹⁵

MOGL Loyalty Services, Inc. provides rewards programs for restaurants and consumers in the United States. It offers restaurant rewards programs that let consumers earn cash back for eating at specific restaurants, in addition to providing users with the option to donate those rewards to charity. The company was founded in 2010 and is based in San Diego, California. COF valued its 7.1% stake at \$2 million as of Q3 2015. The Receiver has not yet determined an estimate of value.

*h. QuarterSpot, Inc.*¹⁶

QuarterSpot, Inc. is a peer-to-peer small to mid-size business loan originator. The company was incorporated in 2011 and is based in New York, New York. The 2014 audited financials valued COF's 17.9% stake at \$5.1 million, which was later revalued by Aequitas at \$10.5 million as of Q3 2015. The Receiver has not yet determined an estimate of value.

*i. EDPlus (dba Unigo Group)*¹⁷

As discussed earlier in the Report, COF's interest in EDPlus has been sold. In 2013, Duff & Phelps valued the equity of the company at between \$10 million and \$15 million, and in 2014 at between \$28.5 million and \$33.5 million. The 2014 audited financials valued COF's 79% stake at \$11.7 million, which was later revalued by Aequitas at \$7 million as of 3Q 2015.

¹⁵ <https://www.mogl.com/>

¹⁶ <https://www.quarterspot.com/>

¹⁷ <http://b2e.unigo.com/>

As previously discussed, the Receiver has sold the interest in EdPlus. The consideration for the sale was \$500 thousand to be paid at closing, \$100 thousand to be paid sixty days after the closing (based upon working capital true-up calculations), and an “earn out” based on the performance of EdPlus during the 12 months following the sale, which may or may not result in additional payments of up to \$12.9 million.

j. Alternative Capital Advisors LLC¹⁸

Alternative Capital Advisors is a Registered Investment Advisor. Aequitas sold its 4.9% interest in late 2015 for \$53 thousand. The Receiver is investigating the sale to ensure it was an arms-length transaction and was consummated based on a proper valuation.

3. ACF

ACF has an ownership interest in the following receivables portfolio companies and equity investments.

a. CPH

CPH as discussed earlier, through its subsidiaries (CP LLC and CPFIT), holds consumer medical receivables with a face value of \$76.2 million as of June 30, 2016. As discussed above, these portfolios may be sold to an affiliate of CPYT following its recapitalization, with CPH benefitting from the proceeds net of secured debt.

b. CSF

CSF is one of two Aequitas entities that own the Corinthian Colleges student loans portfolio (the other is IPF). The CSF portfolio is approximately 29,000 accounts, including approximately 12,000 defaulted accounts as of June 30, 2016. The aggregate unpaid balance of these portfolios is \$199.7 million and the principal balance of non-defaulted loans is \$81.4 million. The net investment by Aequitas in the remaining

¹⁸ <http://altcapadvisers.com/>

portfolio is approximately \$87.9 million and there is senior secured debt owed to Scottrade of approximately \$1.3 million. A settlement with the CFPB and likely with other authorities and constituents is required before the portfolio can be monetized and any such settlement will significantly degrade the value of the receivables. The Receiver views the market value of the receivables as highly uncertain.

c. *ACC F Plus Holdings, LLC (F+) ("ACCFPH")*

ACCFPH through ACCFT-1 held consumer consolidation loans which were sold as part of the Consumer Loan Portfolios sale. Of the \$44.5 million gross proceeds received from the sale, approximately \$5.2 million was realized on this portfolio after the retirement of secured debt and additional \$3.8 million of restricted cash collections were released to the Receivership Entity.

d. *MLF*

MLF holds subprime consumer leases for motorcycle and other recreational vehicles. A substantial amount of the portfolio's value was lost when MLF entered into a consignment agreement with Next Motorcycle, LLC ("NEXT") in 2015. The agreement was intended to increase the resale value of vehicles repossessed by establishing economic policies for refurbishing and marketing such vehicles. Instead, the NEXT program took assets that were owned free and clear by MLF and appears to have caused the portfolio to pay an excessive amount of fees to NEXT, thereby diminishing asset value. As of June 30, 2016, the portfolio had a face value of approximately \$11.1 million, of which \$10.7 million is less than 60 days past due (after a 42% charge-off of defaulted accounts). Additionally, MLF had repossessed 144 vehicles with cumulative outstanding lease balances of \$1.1 million that are in various stages of reconditioning and/or resale. The Receiver is working to determine the recoverable value of the

repossessed vehicles. The Receiver is also reviewing potential claims with the servicing of the portfolio and refurbishment of the repossessed assets.

e. *ASH*

ASH was formed in November 2014 to provide funding to Aequitas' senior living facility joint venture with Civitas Senior Living. The joint venture's purpose was to build and operate a senior living facility, called LedgeStone Senior Living, in Austin, Texas. In January 2015, ASH loaned approximately \$2.4M to LedgeStone Holdings, LLC,¹⁹ the property holding company of the joint venture. The proceeds of this loan were to be used by the joint venture to make a 20% down payment on a larger property and construction loan to build the facility. The loan to LedgeStone Holdings is ASH's only asset. ASH made additional advances to LedgeStone Holdings and the loan currently has an outstanding balance of approximately \$3.1M. The Receiver has received an offer of \$1.5 million for LedgeStone Holding's interest and is currently evaluating the offer.

