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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 APRIL 30, 2017

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APRIL 30, 2017

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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 April 30, 2017.

Dated this 11th day of May, 2017.

Respectfully submitted,

SCHWABE, WILLIAMSON & WYATT, P.C.

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AEQUITAS MANAGEMENT, LLC, AEQUITAS HOLDINGS, LLC, AEQUITAS COMMERCIAL
FINANCE, INC., 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

April 30, 2017

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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 (the “Receiver’s 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

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

entry date was April 16, 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 filed a voluntary report and recommendations to the Court (the "Initial Report") for the first "stub quarter" ending June 30, 2016 on September 14, 2016 [Dkt. 246], the first mandated quarterly report covering the period thru September 30, 2016 on November 10, 2016 [Dkt. 298] and the second mandated quarterly report covering the period thru December 31, 2016 on February 10, 2017 [Dkt. 365].² This report (the "Report") represents the report and recommendations to the Court for the quarter ending March 31, 2017. In the accompanying discussion of Receivership matters, the Report provides an update regarding some matters previously reported and does not include all details contained in prior Receiver's Reports. For a complete and fulsome discussion and for such additional details please refer to prior Receiver's Reports.

As is the case for the prior Receiver's Reports, the findings and recommendations of the Receiver contained in this Report 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

² Collectively, the Initial Report and subsequent reports are referred to herein as the "Receiver's Reports".

the Receiver and FTI Consulting, Inc. from the staff employed by the Receivership Entity as well as its contract staff and advisers, 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 is rendered.

III. Case Background

A. Introduction

As the Initial Report set forth a summary of the 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"), the focus of this Report is to provide an update on various aspects of the Receivership. Additionally, the Final Receivership Order requires that certain items be addressed with the filing of this report. Pursuant to Section IV Stay of Litigation, paragraph 24 states the following:

The Receiver shall investigate the impact, if any, on the Receivership Estates of Ancillary Proceedings brought against registered investment advisers in which the Receivership Entity has an ownership interest. The Receiver shall include in the report and petition it must file with the Court pursuant to Paragraph 39 below, a recommendation to the Court as to whether Ancillary Proceedings brought against registered investment advisers in which the Receivership Entity has an ownership interest should remain subject to the stay of litigation. The Receiver shall also investigate the probable impact of discovery directed to the Receiver and the Receivership Entity in Ancillary Proceedings and those actions authorized in Paragraph 23. The Receiver shall include in the report and petition it must file pursuant to Paragraph 39 below, a recommendation to the Court as to a plan to govern all discovery directed to the Receiver and the Receivership Entity in Ancillary Proceedings and those actions authorized in Paragraph 23.

Each of the required topics will be addressed individually in the report.

B. Focus of the Activities to Date

The Receiver's primary focus remains on the stabilization of the Receivership Entity to preserve value and facilitate asset monetization. From the beginning of the Receivership through the quarter ended March 31, 2017, the Receiver has sold assets and collected receivables totaling approximately \$218 million. Further, the Receiver has entered into an option to sell approximately \$75 million³ in health care receivables owned by the Receivership⁴. Operationally, employee headcount decreased from the beginning of the quarter to the end at a net 12 (from pre-receivership levels of 129 in December 2015).

³ Balance as of March 7, 2016, prior to the CCM Transaction.

⁴ The sale of the Receivership's interests in CCM was approved on January 25, 2017. [Dkt. 362]

C. Recommendation regarding Continuance of the Receivership

It remains the Receiver's recommendation that the Receivership be continued. The conditions under which the Receivership was imposed still exist. While much has been accomplished, there is still much more to do. 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 and commencing the claims reconciliation and forensic investigation phases of the receivership.

The Receiver has substantially completed the implementation of a consolidated database of the estimated 10 terabytes of documents in the possession of the Receivership Entity and controlled by receivership agents and vendors. The database is being utilized to fulfill current requests for production (RFP) from the SEC. Upon completion of the RFP (expected in May), the Receiver will develop a structure that will facilitate access to the database for third-party litigants. Additionally, the Receiver has initiated his investigative efforts with the development of a forensic workplan and the dedication of resources to move the investigation forward.

As the Receiver concludes the investigation stage, 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 to be approved by the Court.

The various loan portfolios and numerous operating companies owned by the Receivership 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 very positive. The Receiver believes he has their support and encouragement to continue his efforts, and that they also support the continuation of the Receivership.

D. Impact on the Receivership Estates of Ancillary Proceedings Brought Against Registered Investment Advisers in which the Receivership Entity Has an Ownership Interest

Pursuant to the directive contained in paragraph 24 of the Order Appointing Receiver, the Receiver and certain of his professional team continue to assess the probable impact on the Receivership Estates if Ancillary Proceedings were to be brought against registered investment advisers in which the Receivership Entity has an ownership interest. In furtherance of the overarching goal of maximizing the recovery to investors and other creditors in general, as opposed to maximizing the recovery to a particular subset of investors, the Receiver recommends that the stay of litigation remain in place for a minimum of ninety additional days for the reasons explained below.

1. Private Advisory Group Membership

Private Advisory Group, LLC ("PAG") is a registered investment adviser ("RIA") in which the Receivership Entity holds an ownership interest.⁵ Aspen Grove Equity Solutions, LLC ("Aspen Grove") is a member of PAG, holding 68.23% of the membership units. Aspen Grove is part of the Receivership Entity (No. 35 on Exhibit A of the Order Appointing Receiver). Its ownership interest in PAG constitutes Receivership Property, as that term is defined in the Order Appointing Receiver [Dkt. 156, 6.A.]. The other

⁵ AIM was also filed as a registered investment advisor. The Receiver has withdrawn that registration.

members of PAG are Bean Holdings, LLC, with 27.4% of the membership units, and Aaron Maurer, with 4.37% of the membership units. The members of Bean Holdings, LLC are Chris Bean, Doug Bean and Jon Bishopp.

2. Aspen Grove Membership

Aequitas Wealth Management, LLC, also part of the Receivership Entity, holds 60% of the membership units in Aspen Grove. The other members are Gary Price, Ron Robertson and Tim Feehan (“Aspen Grove Members”).

3. Relevant Insurance Coverage

PAG has an “Investment Advisor Professional Liability Policy” issued by Liberty Surplus Lines Insurance (“Liberty”), in effect for the policy period running from November 25, 2015 to November 25, 2016 (“PAG IA Policy”). The PAG IA Policy provides Directors and Officers Coverage for Insured Persons, which includes PAG’s directors, officers and independent contractors. It also provides Professional Liability Coverage, including for a “Securities Claim” against PAG itself.

