

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

**UNITED STATES SECURITIES
AND EXCHANGE COMMISSION,**

Plaintiff,

v.

NORTHRIDGE HOLDINGS, LTD., ET AL.,

Defendants.

Civil Action No. 19-cv-05957

Hon. John Z. Lee

Magistrate Judge Susan E. Cox

**RECEIVER’S REPORT FOR THE PERIOD OF JANUARY 1, 2020 THROUGH
MARCH 31, 2020**

N. Neville Reid, not individually, but solely as the Court-appointed receiver (the “Receiver”) for the Estate of Defendant Northridge Holdings, Ltd. (“Northridge”) and its related entities and affiliates as more particularly set forth in the Receivership Order (as defined herein) (collectively, the “Receivership Defendants” or “Receivership Entities,” and their assets as more particularly identified therein, the “Receivership Assets,” and such estate, the “Receivership Estate” or the “Estate”, and such administration, the “Receivership”), and pursuant to the requirements of the *Order Appointing Receiver* entered by the Court on September 12, 2019 [Dkt. 22] and as amended by the Court on February 4, 2020 [Dkt. 102] (the “Receivership Order”),¹ respectfully submits this *Receiver’s Second Report* (the “Report”) *for the Period of January 1, 2020 through March 31, 2020* (the “Second Reporting Period”). The purpose of this Report is to provide the Court and all interested parties with a description of the nature of the Receiver’s activities during the Second Reporting Period.

¹ Capitalized terms not defined herein shall be given the same meaning ascribed to such terms in the Receivership Order.

I. AMENDED LIQUIDATION PLAN.

1. Pursuant to the Receivership Order, the Receiver attaches his Amended Liquidation Plan as **Exhibit A** hereto (the “Amended Liquidation Plan”). (Receivership Order at ¶ 59). An updated status of marketing and sales efforts for the Real Property Assets (defined below) is set forth in the Amended Liquidation Plan. The Amended Liquidation Plan also contains a description of all work related to the marketing and sale of the Real Property Assets performed by the Receiver and his brokers and professionals during the Second Reporting Period. Accordingly, such information is not repeated in the body of this Report. Additionally, the Amended Liquidation Plan summarizes the impact of COVID-19 (to the extent known) on the Receiver’s efforts to liquidate the Receivership Estate. Finally, the Amended Liquidation Plan provides an update on the Receiver’s efforts to identify potential litigation claims, including third-party receivable claims.

II. REAL PROPERTY ASSETS

a. Management of Real Property Assets Generally

2. With the assistance of 33 Realty LLC (“33 Realty”), during the Second Reporting Period, the Receiver has satisfied his duty to manage the Receivership’s real property assets (the “Real Property Assets”), including but not limited to the following: (a) informing tenants of the Receivership; (b) collecting rents; (c) paying operational expenses; (d) timely paying lenders principal and interest (for the properties that have loans associated with them); (e) maintaining the properties; (f) completing necessary capital improvements; (g) renewing leases; (h) procuring new leases for vacant units and/or units where the lease was not renewed; (i) resolving any tenant disputes if/when they arise; (j) keeping the tenants of the Real Property Assets informed as to best practices during the COVID-19 crisis (i.e., posting signs regarding stay at home orders,

washing hands, etc.); and (k) communicating with tenants regarding their employment status and potential rent collection issues related to COVID-19 with the intent of minimizing any reduction in rent collection while acting in a professional and humane manner. 33 Realty is also assisting the Receiver to remain in compliance with all relevant safety and regulatory issues relating to the Real Property Assets.

3. During the Second Reporting Period, the Receiver has been operating the Real Property Assets with the assistance of both the Receivership Defendants' employees and 33 Realty.

4. Lastly, during the Second Reporting Period, the Receiver (with the assistance of 33 Realty) has prepared certain of the Real Property Assets for marketing and sale by, among other things: (a) organizing the books and records associated with each property; (b) compiling due diligence information; and (c) seeking professional guidance in order to maximize the value of the Real Property Assets. Matters specific to each of the Real Property Assets are as follows:

b. Chablis Property.

5. As set forth in the Amended Liquidation Plan, the Chablis Property was sold on September 20, 2019, and the Estate received \$3,882,611 in gross proceeds from that sale.

c. Timber Lake Property.

6. The Timber Lake Property is a 576 unit apartment building located at 1200 Kings Circle, West Chicago, Illinois 60185 (the "Timber Lake Property"). During the Second Reporting Period, in addition to the actions set forth above and as more fully set forth in the Amended Liquidation Plan, the Receiver sought to improve the value of the Timber Lake Property by renting previously vacant one bedroom apartments (the two bedroom apartments are presently all occupied). The Receiver is analyzing the possibility of converting two of the one

bedroom apartments to two bedroom apartments in order to increase occupancy and ultimately the sale value.

7. An accounting for the Timberlake Property for the Second Reporting Period is attached hereto as **Exhibit B**. As the COVID-19 crisis began in earnest after the March rent collection, COVID-19 did not materially impact the Timber Lake Property during the Second Reporting Period. As of the date of this filing, COVID-19 has had little negative impact on April 2020 rent collections. Impact on May collections, however, is not presently known. The Receiver is analyzing future projected cash flow and what, if any, actions should be taken to mitigate the financial effects of the current public health crisis (e.g., requesting forbearance under the CARES Act, etc.).

d. Bartlett Lake Property.

8. The Bartlett Lake Property is a 192 unit apartment complex located at 561-564 Deere Park Circle, Bartlett, Illinois 60103 (the “Bartlett Lake Property”). During the Second Reporting Period, in addition to the actions set forth above and as more fully set forth in the Amended Liquidation Plan, the Receiver sought and obtained Court approval for the sale of the Bartlett Lake Property and has been working diligently with the proposed buyer to move the sale to closing.