4. ACM

ACM has an ownership interest in the following loan portfolio companies and equity interests.

a. *Spouting Rock Financial Partners, LLC*

Spouting Rock Financial Partners, LLC²⁰ is both an investment banking firm and an alternative investment consulting firm, and was developing a new mutual fund when Aequitas made its investment of \$400 thousand in August 2013. ACM's interest in Spouting Rock Financial Partners was sold for \$100 thousand in February 2016.

¹⁹ LedgeStone Holdings, LLC is a subsidiary of Aequitas Senior Housing Operations LLC – an AH subsidiary.

²⁰ <http://spoutingrock.us/>

b. *Aequitas Capital Opportunity Fund GP, LLC (“COF GP”)*

COF GP is a 1% owner of COF. The value of this asset is currently unknown. A more fulsome discussion of COF and its portfolio companies is contained earlier in this Report.

c. *AIM*

AIM manages various Aequitas funds and pre-Receivership received a management fee based on assets under management for its services provided to certain Aequitas funds.²¹ The fee has two components: (i) 0.1667% monthly (2% annualized) of the assets of the funds managed by AIM (excluding certain assets attributable to inter-company balances such as loans to affiliates) and (ii) 20% of the annual net income of the managed entity, calculated and paid quarterly (subject to a year-end true-up based on final audited annual numbers). The management fee is subject to adjustment on an annual basis. Since the institution of the Receivership, no management fee has been assessed or paid by any of the managed funds. AIM recently filed a Form ADV-W to withdraw its SEC registration as an investment advisor.

5. AES

AES provides administrative services to various Aequitas entities. Continuing the pre-Receivership practice, the employees of the Receivership predominantly are employed by and paid through this entity.

The sole asset of AES is a 25% interest in COF GP. The Receiver has not yet determined an estimate of value of this asset.

²¹ Those funds include COF, EIF, IPF, IOF, IOF II, PCF and WRFF.

6. PCF

PCF owns 12.6% of COF. The Receiver has not yet determined an estimate of value. The detailed discussion of the equity positions owned by COF can be found earlier in this report in Section IX, C, 2.

a. *Pipeline Health Holdings, LLC*²²

PCF owns 12.6% of Pipeline Health Holdings, which is a telepharmacy platform offering both a full service telepharmacy and also software as a service (SaaS) technology. Pipeline offers telepharmacy to hospitals and hospital networks. Pipeline is targeting a recapitalization with a new equity investor in the Q4 2016 - Q1 2017 timeframe. The Receiver has not yet determined an estimate of value.

7. IOF

IOF is a debt fund used by Aequitas for fundraising and subsequently using those funds to make loans to other Aequitas investment vehicles or portfolio companies. IOF has \$17.3 million in debt outstanding to investors. A summary of investments and loans made by IOF is contained herein as Exhibit B. Book values, which are stated as of December 31, 2015, are subject to material impairment and are not indicative of expected recovery.

D. Other Aequitas Holdings Investments

1. ACC C Plus Holdings, LLC (C+) ("ACCCPH")

ACCCPH held consumer consolidation loans which were sold as part of the Consumer Loan Portfolios sale. Of the \$19.7 million total gross proceeds received from the sale, \$4.9 million was realized on this portfolio after the retirement of secured debt

²² <http://www.pipelinex.com/>

and additional \$5.5 million of restricted cash collections were released to the Receivership Entity.

2. Aequitas Peer-To-Peer Funding (“P2P”)

P2P was established in March 2014 and made its first investment in April 2014. The fund was created to participate in loans to small and medium sized businesses, which Aequitas asserted historically been underserved by traditional banks.

While P2P was created to invest across various platforms, it only entered into a partnership with OnDeck (an online platform for small and medium sized business loans). At its peak, in March 2015, P2P had \$5,267,704 in OnDeck receivables. OnDeck provided an accounting report as of February 1, 2016 which indicated the principal balance at that time was \$48,902.

3. ACC Holdings 5, LLC (“ACCH5”)

ACCH5 is a special purpose entity which, through an affiliated trust, owns approximately \$12.5 million of additional C+ and F+ consumer consolidation loans from the Freedom Financial Network program. The consumer consolidation loans were acquired via funds received through the sale of certificates of beneficial interest to a Cayman Island entity financed by Luxembourg bonds.

4. Aequitas Wealth Management, LLC (“AWM”)

AWM was the entity through which Aequitas was acquiring RIAs and has an ownership interest directly or indirectly in the following loan portfolio companies and equity interests.

a. *Hickory Growth Partners, LLC (“HGP”)*

HGP (RIA in Tennessee) is defunct due to the death of the principal – Bobby Allison. HGP loaned \$175 thousand to Mr. Allison in October of 2014. He passed away

shortly thereafter. Pre-receivership, the last settlement offer made to Mr. Allison's estate was \$50 thousand in exchange for a return of all membership interests to his estate.

b. Aspen Grove Equity Solutions ("AGES")

AWM owns 60% of AGES with the remainder held as presented in the following table.

