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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;
 AEQUITAS HOLDINGS, LLC;

No. 3:16-cv-00438-JR

NOTICE OF FILING RECEIVER'S
 REPORT DATED OCTOBER 31, 2019



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, 2019.

Dated this 15th day of November, 2019.

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-JR

United States District Court

District of Oregon

Portland Division

Report

of

Ronald F. Greenspan, Receiver

October 31, 2019

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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” or “Aequitas”), 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, 2019. 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] through June 30, 2018 [Dkt. 644], through September 30, 2018 [Dkt. 662], through December 31, 2018 [Dkt. 674], through March 31, 2019 [Dkt. 700] and through June 30, 2019 [Dkt. 749] 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.

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

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, 2019, the Receiver has sold Receivership Entity gross assets and collected receivables totaling approximately \$320.9 million plus an additional \$32 million of gross assets owned by CPFIT, an affiliate of the Receivership Entity but excluded from the Receivership itself. 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 thousand loans, and appropriate notification to each of the borrowers.

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.

Having made substantial progress on the asset dispositions and resolution of the numerous governmental investigations, the Receiver proceeded with a preliminary investor data validation process involving the compilation and dissemination of 2,561 individually-tailored investment data verification packets. As mandated by the Order, the

Receiver conducted his forensic investigation, and the resulting forensic report (the “Forensic Report”) was filed with the Court and posted to the Receiver’s website² on November 21, 2018 [Dkt. 663].

During the first half of 2019, the Receiver continued to expend significant effort in data analysis and financial modeling necessary for an efficient claims process as well as analyses of potential distribution plans. On February 12, 2019, the Receiver circulated to the approximately 68 counsel of record, via email, a version of the claims motion, related exhibits, and proposed form of order. Following the conferral and after incorporating some minor changes as a result, on April 23, 2019, the Receiver filed a claims and bar date motion. On April 25, 2019, the Court entered the Order (1) Establishing Claims Bar Date, (2) Approving The Form And Manner Of Notice, And (3) Approving The Proof Of Claim Form, Procedures And Other Related Relief (the “Claims Procedures Order”).

The Receiver then proceeded expeditiously to implement the claims process as mandated in the Claims Procedures Order. As of the Claims Bar Date (July 31), 295 claims had been received (or post-marked) and 4,830 Notices of Receiver’s Initial Determination had been issued.³ Additional claims were received (or were post-marked) after the Claims Bar Date. During the current reporting period, the Receiver and his team continued to refine the tools and systems necessary for the implementation of the claims process, perform initial review and assessment of the filed claims as they were received, as well as conduct additional research and verification of the claimant data that is expected to be needed for execution of the future distribution plan.

² <http://www.kccllc.net/aequitasreceivership/document/1600438181121000000000001>

³ The Receivership team is processing and reviewing the filed claims. Certain claims appear to agree with the Notice of Receiver’s Initial Determination, and a number of filed claims are likely duplicative. Therefore, the number of actual claims is expected to be less than the sum of the filed claims and NODs issued.

During the current reporting period, the Receiver and his team expended significant effort developing the Receiver's proposed distribution plan, performing related analyses, and investigating options related to the future administration and wind-down of the Receivership.

As previously reported, the Receiver and his team were intimately involved in shepherding settlement of investor claims against Integrity Bank & Trust, an entity that was alleged to have solicited investors in Aequitas securities, and Tonkon Torp LLP, a law firm that provided legal services to the Receivership Entity and alleged by the various investor groups to have aided and abetted in the fraud. Both settlements are subject to approval by this Court as well as the Court in the matter of *Ciuffitelli, et. al. v. Deloitte & Touche, et. al.*, Case No. 3:16-cv-00580-AC ("Investor Class Action"). On July 15, 2019, Judge Acosta issued Findings and Recommendations granting preliminary approval of the partial class settlements with Tonkon Torp and Integrity [Dkt. Nos. 579 and 580]. On August 7, 2019, Judge Hernandez entered an Order preliminarily approving both settlements, adopting the Findings and Recommendations issued by Judge Acosta [Dkt. Nos. 587 and 588].

In December 2018, shortly after completing work on the Forensic Report, the Receiver began efforts to organize and facilitate numerous large-scale mediation sessions to resolve investors' claims against the remaining professional firm defendants – Deloitte & Touche, EisnerAmper, Sidley Austin, Duff & Phelps and TD Ameritrade. Those significant efforts over the ensuing months ultimately proved successful. All parties agreed to mediate in San Francisco, with the Honorable Daniel Weinstein, Ambassador David Carden and Lizbeth Hasse acting as the mediators. Once all parties agreed to the terms governing the mediation process, the Receiver and his team devoted considerable time and resources to providing extensive data and counsel to aid

the parties in reaching negotiated resolutions. The Receiver's efforts during five multi-day mediation sessions, between April and September, facilitated the following:

- Payments from the professional firm defendants to the class totaling \$220,000,000, as well as multiple additional seven-figure payments to other plaintiff groups presently subject to confidentiality agreements;
- Releases of contribution and other claims of the professional firm defendants against the Receivership Entity (two remain to be fully documented); and
- Contingent releases of contribution and other claims of the professional firm defendants (again, two remain to be fully documented) against the Individual Defendants, Advisory Board members and other former officers and directors. The releases are contingent upon those parties releasing claims to the proceeds of the insurance policies maintained by entities comprising the Receivership Entity.

