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MANAGEMENT, LLC

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF OREGON

PORTLAND DIVISION

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

AEQUITAS MANAGEMENT, LLC;

No. 3:16-cv-00438-PK

NOTICE OF FILING RECEIVER'S
REPORT DATED JANUARY 31, 2018



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 January 31, 2018.

Dated this 8th day of February, 2018.

Respectfully submitted,

SCHWABE, WILLIAMSON & WYATT, P.C.

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COURT-APPOINTED RECEIVER FOR
AEQUITAS MANAGEMENT, LLC, AEQUITAS HOLDINGS, LLC, AEQUITAS COMMERCIAL
FINANCE, 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

January 31, 2018

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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 each calendar quarter. This report (the “Report”) represents the report and

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

recommendations to the Court for the quarter ending December 31, 2017. A voluntary report and recommendations to the Court (the “Initial Report”) for the first “stub quarter” ending June 30, 2016 [Dkt. 246], the first mandated quarterly report covering the period through September 30, 2016 [Dkt. 298] and subsequent reports covering the period through December 31, 2016 [Dkt. 365], through March 31, 2017 [Dkt. 444], through June 30, 2017 [Dkt. 491], through September 30, 2017 [Dkt. 559] are collectively referred to herein as the “Receiver’s Reports”. 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 complexity of matters analyzed and the need for additional information, verification and analyses. Furthermore, a forensic investigation is currently underway and this Report is qualified in its entirety by the ultimate findings of such review. The Receiver may need to materially modify the findings and recommendations contained within this Report after further consideration and the results of the forensic review are known.

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 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, as noted above, the forensic investigation including a detailed review of transactions is underway and, once it is completed, the Receiver will identify any errors revealed during the investigation. 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 has successfully stabilized the Receivership Entity, preserved value when possible and facilitated the monetization of a majority of the receivership assets. Through the quarter ended December 31, 2017, the Receiver has sold assets and collected receivables totaling approximately \$305 million. This now includes the consummation of the sale of all remaining healthcare receivables owned by the Receivership to CPYT and its affiliate. The Receiver has also entered into a settlement with Consumer Financial Protection Bureau (“CFPB”) and thirteen state Attorneys General in connection with the Corinthian Colleges student loan portfolio held by CSF. The complex implementation of such settlement, including modification or cancellation of each of the approximately 47,000 loans, notification to each of the borrowers, and application to the IRS for a private letter ruling and for an extension of time to mail approximately 42,000 tax forms (1099’s), is ongoing.

Operationally, full time employee headcount stood at 11 as of December 31, 2017 (and was subsequently reduced further to 10 as of January 1, 2018).

Having made substantial progress on the planned asset dispositions, the Receiver has proceeded with an investor claim validation process, which is approximately 80% complete.² Also, the Receiver has continued his forensic investigation after receiving input from the SEC and counsel representing the Investors.

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. The Receiver also must continue his data verification and claims reconciliation process and his forensic investigation, both of which are now underway.

The Receiver completed the implementation of a consolidated database which currently contains approximately 16.8 million documents, including those of the Receivership Entity as well as documents provided by third parties. The database is being utilized to fulfill current requests for production (RFP) from the SEC Staff. Further, the Receiver has adopted procedures to make the database available on a voluntary basis to counsel for third-party litigants³.

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,

² 80% completion is an estimate and includes direct investors in the Receivership. The Receiver is currently working with Integrity Trust Company (and then its customers) in an effort to validate data regarding investments made by such customers that are subsumed within Integrity's subscription agreements.

³ As of December 31, 2017, access has been provided to the following law firms: Beugelmens LLP, Larkins Vacura Kayser, Latham & Watkins, Miller Nash Graham & Dunn LLP, Munger Tolles & Olson, and Stoll Berne. The Receiver anticipates that most of the remaining law firms interested in accessing the consolidated database will return the necessary engagement agreements during the first quarter of 2018.

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 operating companies owned by the Receivership require daily management until they are monetized or wound down. 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 (more than 90% of pre-Receivership employees are no longer with the Receivership Entities). 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 positive. The Receiver is very mindful of their priorities to proceed both expeditiously and economically and conclude this Receivership in an equitable fashion as soon as practicable. 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

The Receivership Entity previously owned a majority interest in Private Advisory Group, LLC, a registered investment advisor ("PAG"). With the Court's approval of the class-action settlement in Brown (U.S. District Court for the District of Oregon - Case No. 3:17-cv-00869-HZ), the Receiver filed a motion to approve the sale/transfer of the Receivership Entity's interest in PAG [Dkt. No. 555]. The Court granted the motion [Dkt. No. 560] and, as a result, the stay of litigation no longer applies to PAG.