Aspen Grove		Ownership at 12/31/15	
<u>Names</u>	<u>Units</u>	<u>Percentage</u>	
Aequitas Wealth Management, LLC	120,000	60.0%	
Gary Price	35,000	17.5%	
Tim Feehan	35,000	17.5%	
Ron Robertson	10,000	5.0%	
Total:	200,000	100.0%	

AGES bought Strategic Capital Group (an RIA) from Gary Price and Ron Robertson financed by a seller note; AGES subsequently borrowed funds from ACL to facilitate a merger with Private Advisory Group ("PAG"). AGES now owns approximately 68% of PAG, owes Aequitas Corporate Lending \$1.7 million, and still owes Gary Price/Ron Robertson the seller note in the amount of approximately \$4.8 million. AGES had improperly attempted to expel Aequitas as a member; the Receiver has asserted his rights to continue as the majority equity owner of AGES and will be seeking to monetize this investment.

c. PAG

AGES owns 68% of PAG with the remainder held as presented in the following table.

Private Advisory Group, LLC		Ownership		
Member	Class A	Class B	Total	Percentage
Aspen Grove Equity Solutions, LLC	68,230	0	68,230	68.20%
Bean Holdings LLC	27,400	0	27,400	27.40%
Douglas Maurer	0	4,370	4,370	4.40%
Total:	95,630	4,370	100,000	100.00%

AGES acquired its interest in PAG in July 2014 at which time PAG absorbed more than \$400 million in assets under management from another investment firm, Strategic Capital Group (SCG).²³

PAG is experiencing substantial pressure and loss of assets due to its affiliation with Aequitas and large holdings by its clients of Private Notes.²⁴

d. *Aequitas Wealth Management Partner Fund LLC ("AWMPF")*

AWMPF's sole asset is an interest in Accelerate IT ("AITV").²⁵ AITV is a US-based venture capital firm with offices in Palo Alto, Santa Monica, La Jolla, Boston, and London, that is focused on commercialization of technologies between the United States and Europe, Middle East and Africa. AITV invests in early-stage, medium-growth and late-stage information technology companies that demonstrate significant opportunities for growth. On January 30, 2016, the managing members of AITV improperly attempted to remove Aequitas from its interest in AITV. The Receiver has contested the removal of Aequitas and intends to fully evaluate the Receivership Entity's position in this matter, and to provide a report to the Court regarding its position and whether it intends to enforce its rights under the AITV GP Operating Agreement.

²³ Two months after closing, the SEC fined SCG and Gary Price for purchasing bonds through his personal broker-dealer before selling them to SCG Clients at a mark-up.

<http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370542983435>

²⁴ ACF utilized the issuance of unsecured promissory notes ("Private Notes") to raise hundreds of millions of dollars from more than a thousand investors. As of December 31, 2015, approximately \$312 million in Private Notes were outstanding to more than 1,500 investors. An estimated 330 clients of PAG, representing \$128 million of assets under management were invested in Aequitas sponsored investment products.

²⁵ <http://accelerateit.com/>

5. Portland Seed Fund²⁶

Portland Seed fund is an investment in a local venture capital fund providing early stage capital to Oregon based start-ups. The Receiver has not had an opportunity to review this investment and, thus, has not determined any recoverable value.

6. Luxembourg Bonds

The Receivership Entity is involved in a complex trust structure related to several series of bonds offered on the Luxembourg Stock Exchange to non-U.S. investors. The issuer of such bonds is Aequitas Income Opportunities S.A. (the “Issuer”), which is not part of the Receivership Entity. The Issuer purchased limited partnership interests in Aequitas International Opportunities LP, a Cayman Islands limited partnership (“Cayman”) which is one of the “Extended Entities” under the Final Receivership Order. Cayman is the holder of certificates of beneficial interest in ACCH5 (part of the Receivership Entity), which is wholly-owned by AH (also part of the Receivership Entity). ACCH5 established a series of Grantor Trusts that purchased and currently holds certain C+ and F+ Freedom loan portfolios.

As of the date of this report, the Receiver has performed a preliminary analysis regarding the complex structure of the entities and assets and has fielded questions and inquiries from third parties about certain aspects of the debt and equity holdings of the various parties, but no conclusions have been reached at this point regarding the assets and liabilities of these various entities.

7. Aequitas Asset Management Oregon (“AAM”)

AAM’s sole investment is in Innovator Management,²⁷ a 1940-Act investment advisory platform that is owned equally with Clifton Larson Allen. The platform currently

²⁶ <http://www.portlandseedfund.com/>

²⁷ <http://innovatorfunds.com/>

advises a mutual fund, Innovator McKinley Income Fund, and an ETF, Innovator IBD ETF. The single biggest asset is the exclusive right to develop additional Investor's Business Daily branded ETFs. The Receiver has received an offer that would produce minimal funds to the Receivership Entity. Additionally, another interested party is entering into due diligence regarding the acquisition of this asset.

8. Aequitas Senior Housing Operations, LLC

The Receivership Entity owns a minority interest in a development in Austin, Texas consisting of 120 independent senior lifestyle apartments, approximately 60 assisted living studio suites and one-bedroom units, and 10 private and semi-private memory care units.

The project is currently over-budget and behind schedule, with occupancy expected to commence in Q4 2016. Due to the typically extended period before stabilization, these types of projects often do not experience a liquidity event (either sale or refinance) until several years after occupancy commences.

