

Troy D. Greenfield, OSB #892534
Email: tgreenfield@schwabe.com
Alex I. Poust, OSB #925155
Email: apoust@schwabe.com
Lawrence R. Ream (Admitted *Pro Hac Vice*)
Email: lream@schwabe.com
Schwabe, Williamson & Wyatt, P.C.
Pacwest Center
1211 SW 5th Ave., Suite 1900
Portland, OR 97204
Telephone: 503.222.9981
Facsimile: 503.796.2900

Ivan B. Knauer (Admitted *Pro Hac Vice*)
Email: iknauer@swlaw.com
Snell & Wilmer LLP
1101 Pennsylvania Ave., N.W., Suite 300
Washington, DC 20004
Telephone: 202.802.9770
Facsimile: 202.688.2201

Attorneys for the Receiver for Defendants
AEQUITAS MANAGEMENT, LLC; AEQUITAS HOLDINGS,
LLC; AEQUITAS COMMERCIAL FINANCE, LLC; AEQUITAS
CAPITAL MANAGEMENT, INC.; AEQUITAS INVESTMENT
MANAGEMENT, LLC

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF OREGON

PORTLAND DIVISION

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

AEQUITAS MANAGEMENT, LLC;
AEQUITAS HOLDINGS, LLC;

No. 3:16-cv-00438-JR

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



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 October 31, 2018.

Dated this 9th day of November, 2018.

Respectfully submitted,

SCHWABE, WILLIAMSON & WYATT, P.C.

By: s/ Alex I. Poust, OSB #925155
Troy D. Greenfield, OSB #892534
tgreenfield@schwabe.com
Alex I. Poust, OSB #925155
apoust@schwabe.com
Lawrence R. Ream (Admitted *Pro Hac Vice*)
lream@schwabe.com
Telephone: 503.222.9981
Facsimile: 503.796.2900

Ivan B. Knauer (Admitted *Pro Hac Vice*)
iknauer@swlaw.com
SNELL & WILMER LLP
Telephone: 202.802.9770
Facsimile: 202.688.2201

Attorneys for the Receiver for Defendants
Aequitas Management, LLC, Aequitas
Holdings, LLC, Aequitas Commercial
Finance, LLC, Aequitas Capital
Management, Inc., and Aequitas Investment
Management, LLC

RONALD GREENSPAN
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-JR

United States District Court

District of Oregon

Portland Division

Report

of

Ronald F. Greenspan, Receiver

October 31, 2018

Contents

| | | |
|------|--|----|
| I. | Introduction..... | 4 |
| II. | Limitations of Report..... | 5 |
| III. | Case Background | 6 |
| A. | Introduction..... | 6 |
| B. | Focus of the Activities to Date | 7 |
| C. | Recommendation regarding Continuance of the Receivership..... | 8 |
| D. | Probable Impact of Discovery Directed to the Receiver and the Receivership Entity..... | 9 |
| 1. | Consolidated Database | 9 |
| 2. | Orderly Discovery Process | 10 |
| E. | Lifting the Stay of Litigation | 11 |
| IV. | Overview of the Receiver's Activities | 12 |
| A. | Summary of Operations of the Receiver | 12 |
| 1. | Day-to-Day Management..... | 12 |
| 2. | Bank Accounts | 12 |
| 3. | Staffing | 13 |
| 4. | Tax Preparation..... | 13 |
| 5. | Payments made on behalf of the defense of the Individual Defendants | 15 |
| 6. | Ongoing Litigation..... | 17 |
| B. | Development of Claims Process..... | 18 |
| V. | Disposition of Assets/Interests..... | 19 |
| A. | Assets/Interests Sold | 19 |
| 1. | CarePayment Medical Receivables | 19 |
| 2. | Coeur d'Alene, Idaho real estate | 20 |
| 3. | Claims against Gerald Frank..... | 20 |
| 4. | Syncronex, LLC..... | 20 |
| B. | Ongoing Asset Monetization and Sales Efforts..... | 22 |
| 1. | Campus Student Funding..... | 22 |
| 2. | ACC Holdings 5 (Luxembourg Bonds)..... | 25 |
| 3. | MotoLease Financial (MLF)..... | 25 |
| 4. | Pipeline Health Holdings, LLC ("Pipeline")..... | 26 |
| 5. | Portland Seed Fund (PSF) | 26 |
| 6. | WorkAmerica | 26 |
| VI. | Communications to Interested Parties | 27 |
| A. | Ongoing Communication with Investors/Counsel | 27 |
| B. | SEC and Other Governmental Agencies..... | 28 |
| 1. | SEC | 28 |