These coverages are triggered by “Claims” first made during the policy period and asserting “Wrongful Acts” against Insured Persons and/or PAG. The Insureds have sixty (60) days after the policy expires to provide Liberty with notice of “Claims” first made during the policy period. A “Claim” is defined in the PAG IA Policy to include not only a formal lawsuit but also a simple written demand to an Insured, which would include both Insured Persons and PAG, for monetary or non-monetary relief.

“Claims” – which includes written demands first made prior to November 25, 2016 that seek monetary relief and which also assert “Wrongful Acts” – subject to the policy’s exclusions, limits of liability and Liberty’s right to assert rescission and/or violation of the prior knowledge provisions, likely trigger coverage under the PAG IA Policy.

The Receiver determined that it is in the best interests of the Receivership Entity to have its insurance counsel, Stan Shure, assume direction of the efforts to maximize insurance proceeds available to mitigate losses to those who invested in Aequitas through PAG. Counsel for Chris Bean, Doug Bean, Bean Holdings, LLC, Aaron Maurer, Jon Bishopp and others associated with PAG (collectively referred to as the “PAG Related Parties”) has been cooperating in the efforts of the Receiver’s insurance counsel.

Prior to the March 1-2 mediation addressed below, the PAG Related Parties produced corporate and personal financial statements and other evidence of assets, potentially available to indemnify for losses sustained by Aequitas investors. Subsequent use of the documents is governed by a confidentiality and non-disclosure agreement.

4. Indemnification Claims

PAG’s Operating Agreement provides: The Company shall, to the fullest extent permitted by applicable law as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said law permitted the Company to provide prior to such amendment), indemnify, hold harmless and release each Covered Person from and against all claims, demands, liabilities, costs, expenses, damages, losses, suits, proceedings and actions, whether judicial, administrative, investigative or otherwise, of whatever nature, known or unknown, liquidated or unliquidated, that may accrue to or be incurred by any Covered Person as a result of the Covered Person’s activities associated with the Company ...

The term “Covered Person” is defined under the Operating Agreement to include members, officers and directors. The other members of PAG as well as the individual

members of Bean Holdings LLC – Chris Bean, Doug Bean, Jon Bishopp and Aaron Maurer – have claimed entitlement to indemnification pursuant to the terms of the Operating Agreement. There is a \$100,000 self-insured retention under the subject PAG IA Policy. The Receiver understands that Liberty has not yet paid costs incurred in defending the pending actions. The other members of PAG have paid those costs from the assets of PAG.

The Aspen Grove Operating Agreement contains an identical indemnification provision. The members of Aspen Grove, other than Aequitas Wealth Management, LLC, namely Gary Price, Ron Robertson and Tim Feehan, have similarly claimed entitlement to indemnification pursuant to the terms of the Aspen Grove Operating Agreement. However, given that Aspen Grove is part of the Receivership Entity, the claims are stayed at this time and may well be dealt with as part of the regular claims process and the ultimate distribution plan.

Additionally, Aequitas Capital Management, Inc. (“ACM”) entered into an Investor Referral Agreement with RP Capital, LLC (“RPC”) that includes an indemnification provision pursuant to which RPC and its directors, officers, employees, members and agents - namely Gary Price, Ron Robertson, Tim Feehan, Antonio Ramirez, Aaron Maurer, Joel Price and Bradley Larson (“RPC Related Parties”) - claim entitlement to indemnification. Again, given ACM is part of the Receivership Entity, the claims are stayed at this time.

If the stay were lifted to allow claims against PAG, PAG Related Parties, RPC, RPC Related Parties as well as against the Aspen Grove Members, it is anticipated that those parties would immediately move to further lift the stay, to allow their indemnification claims and possibly other cross-claims against the Receivership Entity. In the event PAG Related Parties and/or Aspen Grove Members were allowed to pursue indemnification or

other cross-claims against the Receivership Entity, those claims would necessarily be defended by counsel to the Receiver and the Receivership Entity, thereby, unnecessarily depleting assets of the Receivership Entity which would otherwise later be available for distribution.

The PAG IA Policy contains Priority of Payment provisions that give priority to payment of defense costs in the event PAG is not indemnifying. Consequently, every dollar of defense costs, whether paid from the PAG IA Policy limits or by PAG directly pursuant to indemnification obligations, is one less dollar available to mitigate losses sustained by Aequitas investors.

5. Pending Lawsuits and Claims

A. Brown Suit

On or about August 15, 2016, a number of former clients of PAG and RPC filed a complaint in the Superior Court of King County, Washington, against RPC, Gary Price, Ron Robertson, Doug Bean, Chris Bean, Bean Holdings LLC, Jon Bishopp, Aaron Maurer, Tim Feehan, Antonio Ramirez and others (“Brown Suit”). All are insureds under the PAG IA Policy and/or indemnification claimants. The Receiver understands that the Brown Suit was tendered to Liberty, which subsequently issued a reservation of rights. The suit was amended to include additional investor plaintiffs. Additionally, plaintiffs’ counsel provided notice of claims against SAS Capital Management, LLC (dba Summit Advisor Solutions), SAS Capital Partners, LLC, and affiliated individuals, demanding that the claims be tendered to the insurance carrier(s) for those parties.

As addressed in greater detail below, continuation of the stay of Ancillary Proceedings during the preceding ninety days afforded interested parties an opportunity to mediate and thereafter continue working toward resolution of claims against PAG,

PAG Related Parties, RPC, RPC Related Parties and others with the shared goal of maximizing recovery to investors and other creditors.

B. Farr Suit

On or about October 6, 2016, in contravention of the Order Appointing Receiver [Dkt. 156], a class action complaint was filed against PAG in the U. S. District Court for the Western District of Washington, (“Farr Suit”). The Receiver understands that Liberty has notice of the Farr Suit and has reserved its rights relating to that action. When the parties could not reach agreement regarding either dismissal without prejudice or entry of a notice of stay, the defendants filed a motion to dismiss or in the alternative to stay the case. On February 24, 2017, The Honorable Robert A. Jones entered an order staying the case and removing it from the Court’s active docket.

C. Enviso Suit

In May, 2016, Enviso Group, LLC filed a complaint in the Superior Court of San Diego County, California, against Aequitas Holdings, LLC, Aequitas Wealth Management, LLC, Robert Jesenik, Brian Oliver, Brian Rice, Andrew MacRitchie, PAG, Chris Bean, Aaron Maurer, Aspen Grove, Doug Bean, Gary Price, and Jon Bishopp (“Enviso Suit”). Again, the Receiver understands that Liberty has notice of the Enviso Suit and has reserved its rights relating to that action. In response to the Receiver’s request, on or about June 16, 2016, Enviso filed a notice of stay of proceedings. Subsequently, Enviso filed a motion to lift the stay [Dkt. 327] which it later withdrew. However, it refiled the motion [Dkt. 371] which is now set for hearing on May 24, 2017.