The majority owners have made a cash offer of \$1.5 million to repurchase the interest. The Receiver is evaluating the offer.

9. Aequitas Hybrid Fund ("AHF")

ACF owns 29.2% of AHF. AH owns 14% of AHF. AHF is a middle market mezzanine debt fund established in 2006. It has been in wind-down/liquidation mode for several years. The sole asset of AHF is a note receivable from MSP in the amount of \$10.3 million as of December 31, 2015, which the Receiver believes is significantly impaired.

10. Aequitas Income Opportunity Fund II, LLC ("IOF2")

IOF2 is a debt fund used by Aequitas for fundraising and which subsequently used those funds to make loans to other Aequitas investment vehicles or portfolio

companies. IOF2 has \$104.6 million in debt outstanding to investors. A summary of investments and loans made by IOF2 is contained herein as Exhibit B. Book values, which are stated as of December 31, 2015, are subject to material impairment and are not indicative of expected recovery.

11. ETCF

ACF owns 15.4% of ETCF, and AIM owns 11% of ETCF. ETCF's sole investment is in \$8.8 million Series A convertible preferred stock in ETC Global Holdings, Inc. which was purchased in September 2011. This investment is redeemable at the option of both the holders or ETC after September 23, 2016 at \$5.00 per share (par) plus accrued and unpaid dividends (accruing 5% annually). The Receiver has not yet determined an estimate of value.

12. WRFF 1

WRFF 1, through its affiliates, holds a management contract entitling the Receivership Entity to a management fee of 75 basis points annually on invested capital (approximately \$21.8 million) by its investors in the Window Rock Residential Recovery Fund.²⁸ The Receiver is in active discussions with Window Rock Capital Partners LLC (the sponsor of the underlying fund) to sell the Receivership Entity's interest.

13. Aequitas Enhanced Income Fund, LLC ("EIF")

EIF is a debt fund used by Aequitas for fundraising and which subsequently used those funds to make loans to other Aequitas investment vehicles or portfolio companies. EIF owes \$14.2 million of debt to non-controlling members (investors) and \$1.4 million to ACF. A summary of investments and loans made by EIF is contained herein as Exhibit B. Book values, which are stated as of December 31, 2015, are subject to material impairment and are not indicative of expected recovery.

²⁸ <http://windowrock.com/>

14. IPF

IPF is an equity fund used by Aequitas for fundraising and which subsequently used those funds to make investments in and loans to other Aequitas investment vehicles or portfolio companies. IPF owes \$9.2 million to non-controlling members and \$10.5 million total to CSF and ACF. A summary of investments made by IPF is contained herein as Exhibit B. Book values, which are stated as of December 31, 2015, are subject to material impairment and are not indicative of expected recovery. CSF owns 46.3% of IPF, and ACF owns 8% of IPF.

15. APF Holdings, LLC ("APFH")

AM also owns 100% of APFH. APFH holds a controlling interest in APF.

16. APF

APF is an equity fund. The ownership interests in APF are presented in the following table.

Aequitas Partner Fund, LLC		Ownership
<u>Name</u>		<u>Percentage</u>
Aequitas Management, LLC		83.6%
William C. McCormick		0.6%
PatRick Investments		7.9%
Rick Terrell		7.9%
Total		100.0%

APF has an interest in the following companies:

a. *MSP*

MSP was originally a holding company formed to acquire companies in the marketing, printing, and graphic arts industries. Over time the holding company acquired the assets of three traditional printing companies, a packaging company, and Ivey Performance Marketing (a branding, marketing, and digital technology company). At this point, only the Ivey Performance Marketing business is active, with the other

operations either being shut down, sold off, or rolled into Ivey Performance Marketing. While the equity of MSP is owned by APF, there is approximately \$10 million subordinated debt which is the sole remaining asset of AHF. Due to the seasonality of the business and the loss of a key customer in early 2016, the Receiver – after consultation with the IAC – has agreed to provide bridge financing of up to \$750 thousand while MSP is repositioning its business and preparing to sell itself as a going concern. Marketing of the business is expected in 2017.

b. Skagit Gardens, Inc.

As outlined in detail in Section V, C, Skagit Gardens filed bankruptcy and its assets were sold. Skagit Gardens was a producer of unique annual and perennial plants sold primarily to garden centers, landscapers and other growers. As previously discussed, the Receiver halted funding of this asset as there was no meaningful value to be harvested for the Receivership Entity (and its investors). Subsequently, on May 27, 2016, Skagit and its subsidiaries filed for Chapter 11 bankruptcy²⁹ and was sold in a §363 sale to Early Morning, LLC – which sale was confirmed by the Court on July 8, 2016. The Receivership Entity has an \$11.8 million claim as an unsecured creditor. At this time, there is no expectation of any meaningful proceeds from the sale to be distributed to the Receivership Entity as it will share on a pro rata basis in the remaining proceeds of \$100 thousand.

c. Cloudware, Inc.

Cloudware is a web service company that creates integrated website features such as forms, surveys and membership sites. The Receiver has not had an opportunity to review this investment and, thus, has not determined any recoverable value.