These efforts of the Receiver to facilitate resolution of investor claims against the professional firm defendants have greatly accelerated future distributions to the investors, both direct distributions of the settlement proceeds and ultimately distributions from the Receivership estate and will meaningfully reduce the cost of administering the Receivership. Further, as addressed in greater detail below, during the reporting period, the Receiver successfully resolved the Receivership Entity's claims against a former officer, William Malloy.

During this reporting period, the Receivership continued to facilitate discovery, with over 270 people accessing the database, which contains 17.5 million documents,

and provide financial and tax administration including preparing and filing of over 100 entity tax returns.

C. Compromise of “Lux” Claims

The Receivership Entity is involved in a complex trust structure related to several series of bonds offered on the Luxembourg Stock Exchange to non-U.S. investors. The issuer of the bonds is Aequitas Income Opportunities S.A. (“Issuer”), which is not part of the Receivership Entity. The Issuer purchased limited partnership interests in Aequitas International Opportunities LP, a Cayman Islands limited partnership (“Cayman”) which is one of the “Extended Entities” under the Order Appointing Receiver. Cayman is the holder of certificates of beneficial interest in ACC Holdings 5, LLC (“ACCH5”) and part of the Receivership Entity, which is wholly-owned by AH, which is also part of the Receivership Entity. ACCH5 established a series of Grantor Trusts that purchased and currently hold certain C+ and F+ Freedom loan portfolios, as well as proceeds from the on-going monetization of such portfolios.

As previously reported, after considerable investigation and negotiation, the Receiver reached a settlement agreement with the Board of Directors and certain bondholders of the Issuer to resolve their claims against the Receivership. Similar to other settlements of claims with CCM Capital Opportunities Fund, ETC Founders’ Fund and WindowRock Feeder Fund, the Receiver agreed to the following:

1. ACC Funding Series Trust 2015-5 (“ACC Trust”): ACF will (a) resign as the grantor of the ACC Trust and (b) release the funds held in a segregated bank account on the date of Court Approval (approximately \$9.2 million as of September 30, 2019), in consideration of (i) the ACC Trust and Cayman entity paying the Receivership Entity any accrued and unpaid ASA and management fees determined as of the date of Court Approval (subject to adjustments for

any overpayments), (ii) Cayman terminating the ACC Entities Repurchase Obligation and any other similar or related obligation, and (iii) termination of ACF's and AES's management obligations. The ACC Trust will be removed from the Receivership Entity.

2. Convertible Preferred Equity Certificates ("CPEC"): Aequitas Enhanced Income Fund, LLC (AEIF) will transfer all CPECs to Lux.
3. Revolving Line of Credit: Cayman will release ACF from all obligations pursuant to promissory notes dated July 31, 2015, October 1, 2015 and October 14, 2015, evidencing a revolving line of credit with a current principal balance of \$3,786,671.
4. Mutual Releases: The Receivership Entity will release all claims against Cayman, Lux, ACC Trust and their affiliates (the "Lux Parties") and the Lux Parties will release all claims against Receivership Property, the Receivership Estates (as those terms are defined in the Receivership Order), any other assets of the Receivership Entity, the Receivership Entity, the Receiver, and any person acting on behalf of the Receiver or the Receivership Entity, including but not limited to any claim under any Court-approved distribution plan.
5. Expenses: Each party will pay its own expenses, including legal fees.

The Receiver and the Lux Parties are in the process of working through complex transfer issues, and the Receiver anticipates concluding the documentation of the settlement by the end November 2019.

D. Settlement of Claims Against William Malloy and Related Entities

On July 25, 2019, the Receivership Entity filed suit against William Malloy and related entities - Case No. 3:19-cv-01153-MO. Before initiation of discovery and incurring related litigation expenses, the parties negotiated a settlement of all claims. Malloy and the related entity defendants will pay the Receivership Entity \$1M. Malloy will release personal claims for distributions from the Receivership estate as well as any claim to the proceeds of any insurance policies maintained by entities comprising the Receivership Entity. The parties are in the process of finally documenting the settlement.

E. Court Approval of Settlements

The Receiver anticipates presenting all of the aforementioned settlements, together with the prior settlements with the Terrell Parties and Weider/Forman, to the Court for approval within 90 days.