D. Additional Claims

The following are summaries of additional claims presented to Liberty:

- February 25, 2016 demand letter asserting causes of action on behalf of Kirk Clothier against PAG, Jon Bishopp and Chris Bean, arising from investments in Aequitas (“Clothier Matter”).

- March 23, 2016 demand letter, asserting causes of action on behalf of Elizabeth Secan and other PAG clients, against PAG and certain directors and officers of PAG, arising from investments in Aequitas (“Secan Matter”).

- A draft complaint prepared on behalf of a number of clients of PAG (“Rahnama Matter”).

- April 4, 2016 demand letter, asserting causes of action on behalf of May Lui, Wah Lui, Boewa Management Company and the Emily J. Lui Trust against PAG, Chris Bean and Jon Bishopp, again arising from investments in Aequitas (“Lui Matter”).

6. Legal Authority Governing the Scope and Duration of the Stay

Equity receiverships exist “to promote the orderly and efficient administration of the estate by the district court for the benefit of creditors[,]” including investors. *SEC v. Hardy*, 803 F.2d 1034, 1038 (9th Cir. 1986). A receivership is appropriate where, for example, there is a need to “marshal and preserve assets from further misappropriation and dissipation” and “clarify the financial affairs of an entity for the benefit of investors.” *SEC v. Schooler*, No. 12-2164, 2012 U.S. Dist. LEXIS 188994, *11 (S.D. Cal. Nov. 30, 2012).

Under Ninth Circuit precedent, courts exercise substantial discretion to stay litigation after considering three factors:

“(1) whether refusing to lift the stay genuinely preserves the status quo or whether the moving party will suffer substantial injury if not permitted to proceed; (2) the

time in the course of the receivership at which the motion for relief from the stay is made; and (3) the merit of the moving party's underlying claim.”

Id. at 1038 (quoting *SEC v. Wencke* (“*Wencke II*”), 742 F.2d 1230, 1231 (9th Cir. 1984)). The “interests of the receiver are very broad,” reaching to the receivership property as well as “protection of defrauded investors and considerations of judicial economy.” *Id. at 1037*.

The Ninth Circuit has recognized the potential for collateral litigation to create “havoc” for a receiver — even four years into a receivership — and on that basis upheld the district court’s continued imposition of a “blanket receivership stay.” *Id. at 1039* (district court properly stayed senior lienholders from foreclosing on properties where investors had junior interest in relation to notes received by receiver entity in its own name or names of investors). A continued “blanket receivership stay” was proper because lifting the stay “would result in a multiplicity of actions in different forums, and would increase litigation costs for all parties while diminishing the size of the receivership estate.” *Universal Fin., 760 F.2d at 1038*.

7. The Receiver Recommends Continuing the Stay of Litigation Against PAG, PAG Related Parties and Aspen Grove Members for at Least Another Ninety Days

The Receiver’s next Quarterly Status Report is due on or before July 31, 2017. The Receiver recommends that Ancillary Proceedings against PAG, PAG Related Parties and Aspen Grove Members remain subject to the stay of litigation for another ninety days, with the Receiver making further recommendations in the next Quarterly Status Report.

As noted above, at the urging of the Receiver, the parties to the Brown Suit worked diligently and cooperatively with the Receiver to develop and execute an orderly

process to address claims against PAG, PAG Related Parties, RPC, RPC Related Parties and others that is designed to maximize recovery to investors and other creditors on an expedited basis. Other interested parties were invited and are participating in the claims resolution process, including investors who are not plaintiffs in the Brown Suit and Enviso.

The various interested parties proceeded to mediation on March 1-2, in Seattle where the Brown Suit was filed. The insurers attended and participated in the mediation but have not yet accepted their defense and indemnity obligations. The entity and individual defendants produced financial statements and other evidence of potentially available assets prior to the mediation. Considerable progress was made during the mediation and, with the assistance of the Receiver and mediator Lou Peterson, a number of the participating parties continue to negotiate toward resolution of their claims.

As addressed in the Receiver's prior Receiver's Reports, one option to address claims against PAG, PAG Related Parties and Aspen Grove Members is to lift the stay to the extent of the available insurance proceeds. Another would be to lift the stay to not only the extent of the insurance proceeds but to allow for recovery from Bean Holdings LLC, Chris Bean, Doug Bean, Jon Bishopp, Aaron Maurer, other PAG employees and independent contractors, Gary Price, Ron Robertson and Tim Feehan. In either circumstance, indemnification and other cross-claims against the Receivership Entity could be dealt with through the Receivership claims process. However, the Receiver remains confident that neither approach would serve the best interests of all similarly-situated investors. One subset of investors with claims against PAG should not recover disproportionately to similarly-situated investors who did not immediately retain counsel and file suit. As noted, the purpose of a Receivership is to benefit creditors generally,

not those specific investors who first retain counsel and rush to file suit. *Hardy* 803 F.2d at 1038.

Provided that the stay of Ancillary Proceedings against PAG, PAG Related Parties and Aspen Grove Members remains in place for another ninety days, the parties to the Brown Suit and a number of the other stakeholders identified above will continue in their efforts to resolve their claims. An early, negotiated resolution of those claims is certainly preferable to full-course litigation which would significantly deplete or possibly completely exhaust relatively modest insurance policy limits potentially available to mitigate losses sustained by Aequitas investors. For the many reasons set forth above, at this time, the Receiver recommends that the stay of Ancillary Proceedings against PAG, PAG Related Parties and Aspen Grove Members remain in place for another ninety days. However, In the unlikely event that the efforts of the interested parties over the next ninety days do not result in at least considerable progress toward resolution of the majority of claims against PAG, PAG Related Parties and Aspen Grove Members, in his July 31, 2017 Quarterly Status Report, the Receiver may well recommend that the stay of claims against PAG, PAG Related Parties and certain Aspen Grove Members be lifted.

E. Probable Impact of Discovery Directed to the Receiver and the Receivership Entity

As of the date of this report, the Receiver has consolidated all digital data within his control into a centralized, organized database. The database contains more than 13 million documents/emails and is currently being edited to remove non-Aequitas material (iTunes music libraries, personal pictures/videos, etc.). The Receiver is currently utilizing the centralized database to prepare his response to SEC requests for production.