²⁹ Lead Case No. 16-12879-TV/D

d. *Cana's Feast Winery, LLC ("Cana's Feast")*³⁰

Cana's Feast is a winery located in Carlton, Oregon. The Receiver has not had an opportunity to review this investment and, thus, has not determined any recoverable value, but does not expect it to be material.

e. *Certified Solutions Software, Inc. ("CSS")*³¹

CSS creates internet of things (IoT) and enterprise digital identity security for data, devices, and applications. CSS also builds and supports platforms to enable secure commerce for global businesses connected to the Internet. The Receiver has not had an opportunity to review this investment and, thus, has not determined any recoverable value.

f. *Synchronex, LLC*³²

Synchronex provides technology solutions to the publishing industry via multiple products. It offers syncAccess, a cloud-based pay meter solution that helps newspaper publishers to develop, configure, own, and evolve mobile and digital products. Synchronex Single Copy Edition is a solution that collects sales data from various sales locations. Dispatch is a solution that manages newspaper re-deliveries by using smartphone and tablet devices. The company also provides a back office solution, including sales forecasting, customer management, inventory control, billing, and accounts receivable and payable services to magazine, mass market books, and newspaper distributors. ViewPoint provides business process and data management solutions. Synchronex was founded in 1997 and is based in Issaquah, Washington with an additional office in Virginia. The Receiver will be evaluating the value of its interests in Synchronex and exploring its monetization.

³⁰ <http://www.canasfeastwinery.com/>

³¹ <https://www.css-security.com/>

³² <http://www.synchronex.com/en/>

E. Other Assets

1. Real Property and Collateral in Coeur d'Alene, Idaho

Aequitas made a loan to Synchronex, Inc. (the predecessor to Synchronex, LLC), which loan was guaranteed by the then principals of Synchronex, Inc. and by a lien on property in Idaho (which has no road access) that was owned by the principals (and was adjoining other property owned by a principal). Shortly thereafter Synchronex, Inc. defaulted on the loan and Aequitas ultimately foreclosed on the property. The property, known as Lot 6 Casco Bay in Coeur d' Alene, Idaho, was listed for sale in 2013 for \$690 thousand – at which price it did not sell. Additionally, Aequitas advanced funds under a Joint Sale Agreement for expenses related to maintaining an adjacent property. The funds are secured by a lien on the adjacent property in the amount of \$244 thousand, plus interest accruing at 10.0%. The Receiver is reviewing the specifics of the asset to determine an appropriate value range and monetization strategy.

2. Exclusive Resorts membership

Aequitas purchased a membership in Exclusive Resorts – a destination club with a collection of privately managed luxury residences in locations all over the world. Club members pay an initiation fee and annual dues to gain access to multimillion dollar properties for anywhere from 20 to 60 days per year. Club memberships are often purchased as an alternative to buying a second home. Aequitas paid approximately \$367 thousand in fees over the last six years. The membership expired on August 1, 2016. Based on the Receiver's research, no amounts paid are presently refundable and the unused plan days cannot be sold or bartered. The membership could have been sold, but only to current or former principals of the company. After consultation with the IAC, the Receiver contacted the pool of eligible purchasers and established a minimum price of \$10 thousand (the approximate cost of court filings and notice to effectuate

such a sale). No parties expressed an interest and the membership was allowed to lapse.

3. Crescent Bay Lot Bank Fund³³

Crescent Bay is a land/homesite banking fund out of Scottsdale, AZ. Aequitas originally committed \$5 million to the fund, but did not fund beyond an initial \$500 thousand investment. The Receiver is reviewing the specifics of the asset to determine an appropriate value range and monetization strategy.

X. Asset Recovery – Anticipated Assets not yet in the Possession of the Receivership Entity

The Receiver is actively working and negotiating with NEXT in order to secure approximately 60 motorcycle assets (or obtain the funds due from the sale of said assets) which are currently not in the possession of the Receivership Entity. The sale of these assets may yield approximately \$160 thousand in additional proceeds. To date, the Receiver has been able to recover approximately \$60 thousand in proceeds through these actions.

As previously discussed, subsequent to June 30th, the Receiver successfully litigated and negotiated for a \$2.4 million deposit held by a Southern California court to be released to the Receivership and held as restricted funds.

XI. Aequitas' Corporate Governance Prior to the Receivership

The Receiver's continuing operational review involves a review of Aequitas' corporate governance. The financial records indicate a large number of transactions

³³ <http://www.crescentbayholdings.com/>

lending money to affiliates and selling assets among the affiliates and funds. All of these transactions will be evaluated.

Aequitas' corporate governance was managed through a number of meetings and committees. At the top of the governance structure was the AM Management Committee ("AM Management Committee"). The AM Management Committee was made up of the company's executives and met on a bi-weekly basis. This committee functioned similarly to combined board of directors and senior executive committee, focusing on high-level corporate strategy and handling the most important and challenging matters facing the company.

Beneath the AM Management Committee were sets of meetings that can generally be divided into the following categories: (i) investment decision making; (ii) asset origination and management; (iii) capital raising and wealth management; (iv) operations and enterprise management; and (v) audit and compliance. Members of the AM Management Committee attended these lower level meetings and would present critical issues raised at the lower level meetings to the AM Management Committee for final resolution. Aequitas also had an Advisory Board³⁴ made up of experienced business men and women. The Advisory Board served as advisors to AM and the company's executives and appears not to have had direct authority over the management of the company.