F. Recommendation regarding Continuance of the Receivership

It remains the Receiver's recommendation that the Receivership be continued. Many of the conditions under which the Receivership was imposed still exist. While much has been accomplished, several crucial steps remain before the Receiver can wind up operations and seek an order terminating the Receivership. The Receiver must finish monetizing the remaining assets in a manner and timeline consistent with reasonably maximizing the value to stakeholders. The Receiver also must (i) complete the claims processes, (ii) complete necessary litigation, (iii) resolve investor and other creditor claim amounts, (iv) seek Court approval of an asset distribution plan, and (v) manage the distribution process.

Although the consumer loan portfolios have been immensely reduced, the thousands of remaining loans owned by the Receivership require management until they

are monetized completely. 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 Aequitas investors regarding our progress thus far has been positive. 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 practicable. The Receiver believes he has the constituents' support and encouragement to continue his efforts, and that they also support the continuation of the Receivership.

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

1. Consolidated Database

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.

In accordance with the directive contained in paragraph 24 of the Order Appointing Receiver, the Receiver made the centralized database available for access

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.

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 were paid from the Receivership Entity's D&O policies. Subsequently, the Receiver negotiated a settlement of the investors' tort claims, for a figure that exceeds the remaining policy limits. It is the Receiver's position that this "Loss" as defined in the relevant insurance policies must be addressed before additional insurance proceeds are released to the Individual Defendants, other former officers some of whom are the subjects of criminal investigations, former Advisory Board members or others claiming to be insureds under the relevant policies for payment of their legal fees in defense of criminal investigations/actions and, in the case of the Individual Defendants, defense of the ongoing enforcement action brought by the SEC.

Accordingly, the Receiver filed an insurance coverage action against the insurers. Concurrently, the insurers filed an action for declaratory relief. The Receiver sought and secured the agreement of all interested parties to consolidate the two insurance coverage actions and immediately address the priority issues (relative rights of insureds to the insurance proceeds). Related motions are presently set to be heard on November

⁶ As of October 30, 2019, access has been provided to 278 users from the following law firms, advisors and interested parties: Akerman Law Firm, Beugelmans LLP, Boise Matthews, Bressler, Amery & Ross, P.C., Calfo Eakes & Ostrovsky, Corr Cronin, Covington & Burling, LLP, Cozen O' Conner, Deloitte, Department of Justice (United States), Epiq Systems, Eversheds Sutherland, Federal Bureau of Investigation, Hart Wagner LLP, Larkins Vacura Kayser, Latham & Watkins, Law Offices of Stanley H. Shure, Miller Nash Graham & Dunn LLP, Munger Tolles & Olson, NJ Attorney General's Bureau of Securities, Pepper Hamilton LLP, Reif Law Group, Schulte Roth & Zabel, Schwabe Williamson & Wyatt, Securities & Exchange Commission (SEC), Shartsis Friese & Ginsburg, Stoll Bern, The Ferranti Firm LLC, TM Financial Forensics, Winston & Strawn LLP.

The Receiver remains willing to work with any of the remaining law firms interested in accessing the consolidated database.

20, 2019. Also, as noted above, the Receiver has proposed, as part of the mediation settlements with the professional firms, that the Individual Defendants be released upon the condition that they forgo any further draws upon the insurance policies.

As addressed in Section I. below, the Receiver continues to recommend that the Court refrain from lifting the stay of litigation against the Receivership Entity and related parties, at least until the immediate insurance coverage issues including those of priority rights to the insurance policy proceeds are fully and finally resolved and the claims process has been completed, which is the venue the Receiver believes is most appropriate and efficient to consider and adjudicate any unresolved claims against the Receivership Entity.

Contemporaneous with a later recommendation to lift the stay of litigation, the Receiver 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.

H. Criminal Actions and SEC Investigations

On July 1, 2019, The Securities and Exchange Commission brought an enforcement action against Fieldstone Financial Management Group LLC and its principal Kristofor R. Behn for defrauding retail investment advisory clients by failing to disclose conflicts of interest related to their recommendations to invest in securities issued by affiliates of Aequitas Management LLC. The Commission also alleged that Behn fraudulently misused approximately \$500,000 of one investor's funds to pay personal expenses.

Without admitting or denying the Commission's findings, Fieldstone and Behn consented to the issuance of the order, which finds that they violated the antifraud provisions of the federal securities laws, censures Fieldstone, orders them to cease and desist from future violations, and orders them to pay, on a joint-and-several basis, disgorgement and prejudgment interest of \$1,047,971 and a penalty of \$275,000, all of which will be distributed to harmed investors. Behn will also be permanently barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization.

On July 24, 2019, the Securities and Exchange Commission announced that recidivist Gary Price, a principal of formerly registered investment adviser Genesis Capital LLC, agreed to settle claims that he failed to disclose to clients significant conflicts of interest relating to recommendations to invest in securities issued by Aequitas Commercial Finance, LLC.

The SEC's order found that Price violated Section 206(2) of the Investment Advisers Act of 1940. Without admitting or denying the SEC's findings, Price consented to a cease-and-desist order and agreed to pay disgorgement and prejudgment interest of \$67,033 and a civil penalty of \$75,000. The order also bars Price from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization, with the right to apply for reentry after one year.