Negotiations are underway with DTI to incorporate into the consolidated database the multiple data repositories in DTI's possession.⁶ While we believe the dataset is duplicative to what has already been consolidated from the Receivership's records, it does contain valuable work product related to prior productions in the ASFG litigation and to the SEC. The initial cost estimate from DTI to mirror and deliver its repositories was \$27,000

Similarly, the Receiver is working with Pepper Hamilton to transfer its data repository to the consolidated database. While the majority of this dataset also is duplicative to what has already been consolidated from the Receivership's records, it does contain valuable work product as to the files provided by Sidley Austin and the SEC, as well as the ongoing privilege dispute by the Individual Defendants.

F. Commencement of Forensic Accounting /Investigation

The Receiver has developed a workplan focused on the following questions:

1. Whether the Receivership Entities were insolvent as of 2014;
2. Whether the Receivership Entities' primary source of funding was investor deposits, which was also the primary source of most funds distributed to the investors beginning in this time period;
3. Whether the majority of the Receivership Entities' business activities required the continued raising of (and distributing) investor funds in order to remain operational;
4. Whether contrary to implicit representations, the majority of investor funds were not used to purchase receivables but instead used to:
 - a. Pay redemptions and interest to prior investors

⁶ DTI (aka Document Technologies, Inc.) was the previous eDiscovery solution employed by Aequitas.

- b. Pay for operating expenses and bank debt
5. Whether many of the business models, including CarePayment Holdings, as well as ACC F+, ACC C+, EdPlus, Campus Student Funding, MSP/Ivey and others, were fundamentally incapable of operating at a profit, and whether the primary beneficiary was Aequitas which earned continuing fees on gross assets (rather than from profitable operations);
6. Whether less than all of the notes issued by ACF were backed by receivables after accounting for senior debt and other obligations granted senior priority, especially after accounting for debt service and reasonably anticipated operating losses;
7. Whether Investor funds were commingled amongst the Receivership Entities such that the entities operated as a unitary enterprise, rather than as separate entities, and whether the books and records are such that one cannot account separately for each entity;

In addition to answering the above questions, the work product of the forensic accounting will include:

1. A report of investor contributions and distributions, and intercompany transfers, based on cash movements – removing the impact on non-cash GAAP accounting entries and tied to third party evidence (bank statements)
2. A reconciliation of fees, commissions and inducements (such as loans or capital investments) paid by Aequitas in connection with the marketing and sale of investments, including whether commissions were paid to unlicensed parties for the selling of securities

3. A compilation of known bank accounts and property owned or controlled by insiders as well as all accounts to which funds were disbursed on their behalf
4. An accounting of payments and value received by insiders

The workplan has been reviewed with SEC staff and the IAC. The Receiver has dedicated staff to the forensic work and the initial gathering of information is underway.

IV. Overview of the Receiver's Activities

A. Summary of Operations of the Receiver

1. Day-to-Day Management

With the termination of Aequitas management, the Receiver has needed to supervise 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 of his mandate, including the marshaling and preserving all assets for the benefit of the investors.

2. Bank Accounts

As discussed in the Initial Report, the Receiver has instituted an integrated on-line platform that facilitates banking, future claims processing and cash reporting for receivership cases. Cash basis reports including information for the current reporting period and case to date are attached as Exhibit B.

3. Staffing

a. *Headcount Reduction*

The Receiver continues with planned, targeted staffing reductions based on the needs of the enterprise. As of March 31, 2017, the Receivership Entity had 11 full-time employees and 1 part-time employee. The Receiver instituted an employee retention

program, which provides for at least six-week notice to employees whose services are anticipated to no longer be required by the Receivership.

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 (not affiliated with FTI). As of March 31, 2017, the Receivership employed four full-time equivalent accounting contractors and two part-time IT contractors.

4. 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 had engaged Burr Pilger Mayer ("BPM") to audit the 2015 financial statements for several Receivership entities where the Receiver believed an audit would be helpful in connection with a sale or refinancing process. The 2015 audit of CP LLC is in final review with the BPM partners and should be finalized in early May – at which time BPM will roll into the 2016 audit. The Receiver will be facilitating the 2016 audit for COF/CCM but the cost of the audit will be borne by COF/CCM (in which the Receiver no longer owns an interest).

b. Tax Preparer

The Receiver retained a tax specialist to assist legacy Aequitas staff in the preparation of tax and information returns, and to provide tax consulting services on an as-needed basis at the request of the Receiver.

c. *Other Tax Matters*

Commencing with the 2016 tax year, the IRS and many state agencies changed the due date for partnership and certain information reporting. Most Aequitas returns are now due a month earlier than in previous years. The Receiver has completed filing of all extensions, extension payments and over 20 tax returns under the new deadlines.

Investors in Aequitas Hybrid Fund LLC and Aequitas WRFF I LLC have received their K-1 information for 2016. The Aequitas WRFF I Form K-1s were marked as a DRAFT as a revised form K-1 from the investment was received on April 12th. Final forms will be prepared for the members. Equity investors in other Aequitas funds received estimates to assist in filing their returns and will receive K-1s as soon as underlying data is available. 2016 information reporting (form 1099 INT) for debt fund and private note investors was completed earlier this year.

Investors in CCM Capital Opportunities Fund L.P. and Aequitas WRFF I LLC will each receive one more form K-1 from the Receivership after the 2016 returns are completed. The form K-1 will cover the period 1-1-2017 until the sale date of the fund. Tax information for periods after the sale date will be provided by the buyer. The Receiver is filing final returns for entities in the Receivership as sale transactions close and/or other circumstances allow.

B. Development of Claims Process

The Receiver continues to work on the development of the claims process. The primary area of focus has been to aggregate information regarding creditor/investor data from the various data repositories. The Receiver undertook a comprehensive reconciliation project reviewing data from the accounting general ledger, Salesforce entries, tax returns and account statements. That project is now nearing completion

with the Receiver having consolidated the information into a single database that reflects activity from January 2012 through March 2016.

It is currently anticipated that the Receiver will initiate a further validation process wherein the Receiver will mail to each investor a statement of account. The investors would have an opportunity to confirm or assert different investment account information. If the investor agrees with stated account activity, no further action will be required. If the investor disagrees with the account activity, the investor needs only to identify the disputed activity and provide supporting documentation. The rollout currently contemplates confirmation of the Private Notes starting on or about May 31 and the various other Aequitas investment vehicles starting on or about June 30.

The confirmation process will allow the Receiver to gather/confirm information needed to begin the formulation of a distribution plan and will be levered into a formal claims process once the claims order has been issued and a bar date established. Nothing in the data confirmation process will be dispositive as to the form of the distribution plan.