| | |
|--|----|
| 2. CSF and CFPB, and State Attorneys General | 28 |
| 3. Additional Governmental Agencies..... | 28 |
| VII. Lender Relationships..... | 29 |
| A. Retirement of Institutional Debt..... | 29 |
| VIII. Assets in the Possession, Custody and Control of the Receivership Estate..... | 29 |
| A. Cash and Cash Equivalents | 29 |
| IX. Asset Recovery – Anticipated Assets not yet in the Possession of the Receivership Entity | 29 |
| X. Accrued Professional Fees..... | 30 |
| XI. Receivership Claimants | 31 |
| XII. Receiver’s Plan..... | 31 |

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 September 30, 2018. 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], through December 31, 2017 [Dkt. 587], through March 31, 2018 [Dkt. 610] and through June 30, 2018 [Dkt. 644] 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, an initial forensic investigation is nearing conclusion, 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”). 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 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 September 30, 2018, the Receiver has sold assets and collected receivables totaling approximately \$314.5 million. The Receiver has also entered into and substantially completed the implementation of a settlement with the Consumer Financial Protection Bureau (“CFPB”) and fourteen state Attorneys General in connection with the Corinthian Colleges student loan portfolio held by CSF - including modification or cancellation of each of the approximately 47,000 loans, and appropriate notification to each of the borrowers. As a result of the debt discharge provided to the student borrowers, the Receiver was also required to mail approximately 42,000 debt cancellation tax forms (1099’s) to the borrowers.²

Having made substantial progress on the planned asset dispositions, the Receiver has proceeded with an investor claim validation process and has sent out 2,561 data verification packets, which substantially completed the Receiver’s intended data verification packet production. As mandated by the Order, the Receiver has concluded the first phase of his forensic investigation, and the resulting forensic report has been circulated to the SEC a courtesy review. The Receiver anticipates providing the forensic report to certain other governmental agencies for a review and filing it with the Court before the end of November. The Receiver has also expended a significant effort

² Subsequent to the extended deadline to file the 1099’s, and after the close of the second quarter of 2018, the Receiver received notice that IRS has determined that the debt forgiveness may not be taxable income to the borrowers. Borrowers should see IRS Revenue Procedure 18-39 at <https://www.irs.gov/pub/irs-drop/rp-18-39.pdf> and consult their tax advisor for applicability.

in data analysis and financial modeling necessary for the development of a potential distribution plan.

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 finish monetizing the remaining assets in a manner and timeline consistent with reasonably maximizing the value to the investors. The Receiver also must (i) complete the claims processes, (ii) complete asset recovery and avoidance litigation, (iii) resolve investor and other creditor claim amounts, (iv) draft and seek constituent support and court approval of an asset distribution plan, for which the modeling of several alternatives has already begun, and (v) manage the distribution process to conclusion.

The remaining loan portfolios owned by the Receivership require 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 overwhelming majority of Aequitas investors regarding our progress thus far has been positive.³ The Receiver is very mindful of the priorities to proceed both expeditiously and economically, to seek an interim distribution when possible, and conclude this Receivership in an equitable fashion as soon as

³ The Receiver noted one exception in the December 31, 2017 report.