On July 26, 2019, the Receiver became aware that Andrew MacRitchie received a letter from the United States Attorney's Office on April 23, 2019 informing him that he is a target "of a federal criminal investigation concerning fraud that occurred at Aequitas Commercial Finance and related entities." MacRitchie petitioned the Court to intervene

and sought limited relief from the litigation stay to permit payment of defense costs related to the criminal investigation [Dkt 721]. MacRitchie subsequently withdrew the request [Dkt 766], in light of the fact that he is a party in the pending insurance coverage litigation.

Similarly, the Receiver learned that Brian Rice had also received a letter from the United States Attorney's Office on April 23, 2019 informing him that he is a target "of a federal criminal investigation concerning fraud that occurred at Aequitas Commercial Finance and related entities." Rice also petitioned the Court to intervene and sought limited relief from the litigation stay to permit payment of defense costs related to the criminal investigation [Dkt 732]. Like MacRitchie, Rice subsequently withdrew the request [Dkt 761], given that he is a party to the pending insurance coverage litigation.

I. Lifting the Stay of Litigation

With the filing of the Forensic Report and 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, some resources are being redirected to litigation-related matters, where the stay has been lifted, 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 Receivership Entity and related parties, at least until the immediate insurance coverage issues including those of priority rights to the insurance policy proceeds are fully and finally resolved and the claims process has been completed. With the Receiver's efforts to establish an orderly process to secure early resolution of the key insurance issues, including consolidation of the pending insurance coverage actions and sequential motion practice, the Receiver anticipates that the stay

may be lifted at least as to parties identified in Sec. IX, 20 (d) of the Order Appointing Receiver in early 2020.

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, processing of future distributions, 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, 2019, the Receivership Entity had 9 full-time employees and 1 part-time employee (unchanged from the prior quarter). 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, 2019, the Receivership employed two full-time equivalent accounting contractors and two part-time IT contractors (unchanged from the prior quarter).

4. Tax Preparation

a. Taxes

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.

b. Tax Preparer

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

c. 2018 Returns and Other Tax Matters

Preparation and filing of the Receivership's 2018 partnership and corporate tax returns was completed in September and October 2019. Form k-1 information was distributed to investor members as it was available.

None of the remaining investor equity funds, Aequitas Income Protection Fund LLC, Aequitas Enhanced Income Fund LLC, and Aequitas Hybrid Fund LLC, filed final

returns for 2018 so members should continue to expect to receive form k-1s from their equity investments.

Receivership Federal and state tax reporting for the Aequitas multi-tier structure will continue to be required until/unless there is a conversion of the tax structure from its current LLC and C-Corporation filing requirements to a trust or other similar structure. Depending on the timing of a possible conversion, the Receiver may be required to file short/stub prior tax returns.

d. Tax Reform Impact and Other Tax Law Changes and Events

The impact of prior year tax reform on the Receivership tax returns is being incorporated into the 2018 reporting as required. The Receiver cannot provide tax advice to investors. Investors are urged to consult their own tax advisors for guidance and counsel about the applicability and impact of the significant tax law changes that were enacted in late 2017 by the Tax Cuts and Jobs Act (TCJA, P.L. 115-97, 12/22/2017). Prior quarterly reports have included information about the impact of tax reform that may be applicable to the receivership or to investors. It is not intended to replace advice from investors' own advisors. Finally, Investors are urged to consult with their tax advisors regarding the consequences of the guilty pleas entered by certain Individual Defendants and their effect on the Investors' ability to recognize losses.

5. Payments Made on Behalf of the Defense of the Individual Defendants

Entities within the Receivership Entity maintained policies of insurance with coverage limits of \$15M for each policy year. There are two policy years at issue (total of \$30M). The Receiver seeks all remaining available benefits of those policies. To date, the insurance carriers have dispersed over \$10M to the Individual Defendants for their use in defending the enforcement action initiated by the SEC. The insurance carriers

contend the subject insurance policies are wasting policies (coverage limits reduced by defense costs such as those of the Individual Defendants).

As briefly addressed above, the Receivership Entity has sustained a “Loss” under the relevant policies that exceeds the policy limits. To the extent the Receiver is successful in obtaining insurance proceeds to indemnify the Receivership Entity for that “Loss,” they will be available for distribution to innocent investors.

6. Ongoing Litigation

As addressed above and reflected in the previously disclosed settlements with the Terrell Parties, Weider/Forman, the Fieldstone Parties, Lux and, most recently, Malloy, the Receiver has continued his frequent engagement in negotiations with a number of parties to recover Receivership Assets and/or to resolve substantial, disputed claims. Consistent with the Court’s prior orders, to the extent negotiated resolutions are not reached with any of the parties, the Receiver will file additional actions.