V. Assets/Interests Sold

A. EdPlus Holdings, LLC/Unigo Group sale

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 \$500,000 to be paid to EdPlus at closing (the "Initial Cash Proceeds"), \$100,000 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.

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] and the transaction closed on the same day. The second reporting period for the quarterly statement of the Earnout closed December 31, 2016 and the statement for that quarter was received on March 14, 2017. The second quarterly statement did not indicate any positive EBITDA. 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.

B. CCM Capital Opportunities Fund (fka Aequitas Capital Opportunities Fund)

CCM Capital Opportunities Fund (“CCM”) is a \$102 million fund formed to make control and minority investments in small to middle-market financial services companies. Affiliates of Aequitas Capital Opportunities GP, LLC (the General Partner and together with its affiliates, “Aequitas”) committed \$69.6 million to COF via the contribution of equity in five companies operating in the healthcare, education, and financial services/technology industries. Aequitas contributed equity in a sixth company to CCM after its formation and CCM has made direct investments in two additional companies.

As detailed in Previous Reports, the Receiver’s marketing efforts related to the CCM Interests dates back to April 2016. Multiple parties conducted due diligence and several entered into letter of intent acquisition agreements. As described in Previous Reports, Cedar Springs Capital (“CSC”) was the successful bidder on a subset of CCM portfolio companies and entered into negotiations to include the final portfolio company – CarePayment Technologies, Inc.

Following a seven day conferral period, on December 16, 2016, the Receiver filed Motions for Orders: (1) Scheduling Hearing to Approve Purchase and Sale Agreement; (2) Approving Stalking Horse Bidder; (3) Approving Break-Up Fee; (4) Approving Bidding Procedures; and (5) Approving the Sale of Assets Free and Clear of All Liens, Claims, Encumbrances and Interests (the “CCM Sale Motion”) [Dkt. 323]. Judge Papak signed the proposed order (the “CCM Sale Order”) on December 28, 2016 setting the time for qualified overbids for January 11, 2017 at Noon Pacific, the deadline to file objections on January 18, 2017 (the “Objection Deadline”) and a Final Hearing date to approve the CCM Sale, including a sale to a Successful Bidder, for January 20, 2017.

The period for overbids expired on January 11, 2017 with no interested party submitting a qualified overbid. Accordingly, the Receiver moved forward to the final sale hearing on January 20, 2017 to seek approval of the CSC sale.

1. Closing of the CCM sale

On or about March 7, 2017, the Receiver closed on a transaction that involved not only the sale of the Receivership Entity’s interest in CCM, but also (i) the sale of certain CarePayment healthcare receivables, (ii) the payoff of Wells Fargo Bank, N.A, (iii) grant of an option to purchase the Receivership Entity’s and its affiliate’s healthcare receivables to CarePayment Technologies, Inc. (together with its subsidiaries, “CPYT”), and (iv) detailed agreements related to the continued operation of the CarePayment program during the option period (collectively, the “**CCM Transaction**”).

Following the Court’s approval of the CCM Transaction, the Receiver worked to fulfill the various extensive closing conditions required under the Agreement of Purchase and Sale (“PSA”). One of those closing conditions involved the negotiation and execution of agreements between certain Receivership Entities and CPYT with respect to operation of the CarePayment program following the sale of Receivership’s interest in CCM (the “**New Program Agreements**”).

Prior to the CCM Transaction, the Receivership Entity was funding the acquisition of CarePayment receivables through existing funding sources. During the negotiation of the PSA, the Receiver, the Buyers and CPYT agreed in principal that, following the CCM Transaction, CPYT would fund all newly originated CarePayment accounts and that CPYT would get an option to acquire all the CarePayment receivables owned by the Receivership Entity and its affiliate. Working out the details and mechanics of this arrangement was complicated by various factors:

- Two separate financial institutions had first position liens on the CarePayment receivables : Wells Fargo through a credit facility with CP Funding I Trust (“**CPFIT**”), and DLI Assets Bravo, LLC (“**DLI**”) through a credit facility with CarePayment, LLC. (“**CP LLC**”).
- CP LLC was the party to most of the CarePayment client agreements with participating hospitals (the “**Client Agreements**”). Accordingly, CPYT did not have the right to purchase receivables from these hospital clients prior to the CCM Transaction.
- The origination structure for the CarePayment receivables involved a third-party bank, WebBank, and CP LLC was the party to such origination agreements (the “**WebBank Agreements**”). Accordingly, CPYT was not in a contractual position to originate new CarePayment receivables through WebBank.
- CPYT needed to meet certain requirements with its capital partner to access additional capital for the financing of future CarePayment receivables.
- Historically, CPYT’s back office operations were heavily integrated with Aequitas’ back office operations. The sale of Receivership’s interest in CCM and CPYT to a third party necessitated the separation of certain services and vendor relationships.

From December 2016 through March 2017, the Receiver and the professionals put a lot of effort into working through these complicating factors involving multiple interested parties.

One of such challenges involved the need to obtain various consents from Wells Fargo and make extensive amendments in connection with its credit facility to CPFIT in order to implement the changes related to the separation of CPYT. To avoid the uncertainty of protracted negotiations, documentation, and associated disproportionately significant legal fees (relative to the outstanding loan balance), which would have been unavoidable given the complexities of the origination structure, the underlying loan documentation and intercreditor issues involved in the Wells Fargo credit facility, the Receiver determined that it was necessary to pay off Wells Fargo. To implement the payoff of the Wells Fargo credit facility, the Receiver entered into a Receivables Purchase Agreement with CPYT whereby CPYT purchased a subset of CPFIT's CarePayment receivables. The proceeds of that sale were combined with the restricted cash at CPFIT to pay off Wells Fargo in full, including the payment of the related lender's fees and expenses. The sale of the CPFIT receivables and the payoff of Wells Fargo were completed in conjunction with the closing of the broader CCM Transaction.

The payoff of Wells Fargo facilitated the separation of CPYT from the Receivership Entity which was crucial for the successful closing of the CCM Transaction. However, the parties still needed to obtain various consents from an affiliate of DLI, the senior lender to CP LLC and the capital partner of CPYT. The Receiver worked with CPYT and its counsel to structure the transaction and draft documentation in order to obtain the necessary consents from DLI to follow through with the CCM Transaction.