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

1. Consolidated Database

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 approximately 16.8 million documents/emails. In addition to the Receivership Entity's database, the Receiver has also integrated the multiple data repositories in DTI's⁴ possession as well as the data repository hosted by Pepper Hamilton.⁵ The database is being utilized to fulfill current requests for production (RFP) from the SEC Staff and is available to counsel for third-party litigants.

In accordance with the directive contained in paragraph 24 of the Order Appointing Receiver [Dkt. 156], the Receiver made the centralized database available for access and use by counsel for litigants and other appropriately-authorized parties during December 2017. Additional parties interested in obtaining access should contact Troy Greenfield at Schwabe, Williamson & Wyatt (tgreenfield@schwabe.com/ 206.407.1581).

2. Orderly Discovery Process

In the last report, the Receiver recommended that the Court lift the stay of litigation against the Individual Defendants and the Receivership Entity effective January 1, 2018. Subsequently, the Receiver was advised, by both the SEC and the Individual Defendants, of substantial present efforts to resolve the claims presented in the SEC Complaint. Pursuant to the Court's May 23, 2016 and October 23, 2017 orders granting

⁴ DTI (aka Document Technologies, Inc. and Epiq) was the previous eDiscovery vendor employed by Aequitas and the database contains valuable work product related to prior productions in the ASFG litigation and to the SEC. The work product has been preserved.

⁵ The Pepper Hamilton repository contains certain files provided by the Receivership Entity as well as Sidley Austin and the SEC.

limited relief from the stay [Dkt. Nos. 185 and 551], the Individual Defendants' defense costs are paid from the Receivership Entity's wasting D&O policies.⁶ Resolution of the SEC's claims against the Individual Defendants would benefit the Receivership Estate and the Aequitas investors by reducing the legal spend and corresponding depletion of the insurance policy limits. Additionally, resolution of the SEC's claims could well pave the way for subsequent settlement negotiations between the Individual Defendants, the Receivership and the Aequitas investors.

As addressed in Section F. below, the Receiver now recommends that the Court refrain from lifting the stay of litigation against the Individual Defendants and the Receivership Entity until after March 1, 2018, by which time the Receiver will submit an interim recommendation based on whether he believes a further stay is in the best interests of the Receivership Entity and its investors/creditors.

The Receiver recommends and will file a motion to establish an orderly discovery process including reasonable limitations upon the discovery that may be directed to the Receivership Entity. Obviously, the Receivership Estate would be unnecessarily diminished by subjecting the Receiver, FTI personnel, remaining Aequitas employees and the Receivership Entity's engaged professionals to duplicative discovery in multiple lawsuits. The Receiver has addressed these concerns to counsel for investor claimants who support the general premise that discovery directed to the Receivership Entity must be organized and reasonably limited to avoid unnecessary depletion of the Receivership Estate.

F. Lifting the Stay of Litigation

The Receiver anticipates completing a draft of a preliminary report of the forensic investigation on or before March 31, 2018, and sharing it with constituents as soon

⁶ The policy limits available to indemnify for investor claims are reduced by the payment of defense costs.

thereafter as possible. Since the majority of the Receivership Entity's assets have been sold or otherwise monetized, and the majority of outstanding governmental litigation has been settled, some resources can be redirected to litigation-related matters without jeopardizing the Receivership's other vital activities. Finally, the Receiver believes it is in the best interests of the Receivership Estate to limit attorney fees incurred by the Individual Defendants while they pursue resolution of the claims presented in the SEC Complaint. Accordingly, the Receiver recommends that the Court refrain from lifting the stay of litigation against the Individual Defendants and the Receivership Entity until after March 1, 2018, by which time the Receiver will submit an interim recommendation.

Together with an order lifting the stay, the Receiver will seek an order (i) reasonably limiting discovery of the Receivership Entity and (ii) channeling investor and ordinary vendor claims into a systematic and efficient claims process, and (iii) establishing a claims resolution process to address more complex unliquidated creditor actions (see Section IV.B., below, for additional detail).