A significant litigation matter against the Receivership which is currently stayed is by American Student Financial Group, Inc. (“ASFG”) in connection with the Corinthian student loan receivables program. ASFG and TRD Consulting, LLC (“TRD”) have also filed a \$27.4 million claim pursuant to the claims process. 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. As a follow up to this meeting, in the fourth quarter of 2018, the Receiver and his counsel continued their attempts to reach a consensual resolution of the alleged claims, but these efforts have not yet come to fruition. The Receiver expects that this claim will be resolved during the claims process.

B. Development of Claims Process

During the second quarter of 2019, the Receiver, his professionals and staff expended a very significant effort on the development and implementation of the claims process to meet the requirements of the Claims Procedures Order.

1. Disseminating Information About the Claims Process - Not Targeted

Notice by Publication - The Receiver placed ads containing information about the claims process in 15 newspapers, including Austin American-Statesman, Dallas Morning News, Fort Worth Star-Telegram, Houston Chronicle, Los Angeles Times, Sacramento Bee, San Antonio Express-News, San Diego Union-Tribune, San Francisco Chronicle, San Jose Mercury News, Miami Herald, Portland Oregonian, Seattle Times, Tampa Bay Times, and USA Today National Edition. Consistent with the terms of the Claims Procedures Order, two placements were made in each publication within approximately two weeks from each other, with the first placement around May 20-22nd, 2019, and the second around June 3rd, 2019.

Notice by Press Release - The Receiver also issued a press release about the claims process and posted it on the main Aequitas Receivership website at <http://www.kccllc.net/aequitasreceivership>, where key information about the claims process can also be located (in addition to the dedicated claims website).

The Receiver worked with the Receivership's claims agent, Epiq, to set up a dedicated website for the Aequitas Receivership claims process, at www.AequitasClaims.com. Through October 3, 2019, the website has been visited by 408 unique visitors and 117 returning visitors and has received a total of 793 pageviews. The website contains detailed information about the claims process and instructions about filing a claim, provides access to key documents, functionality to

submit an inquiry, contact phone numbers, and includes an extensive FAQ section with 38 questions and answers.

Additional Actions

While the following actions were not specifically required by the Claims Procedures Order, the Receiver undertook these steps in order to increase the claims process noticing reach and to facilitate the claims process for the potential claimants.

- The Receiver established a dedicated call center operated by Epiq to field additional potential inquiries related to the claims process. Through September 30, 2019, the call center has handled 56 calls.
- On May 20, 2019, the Receiver disseminated the press release through PR Newswire. Based on the report provided by PR Newswire, the press release was picked up by 121 media outlets, including multiple digital media sources, with the total estimated potential audience of approximately 91 million visitors.

2. Claims Process Noticing – Targeted

During the reporting period, the Receiver working with the Receivership staff and professionals undertook extensive efforts to provide claims process notices to various categories of potential claimants consistent with the requirements of the Claims Procedures Order. Such categories included:

1. All parties who appeared in the SEC Enforcement Action;
2. Claimants who the Receiver has determined, upon reasonable review of the Books and Records, have or may assert a Claim against an Aequitas Entity or have asserted claims against the Receivership Estate during the pendency of the SEC Enforcement Action;
3. Former Aequitas Employees;
4. Investors;

5. Pre-Receivership Creditors;
6. Administrative Claimants;
7. Federal, state, local or other governmental entities or authorities who may assert a Claim for taxes arising from or attributable to tax periods ending on or before March 16, 2016, even if the taxes are due and payable subsequent to March 16, 2016; and
8. Counsel for parties in at least 20 civil actions related to Aequitas.

In total, the Receivership through its claims agent, Epiq, mailed out 6,979 notices that included Notice Of Claims Bar Date And Procedures For Submitting A Proof Of Claim and a Proof of Claim Form. Additionally, three notices were delivered via email by the Receivership staff. The Receivership staff undertook an extensive research of the Aequitas records in an attempt to identify as complete a set of the potential notice parties as possible. The vast majority of the notices were mailed out via first class mail by Epiq between May 31st and June 4th, in compliance with the timeframe established by the Claims Procedures Order.

3. Notice of Receiver's Initial Determination –

To facilitate the claims process, to ease the burden on potential claimants and consistent with the provisions of the Claims Procedures Order, the Receiver elected to provide an additional Notice of Receiver's Initial Determination ("NOD") to the vast majority of the potential known claimants. The purpose of the Notice of Receiver's Initial Determination was to eliminate the need for claimants to file a claim if they agreed with all the information provided in the NOD. When mailed, such notices were included in the same packet as the general claims process notices described above. The development of the NOD involved very extensive research and analysis. For investors, the NODs included a detailed record and a summary of all the investor transactions on both "book"

and cash basis starting from July 1, 2014. Where relevant, the NODs also identified activity associated with investments that were subsequently transferred to an investor from another earlier investor.