A crucial aspect of the separation of the CPYT from the Receivership Entity and a required transaction closing condition involved structuring and finalizing the New Program Agreements between the Receivership Entity and CPYT, with extensive input from the Buyers. The New Program Agreements consist of four separate documents:

- Option Agreement (the “**Option Agreement**”) – The Option Agreement grants CPYT an exclusive option to purchase the CP LLC and CPFIT CarePayment receivables during the six-month option period ending September 7, 2017 (the “Option Period”). The option may be exercised in stages based on a pre-determined purchase price formula, subject to certain adjustments as specified in the Option Agreement.
- Origination and New Program Agreement (the “**Origination Agreement**”) - The Origination Agreement deals with the origination and operation of the CarePayment program during the Option Period. Under the Origination Agreement, CP LLC partially and conditionally assigned certain of its rights under the Client Agreements and WebBank Agreements to CPYT so that it could operate independently and fulfill its obligation under the Origination Agreement and the other New Program Agreements. Under the Origination Agreement, (i) CP LLC will continue to facilitate the origination of new receivables, however, CPYT or its affiliate are required to provide all the necessary funding for such originations, (ii) CPYT is required to purchase underlying receivables from CP LLC and CPFIT if the amount of sub-sales (additional charges by patients on existing CarePayment accounts) exceed a given hospital’s recourse liability to CP LLC or CPFIT, and (iii) purchase recourse CarePayment receivables (receivables that are generally greater than 90 days past due) from CP LLC and CPFIT. As a result, after the CCM Transaction closing, the CP LLC and CPFIT are continuing to accept a limited amount of sub-sales in exchange for recourse accounts, however, such transactions do not require additional funding on the part of the Receivership Entity.
- Net Interest Margin Agreement (the “**NIM Agreement**”) – Under the NIM Agreement, in consideration for CPYT’s management of the CarePayment program and managing the hospital client relationships, the CarePayment-related Receivership Entities pay CPYT a fee calculated based on an amortized receivables purchase discount, net of all direct costs associated with the operation of the CarePayment platform, such as certain interest expense, servicing fees

and origination fees, professional fees, credit losses and impairment, taxes, etc. A similar arrangement existed between CPYT and Aequitas prior to the appointment of the Receiver.

- Servicing Agreement (the “**Servicing Agreement**”) – During the Option Period and for up to 3 months following the end or termination of the Option Period, CPYT will continue to service the CarePayment receivables owned by CP LLC and CPFIT pursuant to the new Servicing Agreement. The new Servicing Agreement is based on the prior agreements between CP LLC, CPFIT/Wells Fargo and CPYT and it replaced two agreements with one agreement following the Wells Fargo payoff. The Agreement includes updated terms and conditions.

In addition to the documents necessary to address the interests of Wells Fargo and DLI and the New Program Agreements, various other ancillary agreements, documents and certificates were required to be negotiated, drafted and executed. In total, close to **60** separate documents, plus schedules and disclosure statements were executed by the Receiver as part of the CCM Transaction.

The CCM Transaction closed on March 7, 2017, bringing **\$52 million** into the Receivership Entity. The proceeds of the sale were distributed as follows:

- \$48.1 million for sale of Receivership interests held in CCM
 - Aequitas Commercial Finance, LLC - \$36.1 million
 - Aequitas Private Client Fund, LLC - \$ 8.7 million
 - Aequitas Holdings, LLC - \$ 2.5 million
 - CCM Capital Opportunities GP, LLC - \$ 696 thousand
- \$3.9 million repayment of ACL loan

As discussed above, as part of the CCM Transaction, CPYT exercised the first tranche of its purchase option when it purchased ~\$3.8 million (face value) of CPFIT's CarePayment receivables.. Overall, as part of and since the closing of the CCM Transaction through March 31, 2017, CPYT or its affiliate have purchased ~\$4.2 million (face value) of CarePayment receivables from CP LLC and CPFIT pursuant to the Option Agreement and their obligations under the Origination Agreement. The outstanding balance of the DLI credit facility with CP LLC has been reduced by ~\$5.6 million.

Another important part of the CCM Transaction involved the efforts to ensure that CPYT is appropriately capitalized post-sale. This is particularly significant to the Receivership Entity, given the fact that after the CCM Transaction closing, CP LLC and CPFIT combined owned ~\$71 million (face value) of CarePayment receivables and outstanding hospital accounts receivables and CPYT has major ongoing obligations in connection with CarePayment receivables under the New Program Agreements. As part of the CCM Transaction, CPYT has received a \$16.2 million follow-on investment from the Buyers (through their follow-on investment into CCM). In addition, following the close of the CCM Transaction, the Receivership Entity provided a \$10.7 million senior secured loan to CPYT. The loan has a 12-month term. The loan shores up CPYT's liquidity allowing it fulfill its obligations to its capital partner, while providing a return to the Receivership on its funds. This funding to CPYT will help better protect the value of the millions of dollars of CarePayment receivables serviced by CPYT and still owned by the Receivership Entity and its affiliate and will better position CPYT to acquire the Receivership Entity's remaining CarePayment receivables portfolio.

2. WindowRock Feeder Fund ("WRFF 1")

WRFF 1, through its affiliates, held a management contract entitling the Receivership Entity to a management fee of 75 basis points annually on invested capital (approximately \$21.8 million) by the investors in the Window Rock Residential Recovery

Fund.⁷ On March 14, 2017, the transaction restructuring the fund closed and the Receiver received \$328 thousand as compensation for the Receivership interest in both, accrued but unpaid, as well as future management fees.

3. Innovator Holdings LLC (IH)

IH holds a 51% interest in Innovator Management, LLC (“IM”) – a 1940-Act investment advisory platform that is owned equally with Clifton Larson Allen (“CLA”). IM has consistently lost money and, since the Receivership, has been funded solely by CLA. The Receiver is not aware of any business reason to continue ownership or advance the Receivership’s share of losses.

The Receiver and CLA have agreed to sell IM and requested to court approval of such a sale on April 19, 2017.⁸ The Receiver does not believe its equity is worth more than the \$50,000 and the contractual indemnities and releases it will be receiving (and understands that CLA is receiving no consideration on account of its equity investment).

The conferral email was sent to the notice list on April 12, 2017. The motion and proposed order was filed on April 19, 2017 as there were no objections to the sale. The Court entered its order⁹ on April 20, 2017 and a closing of the transaction was set for April 26, 2017.

4. Aequitas Senior Housing Operations, LLC (“ASH”)

ASH, through its affiliates, holds a minority interest in an assisted living facility being constructed in Austin Texas. The project construction costs are over budget and it is behind schedule. Civitas, the general partner, has agreed to be the stalking horse bidder to purchase the Aequitas interest for \$1.9 million, equal to a 25% discount on

⁷ <http://windowrock.com/>

⁸ Receiver's Motion Authorizing Certain Receivership Entities to Execute and Deliver Such Documents and to Take Actions as Necessary to Effectuate the Innovator Management, LLC Sale [Dkt. 412].