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, preserving and monetizing of 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. As assets are being monetized, the Receiver has begun to close down bank accounts that are no longer deemed necessary. Through December 31, 2017, the Receiver has closed five post-Receivership bank accounts.

Additionally, the Receivership Order effectively allows the necessary use of funds from the various entities composing the Receivership Entity by those entities with a need for such funds. However, to present a more transparent view of each entity in the year-end financial reports, at the end of December, 2017, the Receiver performed funds transfers among various Receivership Entities aimed at repaying post-Receivership inter-company loans and advances to the extent funds were available in the borrowers' bank accounts.

Cash basis reports including information for the current reporting period and case to date are attached as Exhibit B.

3. **Staffing**

a. Headcount

The Receiver continues to maintain the minimum staff necessary for the Receivership and enterprise to operate efficiently and effectively. As of December 31, 2017, the Receivership Entity had 11 full-time employees and 1 part-time employee. After the end of 2017, full-time employee count was further reduced by one. The Receiver's employee retention program provides for at least six-weeks' notice to employees whose services are anticipated to no longer be required by the Receivership.

b. Contractors

In response to 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 December 31, 2017, the Receivership employed four full-time equivalent accounting contractors, one part-time accounting contractor and two part-time IT contractors.

4. 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. 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.

b. Other Tax Matters

The Receiver completed and filed 2017 short period tax returns for CCM Capital Opportunities Fund LP and Aequitas WRFF 1 LLC in December of 2017. K-1 forms have been sent to fund members. Going forward, tax information for the two funds will be provided by the new owners/managers. Reporting by the Receivership for the funds is complete.

2016 corporate federal and state tax returns for Aequitas Capital Management Inc. were completed and filed in early December 2017.

2017 tax reporting is underway. Information returns, as required, were distributed to recipients in late January and will be filed with tax agencies by the reporting deadlines. Federal and state return extensions and estimates are in process.

The Receiver expects to provide estimates to fund members for the remaining funds consistent with timing in prior years.

Information reporting for student loans held by Campus Student Funding LLC may be required in connection with debt cancellation that was provided under the terms of the settlement with the CFPB and state Attorneys General. Receiver and his legal counsel have been working with the IRS and have requested a Private Letter Ruling that would eliminate the need for the information reporting. Receiver has also filed a request for an extension of the deadline to mail ~42,000 information forms (1099's) to the student borrowers (which request was granted in January 2018).

5. Payments made on behalf of the defense of the Individual Defendants

Pursuant to the Court's May 23, 2016 order granting limited relief from the stay to permit payment of defense costs for the Individual Defendants under the Receivership's D&O policy, the Individual Defendants are required to submit to the Receiver on a quarterly basis, commencing within 90 days of the entry of the order, a report reflecting the aggregate amount of defense costs paid by the insurers on behalf of the former executives during the prior quarter.

The Receiver had been informed by counsel for XL Catlin, the insurer providing the first tier of \$5,000,000 coverage, that the total of the payments made by XL Catlin as of July 7, 2017 was \$5,000,000. The Receiver refused to stipulate to the payment of the Individual Defendants' claimed defense costs by the insurer providing the next \$5 million tier of coverage – Forge Underwriting Ltd. (Forge). The Individual Defendants filed motions for relief from the Order Appointing Receiver for the purpose of permitting Forge to reimburse their defense costs. The Receiver vigorously opposed the motions on a number of grounds, specifically including the fact that the Receivership Entity faces claims of Aequitas investors totaling approximately \$650 million.

The Receivership Entity is also insured under the subject policies, with coverage limits being depleted by the defense spend of the Individual Defendants. In August 2017, numerous counsel for the hundreds of Aequitas investors submitted written claims/demands to the Receiver totaling approximately \$650 million. The Receiver's insurance coverage counsel promptly tendered those claims to the Receivership Entity's insurance carriers.

Pursuant to the Court's October 23, 2017 order granting further limited relief from the stay, Forge is permitted to pay the Individual Defendants' reasonably-incurred defense costs. The Receiver has been informed that, as of December 31, 2017:

1. Forge had paid defense costs totaling ~\$1,656,699;
2. The Individual Defendants had submitted invoices for additional defense costs totaling ~\$721,376; and
3. The Individual Defendants had incurred approximately \$750,000 in additional defense costs that had not yet been invoiced to Forge.

Based on this information, as of December 31, 2017, the \$5 million tier of coverage provided by Forge may have been depleted to less than \$2 million.