The following sections describe some of the key meetings from each of the five areas of Aequitas' corporate governance structure. It should be noted that in the corporate records, meetings were frequently added or removed, names and attendees were changed and the objectives of the meetings were sometimes modified. The below

³⁴ As of January 28, 2016, the Aequitas Advisory Board consisted of William McCormick, Edmund Jensen, Patrick Terrell, Martin Brantley, William Glasgow J.D., Keith Barnes, Donna Miles, Bob Zukis and Gerry Frank. Aequitas records show many of the advisors resigned on January 29, 2016.

descriptions are summaries and examples and are not meant to imply that these meetings served only the purpose described herein.

A. Investment Decision Making

Aequitas' primary investment decision-making body was the Investment Committee ("IC"). The IC members with authority to vote on investment decisions were Bob Jesenik, Brian Oliver and Andrew MacRitchie, but many other individuals attended these meetings, including other executives, members of the Advisory Board, Aequitas' financial analysts and third party executives pitching investments. The IC met on a weekly basis and minutes were recorded. In general, new investment opportunities or proposed modifications to existing investments would be presented at the meeting by analysts or guests, and the committee would deliberate on the proposal and either approve or reject the proposal or request a presentation of additional information at a subsequent IC meeting. The IC also approved valuations of Aequitas' equity positions on a quarterly basis (through the third quarter, 2015).

Other investment decisions, or meetings with information important to the investment decision-making process, were handled through Office of the Chief Investment Officer ("OCIO") meetings. Bob Jesenik was the Chief Investment Officer and was the sole and final decision maker at these meetings. One of the larger and more important of these OCIO meetings was the OCIO Asset-Liability Management meeting ("OCIO ALM"). The OCIO ALM meetings were attended by many individuals, including executives, department heads and financial analysts. A number of diverse issues were discussed at these meetings, but OCIO ALM primarily looked at the assets held by Aequitas' various special purpose vehicles and the liabilities backed directly or indirectly by those assets and determined what assets were available for deployment to Aequitas' funds (mainly IOF2 or EIF) or directly to third-party investors.

Other OCIO or OCIO-like meetings included OCIO Product Roadmap (creation of new funds, products or investment structures), OCIO Integrated Tax (high level tax and legal planning) and Cash Management (routine meetings between the treasury department and CEO/CFO regarding cash planning and balancing).

B. Asset Origination and Management

The asset origination and management meetings were a set of meetings that screened new investment and capital market opportunities, managed strategic relationships and tracked asset performance. They were typically attended by at least one member of the executive team, employees from Aequis investment origination departments (Private Equity, Private Credit/Specialty Finance, or Capital Markets) and employees from the sales or marketing departments. Investment opportunities and modifications that passed the scrutiny of these asset origination and management meetings were often, but not always, presented at an IC meeting for final approval.

The meetings names generally began with “AOD,” short for “Aequitas Origination and Distribution,” though distribution of Aequis product was not typically the focus. On the origination side: (i) AOD Private Equity discussed investment opportunities for, and handled the management of, Aequis’ primary private equity fund, Aequis Capital Opportunities Fund; (ii) AOD Private Credit sourced finance opportunities, primarily in the consumer credit space, and became the managing body for some of Aequis’ private credit strategies, such as the Freedom Financial F+ and C+ consumer loan portfolios; (iii) AFSN “ELT,” short for Aequis Financial Services Network “Executive Leadership Team,” sourced potential strategic partners in the financial services industry; and (iv) AOD Origination was a combination of the three foregoing meetings and specifically dealt with the origination pipeline and capital markets opportunities.

While some of the other meetings had asset management functions, the Portfolio Company Review Meeting was dedicated to asset management. The meeting was used to track the performance of Aequitas' various asset portfolios and non-Aequitas Capital Opportunities Fund equity position. While no new opportunities were discussed at this meeting, recommendations to modify existing portfolios were generated through this meeting process.

C. Capital Raising and Wealth Management

These meetings were focused on Aequitas' sales and capital raising efforts. There were essentially two meetings driving these efforts: (i) the Capital Raising ELT (sometimes referred to as AOD Capital Raising); and (ii) the Wealth Management ELT.

The Capital Raising ELT was a typical sales meeting focusing on the retail sales pipeline for Aequitas's investment products, new sales and marketing initiatives, and insight into the characteristics of investment products (rates, terms, structure, etc.) that current and potential investors might be interested in. Many of the attendees at this meeting were members of Aequitas' in-house sales team (Aequitas Capital Partners) and the marketing department.

The Wealth Management ELT, in contrast to the Capital Raising ELT, focused on sales efforts through registered investment advisors as well as strategic partnerships with, or even acquisitions of, such advisors. Attendance at this meeting was more limited than the Capital Raising ELT and consisted of executives and heads of the sales and marketing departments.

D. Operations and Enterprise Management

Day-to-day operations and interdepartmental coordination was managed through the Aequitas Enterprise Services ELT ("AES ELT"). AES ELT met on a weekly basis and consisted of a few executives and the heads of all of Aequitas' departments (finance,

capital markets, tax, legal, portfolio management, accounting, compliance, information technology, business information, marketing, human resources, etc.). The objective of this meeting was to implement and operationalize the decisions made at the higher level investment, asset management, or sales meetings and make sure each department's efforts were coordinated with the priorities of the company. In addition, each department would then meet on a regular basis to further pass these priorities and objectives on to the rank and file employees.