⁹ Order Granting Receiver's Motion Authorizing Certain Receivership Entities to Execute and Deliver Such Documents and To take Actions as Necessary to Effectuate the Innovator Management, LLC Sale [Dkt 415].

expected cash flows. Aequitas had initially invested \$2.8 million and failed to fund subsequent capital calls.

The letter agreement memorializing the terms was executed on April 17, 2017. Following conferral, the motion, declaration, bidding procedures and proposed order were filed on April 26, 2017 [Dkt. 421-423]. The sale order was approved the same day [Dkt. 424] setting the bid deadline for May 10.

C. Prior Sales Efforts

In addition to the most recent asset sales discussed above (and as reviewed in detail in the Initial Report), since the appointment of the Receiver, the Receivership has conducted a competitive sale process and sold two large Consumer Loan Portfolios realizing 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 an additional \$9.2 million of collections that had been previously retained by Comvest Lenders that were released to the Receivership. The Receivership Entity has also sold, through competitive bidding, certain office equipment and furniture (the "OEF") located at the Entity Defendants' business premises at 5300 SW Meadows Road, Suite 400, Lake Oswego, Oregon, realizing over \$50,000 in net proceeds.

D. Ongoing Sales Efforts

The Receiver continues to prepare assets for sale and actively market other assets.

1. ACC Holdings 5 (Luxembourg Bonds)

As detailed in Previous Reports, the Receivership Entity is involved in a complex trust structure (the "Lux Investment") related to several series of bonds offered on the Luxembourg Stock Exchange (the "Bonds") 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. Issuer is an independent company that is owned by a Dutch Stichting (foundation) and managed by an independent Board of Directors (the “Lux Board”).¹⁰

On November 17, 2016, the Receiver received a proposal from counsel representing the Issuer to acquire certain rights and terminate certain obligations of the Receivership Entity in certain entities in which Lux has invested and that are controlled by the Receivership Entity, including Cayman and certain related entities. The Receiver rejected the initial proposal.

On March 27, 2017, the Receiver received a revised proposal (the “Lux Proposal”) from counsel representing the Issuer to acquire certain rights and terminate certain obligations of the Receivership Entity in certain entities in which Lux has invested and that are controlled by the Receivership Entity, including Cayman and certain related entities. The Lux Proposal suggests that in return for an increased payment of approximately \$350 thousand the Receivership would withdraw as the general partner of Cayman and its convertible preferred equity certificates (“CPEC”).

The Receiver believes that at least \$2.3 million of allegedly defrauded investor funds was expended to establish the Lux Investment. The transaction, as proposed, provides no recovery of those funds. On April 19, 2017, the Receiver presented the Lux Proposal for consideration by the AIC. Based on feedback received following the meeting, the Receiver has notified the Lux Board that the Receivership will not pursue the current Lux Proposal. The parties are still in negotiations in the hopes of crafting an offer acceptable to the Receiver.

¹⁰ Consisting of Mr. Andrew MacRitchie, Mr. Elvin Montes and Ms. Laetitia Antoine. Mr. MacRitchie was formerly an officer of the Receivership Entity and owns a minority membership interest in Aequitas Management LLC (“AM”). The other directors do not have any past relationships with the Receivership Entity.

2. Marketing Services Platform (MSP)¹¹

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 \$12.5 million subordinated debt which is predominately held by 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 \$940 thousand while MSP is repositioning its business and preparing to sell itself as a going concern. The Receiver and MSP have retained the services of an investment banker and expect to bring the company to market in mid-2017.

3. Synchronex, LLC¹²

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.

Due to the loss of a significant customer in Q4 2016, the CEO of Synchronex approached the Receiver for a loan to bridge the short term liquidity gap. The Receiver agreed to a maximum loan up to \$100,000 of which \$75,400 is outstanding. The Receiver is currently pursuing a letter of intent with interested parties and, if fruitful, would structure the transaction as a stalking horse bid.

¹¹ <http://ivey.com/>

¹² <http://www.synchronex.com/en/>

4. MotoLease Financial (MLF)

MLF holds subprime consumer leases for motorcycle and other recreational vehicles. As of March 31, 2017, the portfolio had a face value of approximately \$7.7 million, of which \$5.3 million is less than 60 days past due. Additionally, MLF had repossessed 134 vehicles with cumulative outstanding lease balances of \$0.9 million that are in various stages of reconditioning and/or resale. The Receiver is also reviewing potential claims with the servicing of the portfolio and refurbishment of the repossessed assets. Several interested parties are reviewing the economics of the portfolio and the Receiver is working to bring a purchase agreement forward in the next 90 days.

5. Pipeline Health Holdings, LLC (“Pipeline”)¹³

PCF owns 12.6% of Pipeline, 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 in the process of completing its latest financing round with a strategic investor. There are a handful of early investors that have indicated an interest in exiting the company as part of this transaction, including Aequitas. However, since this is a strategic investor, it wants its capital invested to grow the business not to buy out investors. Therefore, Pipeline will begin a formal process to secure liquidation for the early investors via a secondary buyer, but a closing will not likely be until late Q2/early Q3 timeframe.

6. ETC Founder Fund (ETCF)¹⁴

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

¹³ <http://www.pipelinerx.com/>

¹⁴ <https://www.etc-clearing.com/>

the holders or ETC after September 23, 2016 at \$5.44 per share (defined in the Operating Agreement as Units Capital Value plus Series A Fixed Premium) plus accrued and unpaid dividends/premium (accruing 5% annually). The Receiver has not yet determined an estimate of value for its investment.

7. Certified Solutions Software, Inc. (“CSS”)¹⁵

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.

CSS has been very active in fundraising to expand the business including raising \$4.35 million in additional capital in 2016 (including \$3.5 million of new B2 Preferred Stock from a large strategic investor). Additionally, CSS closed on an additional \$2.5 million equity investment from a venture capital firm in Q1 2017. The Receiver has contacted CSS and expressed an interest in monetizing the Receivership interest. However, the Receiver has not completed a review of this investment in detail nor calculated the dilutive impact of the fundraiser and, thus, has not determined the amount of recoverable value.

8. Cloudware, Inc./ Etelos¹⁶

Cloudware is a web service company that creates integrated website features such as forms, surveys and membership sites. The Receiver has not completed his review of this investment and, thus, has not determined the amount of the recoverable value.

¹⁵ <https://www.css-security.com/>

¹⁶ <http://www.cloudward.com/>

9. Cana's Feast Winery, LLC ("Cana's Feast")¹⁷

Cana's Feast is a winery located in Carlton, Oregon. The Receiver has been in contact with the principals of Cana's Feast and the principals advised of certain alleged restrictions on the sale of the interest. The principals have also informally extended an offer to repurchase the interest for \$50 thousand. The Receiver has not had an opportunity to review this investment in detail and, thus, has not determined any recoverable value, but does not expect it to be material.