B. Development of Claims Process

The Receiver has been working on quantifying and validating the over \$600 million of investor claims. This involves reconciling tens of thousands of investor investment/redemption activities documented by the books and records of the Receivership, which, because Aequitas did not utilize a consolidated accounting and investor reporting platform, requires reconciling investor account statements produced outside the accounting system with separate accounting and tax records. Additional validations are necessary to the extent issues are discovered during the reconciliation

process and to the extent the Receivership's records do not align with investor and creditor records.

The Receiver is trying to ease the investor and creditor claims process burdens. The Receiver is completing the process of populating and distributing to all investors a summary of historical activity relating to such investor / creditor. If the investor concurs with such records, no further effort is anticipated with respect to submission of claim information by such investor. If any investor disagrees with the Receivership's books and records, it is anticipated that a streamlined resolution process will be implemented.

The Receiver is continuing a phased roll out of a data confirmation process pursuant to which packets are being sent to each investor which had an active account balance in any fund of the Receivership Entity from January 1, 2012 to the date of the Complaint. As of December 31, 2017, 1,440 investor packets have been sent to investors representing substantially all of the invested capital in ACF Private Note, Income Opportunity Fund, Income Opportunity Fund II, Income Protection Fund, Private Client Fund, Enhanced Income Fund, ACC C Plus Holdings, ACC F Plus Holdings, Aequitas Peer-to-Peer Funding, CarePayment Holdings, ML Financial Holdings, and MotoLease Financial. In the fourth quarter of 2017, the Receiver focused on the research and analysis of data associated with equity investments in Aequitas Hybrid Fund, LLC and Aequitas Partner Fund, LLC which required an extensive forensic accounting effort and anticipates that validations for these and the few remaining investment funds will be completed in the coming months.

The Receiver has engaged in discussions with Integrity Trust Company, LLC ("Integrity") about facilitating data confirmation for Integrity investors whose funds were placed in Aequitas investment products. This process has been slowed by the litigation already commenced against Integrity by many investors. In late December 2017,

Integrity provided sample investment statements and has subsequently responded to questions regarding the information reflected in the statements. The Receiver is assessing the extent to which his professional team can efficiently facilitate the data confirmation process on behalf of Integrity investors. Regardless of the role ultimately played by the Receiver and his professional team in the data confirmation process, all parties must understand that Integrity is the source of the data regarding its investors whose funds were placed in Aequis products and the Receivership has no or very limited direct records for these investors (such funds were aggregated by Integrity and invested with Aequis in the name of Integrity).

During the fourth quarter of 2017, the Receiver and his staff also assisted in the execution of the Court-approved settlement in *Brown et al. v. Price, et al.* (Brown Class Action). Specifically, the Receiver and his staff utilized previously-validated information regarding each of the class member's investments and applied a formula approved by the Court for the limited purpose of executing the Brown Class Action settlement to determine the net cash loss sustained by, and thus the calculation of proceeds to be received by, each class member.

The overall investor data 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. Disposition of Assets/Interests

A. Assets/Interests Sold

1. CarePayment Medical Receivables

CCM Capital Opportunities Fund (“CCM”) was a \$102 million fund formed to make control and minority investments in small to middle-market financial services companies. As detailed in prior Receiver’s Reports, 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”). Details on the New Program Agreements coincident with this transaction are detailed in the Receiver’s Reports.

In order to facilitate the close of the CCM Transaction, the Receivership Entity provided a \$10.7 million senior secured loan to CPYT. The loan had a 12-month term. The loan shored up CPYT’s liquidity allowing it to fulfill its obligations to its capital partner, while providing a return to the Receivership on its funds. This funding to CPYT helped better protect the value of the tens of millions of dollars of CarePayment receivables serviced by CPYT and still owned by the Receivership Entity and its affiliate at the time and better positioned CPYT to acquire the Receivership Entity’s remaining CarePayment receivables portfolio.

On July 28, 2017, CPYT repaid the Receivership Entity loan of \$10.7 million plus accrued interest of \$464 thousand. At the same time, CPYT also exercised its Option to purchase the receivables and purchased the first tranche of \$19.2 million (face value) of medical receivables from CPLLC and CPFIT (leaving the Receivership with a remaining portfolio

balance of \$17.5 million face value). The Receivership used a portion of the proceeds to retire the outstanding DLI debt balance of \$7.6 million.