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

1. Consolidated Database

As previously reported, the Receiver has consolidated all digital data within his control into a centralized, organized database. The database now contains approximately 17.5 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 was effectively utilized to fulfill requests for production (RFP) from governmental agencies.

During the course of the forensic investigation, the Receiver identified a gap in the email archives ranging from approximately February 1, 2012 to August 31, 2013. During that period, emails were not archived in accordance with the protocol in effect during all other relevant times. Remedial steps were taken to recover the missing emails from the company's Microsoft Office 365 email platform, including full mailbox exports from all Aequitas email accounts. The work was completed in September 2018, resulting in the successful recovery of 754,800 documents.

In accordance with the directive contained in paragraph 24 of the Order Appointing Receiver [Dkt. 156], the Receiver made the centralized database available

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.

for access and use by counsel for litigants and other appropriately-authorized parties.⁶ Additional parties interested in obtaining access should contact Troy Greenfield at Schwabe, Williamson & Wyatt (tgreenfield@schwabe.com/ 206.407.1581).

2. Orderly Discovery Process

Pursuant to the Court's May 23, 2016, October 23, 2017 and August 16, 2018 orders granting limited relief from the stay [Dkt. Nos. 185, 551 and 646], the Individual Defendants' defense costs are paid from the Receivership Entity's wasting D&O policies. Final 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.

In the last report, the Receiver recommended that the Court refrain from lifting the stay of litigation against the Individual Defendants and the Receivership Entity until after September 30, 2018 because the SEC Staff and the Individual Defendants had reached a tentative resolution of the claims presented in the SEC Complaint, contingent upon approval by the Commission.⁷ The successful negotiations between the SEC Staff and the Individual Defendants paved the way for subsequent settlement negotiations between the Aequitas investors, the Individual Defendants, the Receivership Entity, as well as the responsible insurance carriers. The Receiver and those parties held a private mediation on August 22, 2018 in Portland, Oregon, and the participants agreed to resume the mediation on November 12, 2018. As addressed in Section F. below, the Receiver continues to recommend that the Court refrain from lifting the stay of litigation

⁶ As of October 2018, access has been provided to 112 users from the following law firms, advisors and interested parties: Beugelmans; Bressler, Amery & Ross; Corr Cronin; Deloitte; Department of Justice (United States); Eversheds Sutherland; Hart Wagner; Larkins Vacura Kayser; Latham & Watkins; Miller Nash Graham & Dunn; Munger Tolles & Olson; NJ Attorney General's Bureau of Securities; Pepper Hamilton; Schulte Roth & Zabel; Schwabe Williamson & Wyatt; Securities & Exchange Commission (SEC); Shartsis Friese & Ginsburg; Stoll Berne; TM Financial Forensics and Winston & Strawn. The Receiver remains willing to work with any of the remaining law firms interested in accessing the consolidated database.

⁷ On June 1, 2018, the SEC Staff and Individual Defendants filed their Joint Stipulation To Stay Discovery And To Vacate All Pre-Trial Deadlines; Proposed Order [Dkt. 615] which order was granted the same day [Dkt. 616].

against the Individual Defendants and the Receivership Entity until after December 31, 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.

E. Lifting the Stay of Litigation

The Receiver will soon file the report of the initial forensic investigation. Given that the majority of the Receivership Entity's assets have been sold or otherwise monetized, and the majority of outstanding governmental litigation has been settled, resources can be redirected to litigation-related matters without jeopardizing the Receivership's other vital activities.

As addressed above, the Receiver recommends that the Court refrain from lifting the stay of litigation against the Individual Defendants and the Receivership Entity until after December 31, 2018, by which time the Receiver will submit a further interim recommendation. In addition to seeking an order lifting the stay of litigation against the Individual Defendants and the Receivership Entity, the Receiver will thereafter seek orders (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).