With a few exceptions, the NODs were provided to investors in the following legal entities:

- ACC C Plus Holdings, LLC
- ACC F Plus Holdings, LLC
- Aequitas Commercial Finance, LLC
- Aequitas Enhanced Income Fund, LLC
- Aequitas Income Opportunity Fund II, LLC
- Aequitas Income Opportunity Fund, LLC
- Aequitas Income Protection Fund, LLC
- Aequitas Peer-To-Peer Funding, LLC
- Aequitas Private Client Fund, LLC
- CarePayment Holdings, LLC
- ML Financial Holdings, LLC
- MotoLease Financial, LLC

NODs were also provided to certain non-investor parties who were determined to hold claims against:

- Aequitas Capital Management, Inc.
- Aequitas Enterprise Services, LLC
- Campus Student Funding, LLC
- CarePayment, LLC.

In total, the following number of Notices were sent out:

Investor with NOD	2,060
Other Pre-Receivership Creditor / Vendor with NOD	2,040
Employee with NOD	84
Administrative Claimant with NOD	646
Non-NOD notices (not counted above)	2,152
Total Notices	6,982

4. Additional Information Sharing

Consistent with the requirements of the Claims Procedures Order, the Receiver set up a dedicated data sharing site that allowed him to provide copies of notices to the legal counsel representing various potential claimants. In some instances, copies of the notices were emailed to legal counsel directly.

While not required by the Claims Procedures Order, in the spirit of cooperation, the Receiver elected to also share copies of the notices received by investors with their Registered Investment Advisors (“RIA”) upon receipt of a confirmation of investor’s consent to the Receiver’s sharing of such information. Through September 30, 2019, 176 investor notice packets have been shared with the RIAs.

5. Responding to Claims Process Inquiries

Following the mailing of the claims process notices, the Receiver and his staff received numerous follow up inquiries from various parties, including potential claimants and their representatives. Through September 30, 2019, over 366 inquiries were addressed directly by the Receivership staff and professionals. The Receivership team is continuing to field and respond to inquiries as they are received.

6. Claims Processing and Analysis

During the current period, the Receivership team continued to make upgrades to the transactional database that was previously developed in connection with the investor data validation process and used to generate claims process and bar date noticing communications and the NOD forms. Following the intake of the initial received claims, the Receivership team worked to refine its claims management tools used to store and analyze the relevant filed claims data and compare it with the Receivership records. The Receiver's professionals and staff have performed the initial review of the filed claims in preparation for the more detailed analysis and claims resolution process that will come next. Through September 30, 2019:

- 4,830 Notices of Receiver's Initial Determination ("NOD") were mailed or emailed out by the Receivership
- 334 individual claim submissions were received by Epiq (the claims agent) including:
 - 32 duplicates
 - 2 claims representing amendments of previously filed claims
 - 39 late-filed claims
- 3 claims that were submitted prior to the Bar Date Order and the establishment of the claims process.

Of the 300 non-duplicative individual claims submissions received above, at least 15 non-duplicative claims did not list any appropriate Aequitas Receivership entities. Additionally, 68 of the non-duplicative claims were filed against multiple Aequitas Receivership entities. As detailed in the attached Report of Cash Receipts and Disbursements (Exhibit B to this Report), for the purpose of consolidated reporting, these claims are counted only once. On the individual entity reports, each entity determined on

a preliminary basis as being named in the claim form has the claim included in its count. The Receivership staff is continuing to review all submissions to determine the validity of claims.

V. Disposition of Assets/Interests

A. Assets/Interests Sold

1. Coeur d'Alene, Idaho real estate

The Receivership has a second position lien on a lake-front, recreational home in Coeur d'Alene, Idaho, legally described as: Lots 4 and 5, Washington Place Subdivision, according to the plat recorded in the office of the County Recorder in Book F of Plats at Page 4, records of Kootenai County, Idaho, along with all furniture, fixtures, rugs, window coverings, and household appliances (subject to some exclusions). The lien is the result of a certain Joint Sales Agreement, Promissory Note and Deed of Trust, each dated March 1, 2011, between Ronald F. Pirello ("Pirello") and Aequitas Equipment Financing, LLC and Aequitas Hybrid Fund, LLC, as a result of a defaulted loan from Aequitas Equipment Financing, LLC and Pirello's guaranty of same. On or about March 1, 2011, Pirello and Aequitas executed a Joint Sales Agreement, Promissory Note and Deed of Trust for the purpose of satisfying Pirello's guaranty obligations. Under the Joint Sales Agreement: 1) Pirello and Aequitas agreed to sell certain real property owned by Pirello located in Kootenai County, Idaho ("Property"), the proceeds of which would be applied to Pirello's guaranty obligations; and 2) Aequitas would advance funds to Pirello relating to the Property. The Promissory Note evidenced the funds that were to be advanced by Aequitas under the Joint Sales Agreement and the Deed of Trust secured the repayment of the advanced funds with a lien on the Property.

On or about February 15, 2019, the Receiver commenced foreclosure proceedings and caused to be recorded a Notice of Default with the Kootenai County Recorder. Under Idaho law, the recordation of a notice of default is the first step in foreclosing on real property secured by a

deed of trust The Aequitas lien was in third position behind a mortgage loan (which was also in default) and an additional third-party lien. Pirello asserted that the liens other than the mortgage loan were “out of the money” based on valuations offered by Pirello. As a result of the foreclosure action, Pirello offered as a compromise to list the Property on the hopes of getting an above market sale which could net the Receivership a speculative amount of \$88,000 at some point in the future provided a full price sale.