Throughout the third and fourth quarters of 2017, an affiliate of CPYT continued to acquire receivables and hospital accounts receivable from CPLLC and CPFIT through weekly settlements based on CPYT's obligations under New Program Agreements. On December 21, 2017, CPLLC and CPFIT sold the remaining healthcare receivables to an affiliate of CPYT. This marked a major milestone in the Receivership's successful complete liquidation of the CarePayment receivables portfolio. Subsequent to the initial Option transaction in July, 2017, CPLLC and CPFIT have collected another ~\$19 million consisting of:

- a. ~\$5.7 million from patients
- b. ~\$4.3 million from an affiliate of CPYT through weekly receivables sales and settlements
- c. ~\$1.3 million from an affiliate of CPYT as a result of sale of hospital accounts receivable in October of 2017
- d. ~\$7.8 million from an affiliate of CPYT in the final sale under the Option Agreement on December 21, 2017.

Overall, during the entire year of 2017, CPLLC and CPFIT collected a total of approximately \$88 million from patients and through the sale of receivables and hospital accounts receivable to an affiliate of CPYT.

We are continuing to work closely with CPYT to complete post-transaction reconciliations, clear remaining invoices, and to establish procedures to finalize separation of the CarePayment platform from the Receivership.

Pursuant to a stipulation with Weider/Forman litigants, the net proceeds of the account receivable sales in excess of institutional debt repayment had been placed in a segregated

account pending determination of their appeal. On October 12, 2017, an Order⁷ was entered that re-affirmed a prior decision by the Court that relieved the Receiver of any obligation to segregate funds on behalf of Weider/Forman. The latest objection by Weider/Forman filed on December 22, 2017 is pending before the Court.

2. 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 and CLA agreed to sell IM and requested court approval on April 19, 2017.⁸

The Court entered its order⁹ on April 20, 2017 permitting the sale of the Receivership’s interest in IM and a closing of the transaction occurred on May 9, 2017. Sale proceeds were held in escrow until the shareholders approved the new advisory agreement and the purchaser received an exemptive order from the SEC. These closing conditions were met in late September/early October and the \$50,000 in proceeds was received on October 11, 2017.

3. ETC Founder Fund (ETCF)¹⁰

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. (“ETCGH”) which was purchased in September 2011.¹¹

⁷ Order re: Court Adopting Magistrate Judge Papak's Opinion and Order [Dkt. 549].

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].

¹⁰ <https://www.etc-clearing.com/>

On May 1, 2017, ETCGH notified the Receiver that ETCGH intended to enter into a “Financing Transaction” with two lenders that would provide ETCGH with critical capital, but would also drastically change the ownership and control of ETCGH.

The Receiver solicited the consent of ETCF investors formally documenting the approval of and consent to the renegotiated Financing Transaction, and a determination by the ETCF investors that the Financing Transaction is fair to ETCF and its members. The Receiver received consent from 92% of ETCF investors (all who voted) with no dissent noted. After conferral with interested parties, the Receiver filed on July 24, 2017 the Receiver's Motions for an Order which provided for consent to the Financing Transaction, converted the ETCF equity interests into special members' interests in ETCGH and provided a compromise in management fees owed in return for accelerated payment [Dkt 482]. The Court approved the Receiver's Motion [Dkt 485]. Pursuant to a Promissory Note between ETC Global Group, LLC and Aequitas Investment Management, LLC (“AIM”), dated July 31, 2017, AIM has received six monthly payments totaling \$66,667 through the end of December 2017. AIM subsequently received the final payment under this Note in the amount of \$116,667 on February 2, 2018.

4. Certified Security Solutions (CSS)¹²

CSS is a cybersecurity company that provides company enterprise and IoT digital identity security for data, devices, and applications. Aequitas originally invested \$250,000 in a convertible note and then sold that note pre-Receivership at a discount - \$225,000. Interest had been accruing and unpaid such that CSS allocated common shares at \$.10/share to satisfy such obligation. Receivership records show ownership of 1,596,643 shares of the common stock of CSS by APF. Overall CSS has between 82-85

¹¹ As discussed in prior Receiver's Reports, ETCF was entitled to certain preferential rights, including a liquidation preference that requires ETCGH to first return ETCF's capital investment in ETCGH, plus a 5% per annum preferred return, before making distributions to the other members of ETCGH.