E. Audit and Compliance

Aequitas had a number of different committees and meetings to deal with specific audit and compliance issues. Conflicts of interest were handled through the Conflicts Review Committee ("CRC") and/or the Limited Partners Advisory Committee ("LPAC"). The LPAC was made up of representatives of the limited partners of Aequitas Capital Opportunities Fund and only handled conflicts related to the fund. Both the CRC and LPAC were made up of individuals not directly affiliated with Aequitas, though sometimes members of the Advisory Board would fill these positions. Meetings were scheduled on an as needed basis, but generally there were meetings of the CRC and LPAC two to four times per year. Partly because decisions needed to be made quickly at Aequitas and partly because scheduling these CRC and LPAC meetings was challenging, investments with potential conflicts would progress and be implemented prior to, but subject to, CRC and/or LPAC approval.

Compliance matters were handled based on subject. A Consumer Services Audit Committee, made up of employees who specialized in Aequitas' consumer businesses, handled issues arising from Aequitas' consumer receivables portfolios, e.g., complaints and general compliance with state and federal consumer laws. The Compliance Committee, sometimes referred to as the Office of the Chief Compliance Officer, dealt

primarily with securities law and regulation compliance for Aequitas' funds and its registered investment advisor. Andy MacRitchie was Aequitas' Chief Compliance Officer.

Lastly, the Audit Committee, made up of the Chief Financial Officer and finance and accounting employees, focused on the completion of Aequitas' financial audits and handled issues raised by auditors and addressed weaknesses identified by auditors.

The above reflects an initial review of the governance and decision making structure and provides a general framework as it relates to the operations of Aequitas. A more detailed analysis of this structure will be incorporated as the Receiver completes the investigative phase of the Receivership.

XII. Accrued Professional Fees

As previously discussed, the Receiver has retained several key professionals to assist him in managing the various Aequitas entities, dealing with inquiries/investigations from governmental agencies and prosecuting his mandate as the Receiver. This large volume of work does not come without a necessary and reasonable cost to the investors. At all stages, the Receiver has been cognizant of the need to minimize professional fees consistent with the mandate to preserve and reasonably maximize value for the investors.

A summary of fees and expenses incurred by the Receivership is summarized in the table below. The amounts are preliminary and subject to adjustment based on the final fee application. Detailed time records and supporting documents have been supplied to the Commission and fee applications will be filed with the Court for Court approval prior to the payment. All professionals, including the Receiver, are working at a discount to their standard rates.

Aequitas Receivership

Professional Fees & Expenses by Entity (from March 17 through June 30, 2016)

Entity	Fees (\$)	Percentage	Expenses (\$)	Percentage	Total (\$)	Percentage
Receiver	440,220	14%	12,829	9%	453,049	14%
FTI Consulting	1,221,608	39%	82,412	55%	1,304,020	40%
Pepper Hamilton	660,989	21%	40,487	27%	701,476	21%
Schwabe, Williamson & Wyatt	617,933	20%	10,067	7%	627,999	19%
Morrison Foerster	73,355	2%	845	1%	74,200	2%
Law Office of Stanley H. Shure	55,928	2%	1,901	1%	57,829	2%
Akin Gump	49,258	2%	-	0%	49,258	2%
Ater Wynne	10,356	0%	-	0%	10,356	0%
Total:	3,129,647	100%	148,540	100%	3,278,188	100%

XIII. Receivership Claimants

The Receiver has compiled a list of claimants. A summary table is attached to this report as Exhibit D. The summary table reflects the Aequitas entities where claimants invested/loaned funds. It does not reflect the subsequent investment/loan by that Aequitas entity. In the interest of privacy and security, the Receiver – with the consent of the Commission – has elected to defer providing the identifying information at this time. In the next several months a claim form will be mailed to all investors (and creditors) and posted on the Receivership website. The claim form, when published, will be detailed and contain instructions. It will contain separate categories for unpaid principal, pre-Receivership accrued but unpaid interest and post-Receivership accrued interest, as applicable.

XIV. Receiver's Plan

At this time, the Receiver is in the process of actively recovering, stabilizing and monetizing assets; it is impossible to provide a definitive timeline for the completion of the other phases of the Receivership – culminating in a distribution to investors. This Receivership is complex and it may take considerable time until distributions to investors