On June 13, 2018, the Receiver moved the Court to permit the initiation of litigation prosecuted by the Receivership Entity against a limited number of parties to recover Receivership Assets and/or to resolve substantial, disputed claims [Dkt. 622]. On June 15, 2018, the Court granted the Receiver's motion [Dkt. 624], and the Receiver is proceeding forward with the approved litigation in an orderly, economical manner.

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 been closing bank accounts that are no longer necessary.

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 September 30, 2018, the Receivership Entity had 10 full-time employees and 1 part-time employee. 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 September 30, 2018, the Receivership employed two full-time equivalent accounting contractors (a decrease from three in the prior period) 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

2017 Federal and state tax return filings for the Receivership LLCs and corporate returns were completed in September and October. In total, just under 100 returns were

filed for tax year 2017 (not including the three funds that were finalized for the Receivership in late 2017). All the federal returns and most of the state returns were filed by the due date. A small number of state returns were filed shortly after (for which there were no late filing penalties).

Form k-1 information for investors and members was distributed as soon as returns were available and is complete for 2017.

As is the Receiver's practice, 2017 filings were marked as final where circumstances allow for closure of the tax reporting.

Planning for 2018 tax reporting is underway including information reporting (due in January 2019) as applicable. The Receiver expects to provide estimates to fund members for the remaining funds consistent with timing in prior years. K-1s will be provided as returns are completed in summer 2019.

The remaining investor funds are:

Aequitas Income Protection Fund LLC

Aequitas Enhanced Income Fund LLC

Aequitas Hybrid Fund LLC

Tax reporting for the Aequitas multi-tier structure will continue to be required until there is a conversion of the structure. Depending on the timing, short prior returns could be required.

Information reporting for student loans held by Campus Student Funding LLC was 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 had been working with the IRS and had requested a Private Letter Ruling that would eliminate the need for the information reporting. Such relief from the reporting requirements was denied by the IRS. Receiver had also filed a request for an extension

of the deadline to mail informational forms (1099's) to the student borrowers (which request was granted in January 2018). On or about March 2, 2018, the Receivership mailed out ~42,000 informational tax forms to the student borrowers. Subsequent to the extended deadline to file the 1099's, and during the third quarter of 2018, the Receiver received notice that the IRS had determined that the debt forgiveness may not be taxable income to the borrowers. Borrowers should see IRS Revenue Procedure 18-39 at <https://www.irs.gov/pub/irs-drop/rp-18-39.pdf> and consult their tax advisor for applicability.

During the third quarter of 2018, the Receivership staff and retained professionals continued to field direct inquiries from the borrowers about the 1099 tax forms, monitored the activities of the call center that also handled such inquiries, and communicated with the IRS, CFPB, and state Attorneys General on matters related to the tax implications of the debt forgiveness on the student borrowers.

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 \$5,000,000 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 over \$600 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 over \$600 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 was permitted to pay the Individual Defendants' reasonably-incurred defense costs. The Receiver has been informed that Forge made payments totaling \$5,000,000, exhausting the second tier of coverage.

To facilitate the Individual Defendants' participation in a private mediation of claims amongst the Receivership Entity, the Aequitas investors, the Individual Defendants and the responsible insurance carriers, the Receiver stipulated to limited relief from the stay to permit the payment of the Individual Defendants' reasonable and related Defense Costs by Starr Indemnity & Liability Company ("Starr") not to exceed certain specified amounts. The Receiver has been informed that, as of October 31, 2018, Starr has not paid any defense costs. However, it is the Receiver's understanding that there are several hundred thousand dollars of invoices related to defense costs that are currently outstanding.