¹² <https://www.css-security.com/>

million shares outstanding. Since the time of Aequitas' investment, CSS has raised four additional rounds of preferred, participating stock with a 1x liquidation preference. Total raise is between \$14-15 million which would be paid prior to common shareholders receiving anything.

CSS recently completed a valuation of the fair market value of the company consistent with the provisions of Internal Revenue Code 409A which established the value for the common shares/options on a minority nonmarketable basis at \$.05/share. CSS is pursuing additional financing that will further dilute the Common Stock. Given the Receiver's desire to liquidate APF's interests in CSS common shares and CSS's interest in reacquiring the shares, the parties have negotiated in good faith and have agreed to a purchase price of \$.03/share or a total purchase price of \$47,899.

On January 2, 2018, the Receiver filed a Motion for an Order Authorizing Aequitas Partner Fund, LLC, to Sell Common Stock in Certified Security Solutions, Inc., Free and Clear of Liens, Claims, Encumbrances and Interests [Dkt. 574]. The Motion was approved by the Court on January 4, 2018 [Dkt. 577].

B. Ongoing Asset Stabilization and Sales Efforts

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

1. Campus Student Funding

One of the gating monetization issues of the Corinthian Colleges student loan receivables was a settlement of the Consumer Financial Protection Bureau (CFPB) and state Attorneys General claims against certain Receivership Entities. After over a year of negotiations, on August 17, 2017, the Court approved Receiver entering into the nationwide settlement with CFPB and thirteen state Attorneys General in connection with

the Corinthian Colleges private student loan portfolio owned by the Receivership (the “Settlement”) [Dkt. 495].

All 14 individual settlements are on identical terms, although the form and structure of the settlement and ensuing court orders differ among the states. States that joined the settlement include: California, Colorado, Connecticut, Florida, Illinois, Iowa, Kentucky, Maryland, New York, Oregon, Pennsylvania, Texas, and Washington. The CFPB settlement pertains to all students nationally; the state settlements cover approximately 65% of the outstanding receivables balance.

While the Settlement represents significant relief to the borrowers in terms of the unpaid principal balance reduction and credit history “clean-up”, it is beneficial for the Receivership Entity as it:

- Allows the Receivership to sell the portfolio (after a significant settlement implementation process and period) and substantially enhances the marketability of the portfolio;
- Preserves the Receivership’s (or purchaser’s) ability to collect and pursue collection actions for the Active Loans, thus preserving value in the remaining portfolio;
- Avoids significant legal costs and disruption associated with on-going actions by CFPB and likely actions by state Attorneys General.

In the last quarter of 2017, the Receivership expended a very significant effort on the implementation of the Settlement. Following extensive negotiations, we have secured the cooperation of University Accounting Service, our main servicer for this portfolio and have successfully implemented the requirements of the Settlement, including but not limited to:

- calculating the relief for approximately 47,000 loans,

- re-applying cash collections received after the Settlement Record Date of March 31, 2017,
- adjusting every borrower's outstanding balances,
- developing and negotiating with CFPB detailed and complex borrower notice letters,
- mailing out approximately 47,000 personalized borrower notices (including a separate noticing process for borrowers in bankruptcy to avoid potential violation of automatic stay);
- creating a process as required by the Settlement for borrowers' optional loan re-amortization election and implementation; and
- calculating the amounts and processing overpayment cash refunds for 2,739 loans.

Additionally, we have developed a detailed informational website for the borrowers in connection with the Settlement and have set up a multi-channel borrower inquiry submission and response process. Through December 31, 2017, the website had received approximately 27,500 hits from 12,546 visitors. Most of borrower inquiries are being addressed by the servicer but the Receivership also received approximately 285 initial borrower inquiries directly (through the end of December of 2017) and has addressed them. While the development of the website and the borrower inquiry responses required significant effort, these activities are instrumental in mitigating the Settlement implementation risk to the Receivership, reducing the number of potential borrower complaints, and stabilizing the portfolio.

As discussed previously in the report, the Receiver and his staff and retained professionals have been preparing to provide over 42,000 information tax forms (1099's) to student borrowers in connection with the debt discharge granted as part of

the Settlement. The preparation was necessary in order to meet the filing deadlines in the event that a favorable decision from the IRS allowing the Receiver not to file the forms is not obtained. While that decision is still pending (and the timing was not helped by the federal government shutdown), the Receiver did receive in late January a 30-day extension on the deadline to mail such forms.