A second buyer (“Swallow”) has agreed to purchase the Pirello lien for a guaranteed amount of \$90,000 paid immediately upon approval of the Court. Swallow had previously purchased the adjacent property from the Receivership. The Receiver filed his Motion to Sell Secured Loan Free and Clear of Liens, Claims, Interests and Encumbrances, and for Related Relief [Dkt 728] on August 6, 2019 and such motion was granted the same day [Dkt 731]. The transaction closed on August 16, 2019 and contributed \$87,043.65 in proceeds to the Receivership (after closing costs).

2. ETC Founder Fund (ETCF)

ACF owns 15.4% of ETCF, and AIM owns 11% of ETCF. ETCF’s sole investment was in \$8.8 million Series A convertible preferred stock in ETC Global Holdings, Inc.(“ETCGH”) which was purchased in September 2011.

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. ETCF, through its ownership of the Series A Units, had the ability to block the Financing Transaction. ETCGH contended it had no alternative financing opportunities and the Receiver was not aware of any other viable options to address ETCGH’s immediate need for additional capital.

Nevertheless, the Receiver had serious concerns about ETCGH's ability to return any capital to ETCFF following the Financing Transaction. Some of the Third-Party Members, including Aaron D. Maurer, presented a more optimistic view of ETCGH's prospects following the Financing Transaction and expressed a desire to "ride out" their investment in ETCF (and thus ETCGH). Responsive to the Third-Party Members wishes, the Receiver crafted a restructuring of the investment that permitted a discounted payment of AIM's accrued management fees, resignation of AIM as manager, and an Exit Preference Buyout for ACF and AIM's interests in ETCF.

The Receiver solicited the consent of ETCF investors formally documenting the approval of and consent to the Subject Transactions, and a determination that the Subject Transaction was fair to ETCF and its members. The Receiver received consent from 92% of ETCF investors with no dissent noted. After conferral with interested parties, the Receiver filed on July 24, 2017 the Receiver's Motions for an Order (1) Authorizing Aequitas ETCGH Founders Fund to Consent to Loan to ETCGH Global Group, (2) Authorizing Receivership Entities to (A) Sell Special Member Interests in Aequitas ETCGH Founders Fund, (B) Release Claims, (C) Convert Aequitas ETCGH Founders Fund's Equity Interests in ETCGH Global Group, and (D) Execute Instruments to Effectuate Loan to ETCGH Global Group (3) Approving Compromise of Management Fees Owned by Aequitas ETCGH Founders Fund to Aequitas Investment Management, and (4) Granting Related Relief [Dkt 482]. The Court approved the Receiver's Motion [Dkt 485].

Citing ongoing liquidity and profitability struggles, on May 28, 2019, ETCGH advised the Receiver and ETCF that it was contemplating a potential transaction involving the restructuring, purchase and financing of ETCGH. The effect of the transaction would significantly diminish (if not erase) the value of any existing equity of the company. On August 30, 2019, the Receiver was advised that the transaction – as

contemplated – had been terminated as the result of new potential buyer outbidding the prior acquirer. As was the case in the terminated transaction, the valuation was not sufficient to pay off the company’s debt or return any proceeds to members (resulting in a total loss of all members’ equity investment). The new transaction was consummated through an auction on or about September 9, 2019. The buyer was PEAK6.⁷ The Receiver is advised that ETCGH will be wound down and liquidated as soon as remaining liabilities are resolved and no further proceeds will be distributed to the Receivership.

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

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

⁷ PEAK6 is a private investment and technology firm started by Jenny Just and Matt Hulsizer in 1997 and whose core businesses include Apex Clearing, a technology driven clearing and custody provider, National Flood Services, a leading BPO for the flood insurance industry, and PEAK6 Capital Management, a proprietary trading group specializing in equity options. For more information, please visit: www.PEAK6.com.

⁸ <http://www.synchronex.com/en/>

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 thousand. 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 thousand by a substantial margin and, accordingly, the Purchase Price will be reduced by \$75 thousand pursuant to the terms of the Purchase Agreement. Accordingly, the Receiver is seeking compensation in the amount of \$75 thousand plus reasonable costs from Synchronex's CEO based on representations and warranties made by him in conjunction with the Purchase agreement.

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 at the end of 2017 and in the beginning of 2018, which resulted in processing relief in connection with approximately 47 thousand 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. Most of the borrower inquiries are being addressed by the servicer but the Receivership also addressed 1,605 borrower inquiries directly (through September 30, 2019). 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.

As discussed in the prior Receiver's Reports, 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 thousand 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 2,173 calls, including 965 calls answered by agents, through September 30, 2019 (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.