6. Ongoing Litigation

Receivership creditors Weider Health & Fitness and Bruce Forman

(Weider/Forman) alleged a security interest in the medical receivables held by certain affiliates of CarePayment Holdings LLC and demanded adequate protection related to the sale of those medical receivables. As previously reported, on April 6, 2018, Weider/Forman filed a petition to the Ninth Circuit [9th Cir. Case No. 18-70984, Dkt. 1], asking the appellate court to force the district court to impose a dedicated reserve for their benefit. Weider/Forman additionally moved the Ninth Circuit to “stay” the district court’s order denying Weider/Forman a reserve [9th Cir Case No. 18-70984, Dkt. 2]. On April 26, 2018, the Ninth Circuit denied Weider/Forman’s petition and motion. [9th Cir Case No. 18-70984, Dkt. 10].

As addressed above, the Receiver is proceeding with actions against a number of parties to recover Receivership Assets and/or to resolve substantial, disputed claims. Additionally, the Receiver continues to actively support investor actions against third-party professionals.

Another significant claim against the Receivership which is currently stayed is by American Student Financial Group, Inc. (“ASFG”) in connection with the Corinthian student loan receivables program. During the third quarter of 2018, the Receiver met with representatives of ASFG in an effort to resolve the claims between the Receivership Entity and ASFG. The Receiver has necessarily continued to expend considerable resources in connection with analyzing the respective claims of the Receivership Entity and ASFG as well as the extensive loan portfolio data, in preparation for the referenced settlement discussions and, if necessary, litigated resolution.

B. Development of Claims Process

The Receiver has substantially completed quantifying and validating approximately \$600 million of investor claims. This involved 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, required reconciling investor account statements produced outside the accounting system with separate accounting and tax records. Additional validations were 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.

As of June 30, 2018, 2,561 investor data validation packets (including Integrity investors) 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.

During the third quarter of 2018, the Receiver undertook a significant effort involving integration of information on interest and return payments made to investors prior to the Receivership into the comprehensive investor activity database that the Receiver has developed. Given the uncertainty of the nature of a future distribution plan, the Receiver has determined that it was necessary to supplement the investor activity database with the detail of interest and return payments in order to be able to accommodate a wider range of possible distribution plans and be able to readily access this important information. The Receivership staff and retained professionals worked to review numerous Aequitas Excel-based schedules, capture the relevant information

involving approximately 19,000 transactions, and then map and integrate such information into the existing database. This work is continuing, and the Receiver intends to complete it in the fourth quarter of 2018 in preparation for the claims process.

In the third quarter of 2018, the Receiver and the retained professionals worked on designing and drafting the necessary documentation for the upcoming claims process. The Receivership staff also interviewed several potential claim agent vendors and reviewed such vendors' capabilities, tools, and process, as well as solicited proposals to provide claims agent services. The Receiver anticipates disseminating information on the proposed claims process shortly and, once initial feedback is received and reviewed, intends to file a claims motion with the Court by the end of 2018.

V. Disposition of Assets/Interests

A. Assets/Interests Sold

1. CarePayment Medical Receivables

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.

During the third quarter of 2018, we continued to work closely with CPYT to complete post-transaction reconciliations and to finalize separation of the CarePayment platform from the Receivership. The Receivership continued to negotiate and execute documentation with healthcare providers that resulted in releases to the Receivership Entities in connection with prior contractual obligations of CPLLC and assignment of the agreements to an affiliate of CPYT. Such releases and assignments reduce the risk to the Receivership Entity going forward and are intended to minimize any potential future claims from the providers. As of October 31, 2018, the Receiver obtained releases and provider agreement assignments in connection with 22

contracts, encompassing approximately 100 medical facilities. The Receiver, jointly with CPYT, is continuing to work on transitioning the remaining healthcare provider agreements and other contractual relationships, targeting to complete the vast majority of such transitions by the end of 2018.