Going forward, we will continue working with the loan servicer and our other service providers to complete the implementation of the Settlement. At that point, the Receiver will evaluate the next steps in connection with the monetization of the remaining portfolio.

2. ACC Holdings 5 (Luxembourg Bonds)

As detailed in Receiver's 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").¹³ The Receiver continues to have active discussions with the Lux Board as to the monetization of the Lux Investment.

3. Marketing Services Platform (MSP)¹⁴

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

¹³ 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.

¹⁴ <http://ivey.com/>

the time of the Receivership, only the Ivey Performance Marketing (“Ivey”) business was active, with the other operations either being shut down, sold off, or rolled into Ivey. The majority of the equity of MSP is owned by APF and 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 – agreed to provide bridge financing of up to \$940 thousand while Ivey repositioned its business and prepared to sell itself as a going concern. The Receiver, MSP and Ivey retained the services of an investment banker. The marketing efforts were not successful in sourcing any offers that returned value to the Receivership and alternative plans were evaluated and offers sought for the separate business lines. This approach also failed to produce satisfactory offers.

Ivey was not able to sustain operations without additional loans or equity investment. Given the inadequate offers generated by the marketing efforts of the investment banker and the likely inability to recover any new funds advanced, the Receiver declined to provide additional funds. On September 15, 2017, Ivey sold two of its three lines of business (Branded Environment and Content) in a “distressed sale” for \$850 thousand with the bulk of the proceeds (together with existing cash balances) used to pay secured debt in exchange for lien releases (\$486 thousand), personnel-related costs (\$307 thousand) and investment banker costs (\$105 thousand). Also on September 15, 2017, all staff at Ivey was terminated. On October 27, 2017, Ivey sold the remaining assets associated with Bag Insert and Partnership Marketing services in partial satisfaction of related trade vendor liabilities. This last transaction effectively completed the liquidation of Ivey’s assets. At this point, the Receiver does not anticipate any recovery on the ~\$12.5 million of debt held by AHF and, consequently, no positive equity value in MSP.

4. Synchronex, LLC¹⁵

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.

The Receiver is working towards a definitive agreement with a potential stalking horse bidder regarding the sale of the equity interest. Also, the Receivership holds title to a vacant residence in Coeur d'Alene, Idaho, that had been pledged by the Synchronex principals. The Receivership has listed the residence for sale, although since it is accessible only by boat, significant marketing activities are not expected until at least late spring.

5. MotoLease Financial (MLF)

MLF holds subprime consumer leases for motorcycle and other recreational vehicles. To date, the Receiver has collected approximately \$12 million on account of the leases owned at the beginning of the Receivership. As of December 31, 2017, the remaining portfolio had a face value of approximately \$5.4 million, of which \$4.4 million is less than 60 days past due. Additionally, MLF had repossessed 67 vehicles with cumulative outstanding lease balances of \$466 thousand that are in various stages of reconditioning and/or resale. The Receiver is also reviewing potential claims related to the refurbishment of the repossessed assets. The Receiver is continuing to review and gather data for a sale transaction, and intends to run a sale process in the next 90 days. Depending upon the amount of the offers, the Receiver will determine whether a sale or continued natural run-off of the portfolio is optimal.

¹⁵ <http://www.synchronex.com/en/>

6. Pipeline Health Holdings, LLC (“Pipeline”)¹⁶

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. Pipeline has engaged an investment banker to conduct a secondary offering to assist investors in the monetization their interests. Pricing for the secondary offering has not been determined and delays in Pipeline’s process have further delayed the timing for a transaction that would allow the Receiver to monetize this asset.

7. Portland Seed Fund (PSF)¹⁷

Portland Seed fund is an investment in a local venture capital fund providing early stage capital to Oregon based start-ups. The Receiver continues to seek opportunities to monetize the remaining PSF interest.

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 53 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. Further, the Receiver received several inquiries from additional investors who desired to participate in the IAC. The Receiver

¹⁶ <http://www.pipelinerx.com/>

¹⁷ <http://portlandseedfund.com/>

evaluated each of these requests and accommodated the investor when circumstances warranted. As there were no important decisions pending, the IAC did not hold a meeting in the fourth quarter of 2017. However, Receiver, his legal counsel, and staff stay in regular contact with the IAC members and their legal counsel, including addressing investor inquiries. The next IAC meeting is scheduled for February 27, 2018 in Portland, OR (and via teleconference).