In the reporting period, the Receivership team continued to work closely with the loan servicer 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. MotoLease Financial (MLF)

MLF holds subprime consumer leases for motorcycle and other recreational vehicles. Through September 30, 2019, the Receiver has collected approximately \$15.6 million on account of the leases owned at the beginning of the Receivership. As of September 30, 2019, the remaining portfolio (excluding repossessed motorcycles) had a face value of approximately \$634 thousand, of which \$548 thousand is less than 60 days past due. Additionally, MLF had in its possession 46 vehicles with cumulative outstanding lease balances of \$337 thousand that are in various stages of reconditioning and/or resale. The portfolio is expected to continue to amortize on its own accord with the final payment receivable around Q1 2021. 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 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.

3. Pipeline Health Holdings, LLC (“Pipeline”)⁹

PCF owns approximately 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.

⁹ <http://www.pipelinerx.com/>

4. Portland Seed Fund (PSF)¹⁰

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 and the Receivership continues to receive distributions from PSF as the underlying investments experience liquidity events.

5. 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 thousand 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 potential earn-out which would indicate a recovery of 5-15% of outstanding debt.

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

¹⁰ <http://portlandseedfund.com/>

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 and an investor counsel meeting were held on August 28, 2019 at the Portland office of Schwabe, Williamson & Wyatt. As the Court is aware, the Receiver, his legal counsel, and staff stay in regular contact with the IAC members and their legal counsel, including addressing investor inquiries.

B. SEC and Other Governmental Agencies

1. SEC

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 (other than the developments referenced in section III.D 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 discovery requests from state and federal agencies in conjunction with their investigations.

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 \$120.9 million as of September 30, 2019 for the entities included in the Receivership Entity. Over the period from March 16, 2016 to September 30, 2019, the overall cash balance of the Receivership Entity increased by approximately \$105.0 million.

Attached as Exhibit B to this Report is the Report of Cash Receipts and Disbursements in the form of the SFAR 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, 2019.

IX. 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, 2019)

Entity	Fees (\$)	Percentage	Expenses (\$)	Percentage	Total (\$)	Percentage
Receiver	93,678.75	5.1%	5,119.85	17.5%	98,798.60	5.3%
FTI Consulting	795,661.00	43.4%	11,833.32	40.5%	807,494.32	43.4%
Pepper Hamilton	11,814.00	0.6%	22.88	0.1%	11,836.88	0.6%
Schwabe, Williamson & Wyatt	407,850.00	22.3%	3,778.54	12.9%	411,628.54	22.1%
Morrison Foerster	828.75	0.0%	-	0.0%	828.75	0.0%
Law Office of Stanley H. Shure	221,187.00	12.1%	89.06	0.3%	221,276.06	11.9%
Snell & Wilmer	77,287.50	4.2%	1,889.63	6.5%	79,177.13	4.3%
Parsons Farnell & Grein	223,675.50	12.2%	6,459.97	22.1%	230,135.47	12.4%
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:	1,831,982.50	100%	29,193.25	100%	1,861,175.75	100%

[1] Pachulski Stang Ziehl & Jones, Akin Gump, and Ater Wynne did not incur fees or expenses during the billing period.

X. 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. The Receiver will provide updated information once the review and analysis of the claims received as part of the claims process is completed.

XI. Summary of the Distribution Plan

The Receiver, among other duties, was authorized, empowered, and directed to develop a plan for the fair, reasonable, and efficient recovery and distribution of Receivership Property for the benefit of investors and creditors (the "Distribution Plan").¹¹ During the course of finalizing the draft Distribution Plan, the Receiver discovered that investors' tax identification information was absent for a subset of investors under certain custodial accounts. This information is necessary for the Receiver to evaluate certain account groupings to determine equitable treatment that

¹¹ Receivership Order [Dkt. 156], ¶ 38.

would consider accounts under common beneficial interest. The Receiver has approached several of the account custodians with a request for investors' tax identification and other related information and then worked on integrating the obtained new data into the Receivership records which has delayed finalization of the Distribution Plan. This Report is not intended to establish any presumption(s) regarding distribution of the Receivership Property and nothing described herein is considered binding or final until the Distribution Plan is approved by the Court.

XII. Timeline and Interim Distributions

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 major claimants, has finalized the forensic investigation, organized and facilitated an exhaustive and exceedingly successful mediation process that has resulted in recovery of a significant portion of investor losses, implemented a significant part of the claims process and has made significant progress on drafting the Distribution Plan—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 initially involving many operating business (as opposed to owning passive financial assets), is extraordinarily complex and it will take some additional 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 registered investment advisors, 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 intends to submit a proposed Distribution Plan to the Court during the Fourth Quarter, 2019 together with a request to allow an interim distribution upon approval of such plan. The Receiver estimates that an interim distribution of the approved claims (with reserves held for disputed claims) could be made within 90-120 days of Court approval. As mentioned above, the mediation sessions will result in direct payments to the plaintiff investor groups, expedited distributions from the Receivership Estate and, ultimately, an expeditious conclusion to the Receivership.