2. Coeur d'Alene, Idaho real estate

The Receivership sold a vacant lake-front, recreational home in Coeur d'Alene, Idaho, legally described as: Lot 6, Washington Place Subdivision, according to the plat recorded in Book F of Plats, Pager 4, records of Kootenai County, Idaho (the "Real Property") on April 30, 2018. As part of the transaction, the Receivership received a \$550,000 secured promissory note from the buyer bearing interest at the rate of 5.0% and repaid on a 30-year amortization schedule at the rate of \$2,952/month. The unpaid balance of the Loan is due nine (9) months after closing of the sale or by January 31, 2019. The Loan is secured by a first priority deed of trust lien on the Real Property. The note balance as of September 30, 2018 was \$444,738 after having received monthly payments and a \$100,000 principal paydown on June 19, 2018. The Receiver received a subsequent principal paydown on October 12, 2018 in the amount of \$325,000.

3. Claims against Gerald Frank

The Receiver continues to work with CPYT regarding the monetization of 111,573 shares of Class A Common Stock in CPYT received as part of the settlement with Gerald W. Frank and the Gerald W. Frank Revocable Living Trust related to the Rock and Roll restaurant loan.

4. Synchronex, LLC⁸

Synchronex LLC provides technology solutions to the publishing industry via multiple products. It offers syncAccess, a cloud-based pay meter solution that helps

⁸ <http://www.synchronex.com/en/>
20

newspaper publishers to develop, configure, own, and evolve mobile and digital products.

Pursuant to the Interim Receivership Order and the Final Receivership Order the Receiver has, among other things, undertaken to determine the nature, location and value of all Receivership Property. Receivership Property includes Aequitas Partner Fund, LLC's ("APF") ownership of 100% of the membership interests in Synchronex, LLC (the "Membership Interests"). Receivership Property also includes certain loans held by Aequitas Holdings, LLC ("AHL") and Aequitas Corporate Lending, LLC ("ACL").

The Receiver, on behalf of each of AHL, ACL, ACF, APF, and Aequitas Management, LLC ("AML"), (AHL, AML, ACL and APF each a "Seller Entity," and collectively the "Seller Entities"), entered into a Purchase Agreement dated as of April 9, 2018, subject to approval of this Court, with Silvermine Media Holdings, LLC ("Purchaser"), which provides the terms for sale of the Seller Entities' (a) membership interests in Company, and (b) their lenders' interests in certain loans to Company (together, the "Assigned Interests", as defined in the Purchase Agreement). The Court issued its Order Granting Receiver's Motion To Sell Personal Property To Silvermine Media Holdings, LLC, Free And Clear Of Liens, Interests, Claims And Encumbrances relative to the Assigned Interests on May 17, 2018 [Dkt. 614] and the sale closed on June 15, 2018 repaying the AHL Loan in full. Pursuant to the Purchase Agreement, the Purchaser had until September 15, 2018 to calculate a purchase price adjustment for operating capital which could result in the receipt of additional consideration of up to \$75,000. On September 14, 2018, the Purchaser advised the Receivership that the review of the Closing Balance Sheet had concluded and the Losses (as defined in the Purchase Agreement) exceed \$75,000 by a substantial margin and, accordingly, the Purchase Price will be reduced by \$75,000 pursuant to the terms of the Purchase Agreement. The Receivership has requested additional information regarding the adjustments and will evaluate any potential remedies.

B. Ongoing Asset Monetization and Sales Efforts

1. Campus Student Funding

On August 17, 2017, the Court approved Receiver entering into the nationwide settlement with Consumer Financial Protection Bureau (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 addition to the Settlement discussed above, after extensive negotiations, the Receiver has reached a separate settlement with the Attorney General of Massachusetts

(the “Massachusetts Settlement”), who had not previously joined the Settlement reached with CFPB and thirteen individual states. On June 12, 2018, the Court approved the Receiver’s Motion for Approval of Proposed Settlement with Massachusetts Attorney General. [Dkt. 620]. The Massachusetts Settlement, implemented in the form of an Assurance of Discontinuance, became effective on June 21, 2018.