The Receiver believes litigation settlements are or will soon be available which could return tens of millions of dollars directly to investors much quicker than will be required to resolve the Receivership. However, such settlements require the cooperation and agreement of numerous groups of investor plaintiffs who hold claims against the defendants. During the third and fourth quarters of 2017, the Receiver and his team expended considerable effort to facilitate an agreement among represented investors to govern both the percentage of litigation recoveries to be paid to investors' counsel and the allocation of those fees among the counsel. Such an agreement would undoubtedly result in greater cooperation and coordination among investors' counsel, which would likely lead to earlier and greater recoveries available for interim distributions on account of settlements available now and in the future. Unfortunately, two investor groups representing a small percentage of the losses sustained by Aequitas investors declined to enter into the agreement to govern all litigation recoveries. However, it appears that all investor groups intend to utilize the Receiver's fee and allocation recommendation in executing the first anticipated settlement.

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 (including substantial discovery requests), as required by the consent judgement, but there is nothing new to report as of now (other than the developments referenced in section III.E.2. above).

2. CSF and CFPB, and State Attorneys General

Please see section V.B.1 above for the discussion of the Settlement with CFPB and thirteen state Attorneys General.

VII. Lender Relationships

A. Retirement of Institutional Debt

The Receivership Entities and affiliates have retired, generally on discounted terms, the entirety of the \$104.3 million of institutional secured debt which existed at the beginning of the Receivership.

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

Estate

A. Cash and Cash Equivalents

The Receiver had cash balances of approximately \$117.7 million as of December 31, 2017. Over the period from March 16, 2016 to December 31, 2017, the overall cash balance of the Receivership Entity increased by approximately \$112 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 December 31, 2017.

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. Due to the unknown condition or value of these vehicles and the associated litigation costs to pursue recovery, the Receiver is currently evaluating various options to pursue a recovery on all or some of these assets.

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 October 1 through December 31, 2017)

Entity	Fees (\$)	Percentage	Expenses (\$)	Percentage	Total (\$)	Percentage
Receiver	115,087.00	5.7%	-	0.0%	115,087.00	5.6%
FTI Consulting	939,379.00	46.2%	22,645.46	79.6%	962,024.46	46.7%
Pepper Hamilton	176,931.92	8.7%	3,738.85	13.1%	180,670.77	8.8%
Schwabe, Williamson & Wyatt	483,528.00	23.8%	1,952.18	6.9%	485,480.18	23.6%
Morrison Foerster	223,157.06	11.0%	122.29	0.4%	223,279.35	10.8%
Law Office of Stanley H. Shure	93,391.63	4.6%	-	0.0%	93,391.63	4.5%
Pachulski Stang Ziehl & Jones ^[1]	-	0.0%	-	0.0%	-	0.0%
Akin Gump ^[1]	-	0.0%	-	0.0%	-	0.0%
Ater Wynne ^[1]	-	0.0%	-	0.0%	-	0.0%
Total:	2,031,474.61	100%	28,458.78	100%	2,059,933.39	100%

[1] Pachulski Stang Ziehl & Jones, 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. Interests in ACF “private notes” held by three investors and totaling approximately \$9.55 million in stated principal balance have been traded.

XII. Receiver’s Plan

As discussed more fully in the Report, the Receiver has made very substantial progress in actively recovering, stabilizing and monetizing assets, has consolidated and rationalized the terabytes of electronic data and facilitated access by litigating parties, effected settlements with multiple governmental agencies, and has progressed in the forensic investigation and claims process—but work on each of these activities is still continuing. At this stage it is impossible to provide a definitive timeline for the completion of these and subsequent phases of the Receivership – culminating in a comprehensive, court-approved distribution plan to investors and creditors. This Receivership, comprised directly of 48 entities and almost a dozen more affiliated

entities, and involving many operating business (as opposed to owning passive financial assets), is extraordinarily complex and it will take considerable time until distributions to investors can be made from the Receivership Estate. However, the Receiver has facilitated several approved and pending settlements between Investors and professionals and IRAs, the proceeds of which have been, and are intended to be, distributed (with the assistance of the Receiver) shortly after court approval of the settlements. The Receiver has also evaluated the feasibility of an initial, partial distribution from the considerable funds now on hand. However, that is not feasible until the investor data reconciliation process is completed and the Receivership has resolved some of the more significant unliquidated vendor claims and competing claims of alleged holders of security interests.