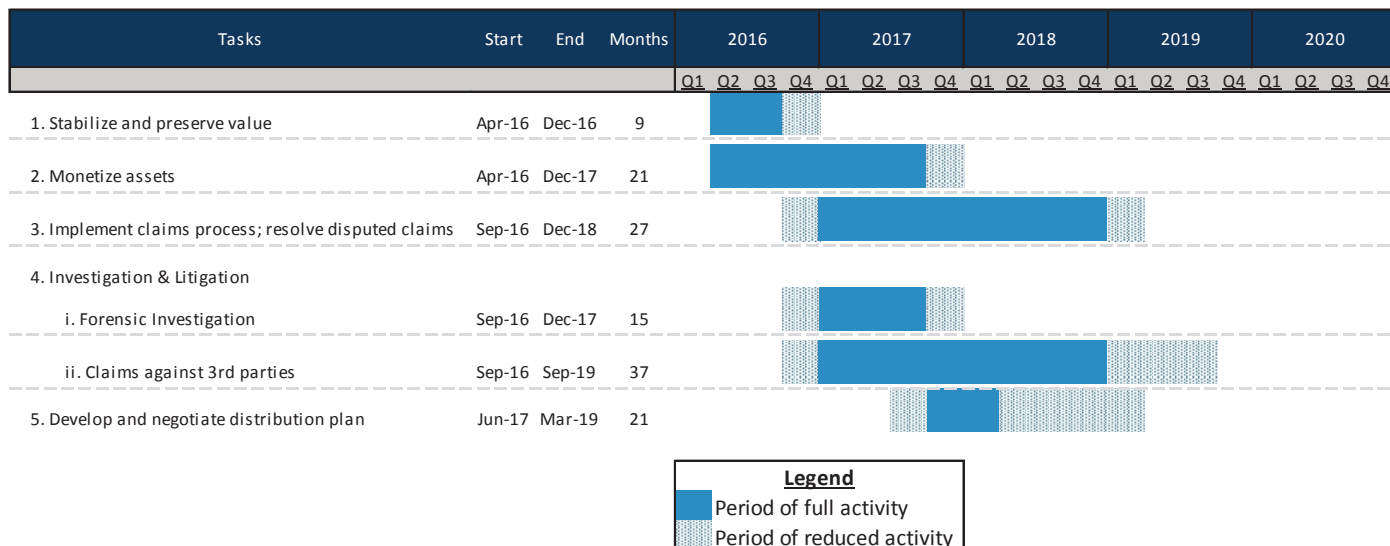
can be made. The following sections discuss various aspects of the Receivership and estimates of timing and recovery. These estimates are preliminary and subject to material change.

A. Actions to be Taken

Typically, a receivership revolves around four key processes – 1) stabilize and preserve value with subsequent monetization of assets; 2) institute a claims submission and resolution process; 3) perform forensic investigation and potential litigation and prosecution of causes of action (including insurance claims) and 4) develop, seek approval for, and implement a distribution plan. These steps are not linear and can vary dramatically in timing – both in terms of starting date and duration.

B. Timetable

The duration of this Receivership is highly dependent on a number of variables including what is discovered during the investigation and whether the Receiver can achieve a consensual distribution plan amongst the major constituencies. Key drivers of the proposed timeline are the ability to reach a settlement with the CFPB and other key stakeholders regarding CSF, the orderly marketing and monetization of the Receivership Property, the findings of the forensic investigation, and the duration of litigation. The chart below provides an initial estimate of the potential timing of the various Receivership work threads.



C. Expected Recovery

1. Proceeds from Asset Sales

Based on a very preliminary review, the Receiver has estimated the gross recovery from asset sales to be \$240 million to \$320 million, leaving a net amount of \$120 to \$200 million after payment of approximately \$120 million of senior secured debt. While the Receiver is working diligently to maximize the value returned to the investors, there is still significant downside risk. Therefore, this estimate is subject to change and could vary materially. There remain significant assets that need to be brought to market and the estimated value tested against potential purchasers. Additionally, these estimates do not consider the operating costs of the Receivership Entity.

2. Proceeds from Litigation

As the Receiver has not commenced a fulsome investigation into possible claims and causes of action, an estimate of recovery from litigation cannot be made at this time. Similarly, there are possible theories of recovery from litigation against third parties against whom only investors, and not the Receiver, have a cause of action. The Receiver is seeking to coordinate these various actions to maximize proceeds from all

sources and restrain professional costs. As the litigation is in its very early stages and the Receiver has not yet begun its forensic investigation, the Receiver cannot make an estimate of the magnitude of likely litigation recoveries.

3. Proceeds from SEC Litigation

Docket number 198 sets forth the initial timing for the SEC litigation. As the trial against the Individual Defendants will not commence until June 3, 2018, it is premature to speculate what proceeds (if any) may be disgorged. Further, the disposition of those funds is at the discretion of the SEC and the Receiver has had no discussions regarding the availability of those funds as a source of recovery for the investors.

4. Distribution Plan

This report does not predispose a distribution plan and no distribution plan is being contemplated or proposed at this time. As described above, the development of a distribution plan relies on the monetization of assets, the outcome of litigation against third parties, the outcome of litigation brought by the SEC and the recoveries from insurance, together with factual and legal analyses of respective rights and priorities of different investors. The distribution plan will be complicated by numerous factors, such structural and contractual subordination, investors utilizing dividend reinvestment plans versus current payment of interest, different interest rates, and the consideration of reclaiming distributions and late investment entrants.

Consequently, consideration of the parameters of a proposed plan for distribution must be deferred until the investigation phase is completed, a reasonable estimate of distributable funds (and their sources) is known, and the necessary factual and legal issues have been researched.

Exhibits

- A. Aequitas Entity Structure
- B. Summary of Holdings by Aequitas Fund
- C. Notes Receivable at Aequitas Commercial Finance
- D. Summary of Receivership Claimants
- E. Report of Cash Receipts and Disbursements (Standardized Fund Accounting Report)
- F. Acronyms Glossary