Following the very significant effort expended by the Receivership on the implementation of the Settlement in the last of quarter of 2017 which resulted in processing relief in connection with approximately 47,000 loans, the Receiver continued to implement the remaining obligations under the Settlement in 2018. In the third quarter of 2018, the Receiver developed and submitted the second Settlement compliance progress report to CFPB and thirteen state Attorneys General. Following the submission of the compliance progress report, no Settlement compliance issues were brought up by CFPB and state Attorneys General. The Receivership staff and retained professionals continued to work with the regulators to address any questions that came up in the course of the operations of the portfolio.

Additionally, we have continued to maintain and update a detailed informational website for the borrowers in connection with the Settlement. Through September 30, 2018, the website had received 85,566 hits from 37,373 visitors. Most of the borrower inquiries are being addressed by the servicer but the Receivership also addressed 1,187 borrower inquiries directly (through October 26, 2018). In addition to addressing direct borrower inquiries, the Receivership staff and retained professionals monitor, review, and respond to borrower complaints that are submitted through the CFPB on-line consumer complaint portal or through other venues. All these activities are

instrumental in mitigating the Settlement implementation risk to the Receivership, reducing the number of potential borrower complaints, and stabilizing the portfolio.

Furthermore, during the third quarter of 2018, the Receiver continued the implementation of the Massachusetts Settlement, overseeing the activities of University Accounting Service (the loan servicer) in providing borrower debt discharge and cash refunds as needed.

As discussed previously in the report, and despite the intervention of the IRS Taxpayer Advocate Service office, the IRS did not agree to waive the requirement for the Receiver to provide informational tax forms (1099's) to student borrowers in connection with the debt discharge granted as part of the Settlement. In the first quarter of 2018, the Receivership staff, retained professionals, and a specialty vendor prepared and mailed out approximately 42,000 informational tax forms. To handle potential borrower inquiries related to the 1099 tax forms, the Receivership has set up an outsourced call center that handled 1,879 calls, including 832 calls answered by agents, through September 30, 2018 (the rest of the callers chose to only listen to a detailed recorded message). The Receivership staff and retained professionals worked closely with the call center vendor to review call logs and monitor the performance to make sure that the borrowers receive appropriate information.

During the third quarter of 2018, the Receivership has also expended significant effort on matters related to the existing servicing agreement with University Accounting Service. The contract negotiations with the servicer are ongoing. Going forward, we will continue working with the loan servicer and our other service providers to complete the implementation of the Settlement and the Massachusetts Settlement and to adjust loan servicing requirements as necessary based on the performance of the portfolio. The

Receiver is also evaluating 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").⁹ During the quarter, the Receiver had no contact with counsel for the Lux Board as to the monetization of the Lux Investment.

3. MotoLease Financial (MLF)

MLF holds subprime consumer leases for motorcycle and other recreational vehicles. Through September 30, 2018, the Receiver has collected approximately \$14.2 million on account of the leases owned at the beginning of the Receivership.¹⁰ As of September 30, 2018, the remaining portfolio (excluding repossessed motorcycles) had a face value of approximately \$2.3 million, of which \$2.1 million is less than 60 days past due. Additionally, MLF had in its possession 54 vehicles with cumulative outstanding lease balances of \$362,000 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. Given the small size of the remaining portfolio and continued

⁹ 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.

¹⁰ Collections through June 30, 2018 amounted to \$13.6 million.

payment performance, the Receiver believes the most cost-effective way to monetize this asset is through continued runoff of the portfolio in the near term.

4. Pipeline Health Holdings, LLC (“Pipeline”)¹¹

PCF owns 12.6% of Pipeline, which is a telepharmacy platform offering both a full service telepharmacy and software as a service (SaaS) technology. Pipeline offers telepharmacy to hospitals and hospital networks. The Receiver continues to explore opportunities to monetize this asset.

5. Portland Seed Fund (PSF)¹²

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.