10. Crescent Bay Lot Bank Fund¹⁸

Crescent Bay is a land/homesite banking fund out of Scottsdale, AZ. The Receiver received \$221 thousand subsequent to the close of the quarter, which except for a small holdback, represents a final liquidation and distribution of the fund.

11. Gladstone Technology Partners ("GTP")¹⁹

GTP, a web-based solution used to value, benchmark and improve the business operations of financial advisors, was intended as an adjunct offering under the Aequis Wealth Management arm. The Receivership's investment in GTP was via a \$530 thousand convertible note (plus accrued and unpaid interest of \$117 thousand). In November of 2016, GTP sold essentially all of its assets to Truelytics, Inc.²⁰ As part of the transaction, Truelytics agreed to pay a royalty payment based on 10% of gross revenue (which royalty payment is capped at \$1.2 million). The most the Receivership can recover under the royalty payment arrangement is \$546 thousand. The remainder amount would participate prorata in proceeds from a possible future sale of Truelytics.

¹⁷ <http://www.canasfeastwinery.com/>

¹⁸ <http://www.crescentbayholdings.com/>

¹⁹ <http://www.gladstoneanalytics.com/>

²⁰ <https://truelytics.com/>

VI. Communications to Interested Parties

A. Ongoing Communication with Investors/Counsel

To facilitate regular communication regarding significant opportunities, challenges and actions, the Receiver formed the Investor Advisory Committee (the “IAC”) which consists of 49 investors and advisers. Participation was solicited based on size of the investor or investment advisor and also with an eye toward ensuring that all of the significant constituencies would be represented. The latest in-person meeting of the IAC was held on April 19, 2017.

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. 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 against the Entity Defendants only, without admitting or denying the numerous allegations. We continue to interact and cooperate with the SEC, as required by the consent judgement, but there is nothing new to report as of now.

2. CSF and CFPB, and State Attorneys General

The Receiver continues to spend a substantial amount of time and energy responding to requests for information from the various government agencies and also continuing his discussions with them on the best way to provide student borrowers with meaningful debt relief, while simultaneously preserving value for the benefit of Receivership Entity investors.

More specifically, the Receiver continues to discuss with the CFPB the appropriate documentation to effectuate the relief previously agreed to in concept. The Receiver has also taken an active role in bringing state attorneys general into direct contact with the CFPB, and engaging in discussions with state attorneys general themselves, in an effort to ensure the final resolution satisfies a broad group of constituents and limits future claims against the Receivership Entity. The Receiver believes that negotiations with a lead group of states attorneys general are likely to lead to a settlement to resolve the situation.

VII. Lender Relationships

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

CP LLC continues to maintain financing from the Direct Lending Income Fund, LP (DLIF), the entity which purchased Bank of America’s credit facility on March 16th, 2016. Prior to the CCM Transaction, CP LLC was the main financing facility for health care receivables originated and serviced by the CarePayment platform, with all new account originations flowing through this facility. After the closing of the CCM Transaction, CP LLC continues to facilitate the origination of the receivables on behalf of an affiliate of CPYT; however, all funds are provided by and all risk is borne by CPYT.

After the closing of the CCM Transaction, CP LLC has reduced the outstanding principal balance of its senior credit facility by \$5.6 million, bringing the balance down to approximately \$33 million as of March 31, 2017.

B. The Wells Fargo Financing

Please see section V-B above for the discussion of the status of Wells Fargo financing.

VIII. Assets in the Possession, Custody and Control of the Receivership

Estate

A. Cash and Cash Equivalents

The Receiver had possession of cash balances of approximately \$80.4 million as of March 31, 2017. Over the period from March 16, 2016 to March 31, 2017, the overall cash balance of the Receivership Entity increased by approximately \$64.4 million.

Attached as Exhibit B 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 March 31, 2017.

B. Notes Receivable

For notes receivable from non-Receivership entities, the Receiver and staff continue to pursue collection and will continue to provide progress updates. As of December 31, 2016, there were approximately \$7.3 million of third party notes receivable principal amount outstanding and delinquent. On November 4, 2016, the Receiver filed a Motion (1) To Lift Stay For Limited Purpose, And (2) For Authority To Initiate Litigation [Dkt 288] to commence litigation if necessary to collect on certain of these notes receivable. The Court granted the Receiver's motion and entered the Order Granting Receiver's Motion (1) To Lift Stay For Limited Purpose, And (2) For Authority To Initiate Litigation Against Certain Obligors To The Receivership Entity that same day [Dkt 292]. The Receiver and his attorneys prepared pleadings to pursue collections and very recently reached a negotiated, pre-litigation resolution with one of the obligated parties.

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

The Receiver is actively working and negotiating with Next Motorcycle, LLC in order to secure approximately 46 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 \$115,000 in gross proceeds.

X. 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.

The amounts are preliminary and subject to adjustment based on the interim and final fee applications. Detailed time records and supporting documents are being 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 January 1 through March 31, 2017)

Entity	Fees (\$)	Percentage	Expenses (\$)	Percentage	Total (\$)	Percentage
Receiver	253,687.00	10.1%	2,614.03	2.3%	256,301.03	9.7%
FTI Consulting	989,437.00	39.3%	39,743.19	35.0%	1,029,180.19	39.1%
Pepper Hamilton	271,955.12	10.8%	66,421.40	58.4%	338,376.52	12.9%
Schwabe, Williamson & Wyatt	928,983.50	36.9%	3,168.93	2.8%	932,152.43	35.4%
Morrison Foerster	44,523.80	1.8%	217.99	0.2%	44,741.79	1.7%
Law Office of Stanley H. Shure	27,482.63	1.1%	1,495.17	1.3%	28,977.80	1.1%
Akin Gump ^[1]	-	0.0%	-	0.0%	-	0.0%
Ater Wynne ^[1]	-	0.0%	-	0.0%	-	0.0%
Total:	2,516,069.05	100%	113,660.71	100%	2,629,729.76	100%

[1] Akin Gump and Ater Wynne did not incur fees or expenses during the billing period.

XI. Receivership Claimants

In the Initial Report, the Receiver provided a summary compilation of claimants. The summary reflected the Aequitas entities where claimants invested/loaned funds. It does not reflect any subsequent inter-company investments/loans by the Aequitas entities. There have been no changes in the claimants since the last report.

XII. 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 Court-approved distribution to investors. This Receivership is complex and it may take considerable time until distributions to investors can be made.