6. WorkAmerica

WorkAmerica offers a web-based platform to source qualified job candidates from community colleges, technical colleges, and vocational training centers nationwide. ACF made a \$250,000 loan to WorkAmerica in April 2014 via a Convertible Promissory Note (“Note”). WorkAmerica is in default under the terms of the Note due to its failure to make timely payments when due. The Note matured on October 18, 2015, at which time the outstanding principal balance and all accrued and unpaid interest was due and payable.

The Receiver has been advised that WorkAmerica is insolvent (total outstanding note holders are estimated at \$2 million) and in the process of being acquired by a competitor. The acquirer is offering to distribute directly to WorkAmerica noteholders a convertible note to be issued upfront and an additional convertible note tied to a

¹¹ <http://www.pipelinerx.com/>

¹² <http://portlandseedfund.com/>

potential earn-out which would indicate a recovery of 5-15% of outstanding debt. The Receiver is reviewing the offer and additional documentation has been requested.

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”). Participation was initially solicited based on size of the investor or investment advisor and 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 evaluated each of these requests and accommodated the investor when circumstances warranted. The last IAC meeting was held on June 13, 2018. Additionally, the 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 presently scheduled for the first half of November.

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. Since the third quarter of 2017 and continuing into the most recent quarter, 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 likely result in greater cooperation and coordination

among investors' counsel, which would then lead to earlier and greater recoveries available for interim distributions on account of settlements available now and in the future. The Receiver understands that the investor groups recently utilized the Receiver's allocation recommendation in executing settlement agreements with the law firm of Tonkon Torp.

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.D.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 fourteen state Attorneys General.

3. Additional Governmental Agencies

The Receiver has expended significant efforts to comply with various subpoenas and discovery requests from state and federal agencies as those investigations continue.

VII. Lender Relationships

A. Retirement of Institutional Debt

The Receivership Entities and affiliates have retired, generally on discounted terms, the entirety of the approximately \$104 million of institutional secured debt.

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

Estate

A. Cash and Cash Equivalents

The Receiver had cash balances of approximately \$117.3 million as of September 30, 2018 for the entities included in the Receivership Entity. Over the period from March 16, 2016 to September 30, 2018, the overall cash balance of the Receivership Entity increased by approximately \$101.4 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 September 30, 2018.

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

The Receiver believes Next Motorcycle, LLC and/or its affiliates possesses or have previously possessed approximately 46 motorcycle assets (or 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 continues to evaluate various options to pursue a recovery (or abandon if non-economic to pursue) 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 July 1 through September 30, 2018)

| Entity | Fees (\$) | Percentage | Expenses (\$) | Percentage | Total (\$) | Percentage |
|--|---------------------|-------------|------------------|-------------|---------------------|-------------|
| Receiver | 76,023.00 | 4.9% | 1,521.62 | 4.7% | 77,544.62 | 4.9% |
| FTI Consulting | 829,372.00 | 53.7% | 20,511.17 | 63.4% | 849,883.17 | 53.9% |
| Pepper Hamilton | 29,747.24 | 1.9% | 2,975.26 | 9.2% | 32,722.50 | 2.1% |
| Schwabe, Williamson & Wyatt | 339,569.50 | 22.0% | 3,307.28 | 10.2% | 342,876.78 | 21.7% |
| Morrison Foerster | 22,362.37 | 1.4% | - | 0.0% | 22,362.37 | 1.4% |
| Law Office of Stanley H. Shure | 124,545.14 | 8.1% | 835.01 | 2.6% | 125,380.15 | 8.0% |
| Snell & Wilmer | 123,052.50 | 8.0% | 3,226.05 | 10.0% | 126,278.55 | 8.0% |
| 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: | 1,544,671.75 | 100% | 32,376.39 | 100% | 1,577,048.14 | 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 and interest in a note issued by IOF II totaling \$750,000 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. The foregoing notwithstanding, the Receiver has initiated preliminary discussions with the IAC regarding the forensic findings, the impact of those findings on a potential distribution plan and various possible distribution plan structures.