9. An accounting for the Bartlett Lake Property for the Second Reporting Period is attached hereto as **Exhibit C**. As the COVID-19 crisis began in earnest after the March rent collections, COVID-19 did not materially impact the Bartlett Lake Property during the Second Reporting Period. As of the date of this filing, COVID-19 has had a little impact on April 2020 rent collections. Impact on May collections, however, is not presently known.

e. Surrey Property.

10. The Surrey Property consists of 48 condominium units (and a garage unit) located at 106 Surrey, Glen Ellyn, Illinois 60137 (the “Surrey Property”). During the Second Reporting Period, in addition to the actions set forth above and as more fully set forth in the Amended Liquidation Plan, the Surrey Property was marketed for sale pursuant to the Court approved sales procedures, and a buyer was selected. The Receiver is in the process of obtaining court approval for the sale of the Surrey Property. An accounting for the Surrey Property is attached hereto as **Exhibit D**. As the COVID-19 crisis began in earnest after the March rent collections, COVID-19 did not materially impact the Surrey Property during the Second Reporting Period. As of the date of this filing, COVID-19 has had some negative impact on April 2020 rent collections. Impact on May collections, however, is not presently known.

f. Elston Property.

11. The Elston Property is an office building located at 5097 N. Elston, Chicago, Illinois 60630 (the “Elston Property”). During the Second Reporting Period, in addition to the actions set forth above and as more fully set forth in the Amended Liquidation Plan, the Receiver retained a broker for the sale of the Elston Property, who scheduled an auction for such sale for March 19, 2020. This auction had to be postponed indefinitely due to the COVID-19 crisis.

12. An accounting for the Elston Property is attached hereto as **Exhibit E**. As the COVID-19 crisis began in earnest after the March rent collections, COVID-19 did not materially impact the Elston Property during the Second Reporting Period.

g. Miami Property.

13. The Miami Property is a condominium located at 3470 E. Coast Avenue, Unit #1003, Miami, Florida 33137 (the “Miami Property”). During the Second Reporting Period, in

addition to the actions set forth above and as more fully set forth in the Amended Liquidation Plan, the property was actively marketed.

14. An accounting for the Miami Property is attached hereto as **Exhibit F**. As the COVID-19 crisis began in earnest after March rent collections, COVID-19 did not materially impact the Miami Property during the Second Reporting Period. As of the date of this filing, COVID-19 has had no impact on April 2020 rent collections.

h. Palatine Property.

15. The Palatine Property is a condominium unit located at 486 Lake Shore Drive, Palatine, Illinois 60067, Unit 486 (the “Palatine Property”). As more fully set forth in the Amended Liquidation Plan, the sale of the Palatine Property has closed and the Receivership Estate received at closing \$129,420.28 in sale proceeds.

i. Vacant Lots Property.

16. The Vacant Lots Property is comprised of 36 separate vacant lots located near Palm Springs, California (the “Vacant Lots Property”). There have been no renters or operations with respect to the Vacant Lots Property during the Receivership. Taxes, however, have been kept current. An accounting for the Vacant Lots Property is attached hereto as **Exhibit G**.

j. North Dakota Property.

17. Upon information and belief, Receivership Defendant Willow Creek Ventures Limited Partnership and/or Defendant Glenn Mueller (“Mueller”) and/or Mueller’s brother own interests in an entity which in turn owns a farm property in North Dakota. A third party has made an offer to purchase this property for \$650,000. The Receiver is investigating the extent of the Receivership Estate’s rights or interests in the North Dakota property or its proceeds of sale. The Receiver’s investigation into this property is ongoing.

18. The Receiver is continuing to investigate the existence and nature of other real estate that may constitute Receivership Assets.

III. OTHER ASSETS.

19. As more fully set forth in the Amended Liquidation Plan, the Receivership Estate has some assets that are not real property assets. Those are comprised primarily of: (a) shares of a penny stock; (b) a term life insurance policy on Mueller; (c) rights to sale proceeds of a home located at 22W371 Emerson Avenue, Glen Ellyn, Illinois 60137 (the “Glen Ellyn Property”); and (d) various potential litigation claims. The Receiver is continuing his investigation to identify additional assets of the Receivership Estate.

IV. BUSINESS OPERATION AND PRESERVATION OF BOOKS AND RECORDS.

20. During the Second Reporting Period, the Receiver has collected and digitized certain paper files of the Receivership Entities which contain investor notes and other important documents (discovery consultant firm TAB completed this work as further described in the Receiver’s Report for the Period Ending December 31, 2019 (the “First Report”)). This effort will aid in the Receiver’s investigation of claims as such documents are now indexed and text searchable. Additionally, the Receivership Entities’ email and scanned documents have been placed on a review platform (Relativity) so that such documents and communications can be efficiently searched (which will also aid in the Receiver’s investigation into potential claims).

21. In addition, the Receiver requested documents in the possession, custody, or control of Mueller or other principals or employees/agents of the Receivership Defendants. These disclosures remain ongoing, and the Receiver continues to review such disclosures on a rolling basis. Mueller and the principals, employees, and agents of the Receivership Defendants have been cooperative regarding the provision of requested information.

22. Lastly, as set forth below, AlixPartners, LLP (“AlixPartners”) continues to assist the Receiver in compiling the books and records of the Receivership Defendants including, but not limited to, gaining access to electronic accounting records (i.e., QuickBooks) and accessing the Receivership Defendants’ electronic system for tracking the investors’ investments.

V. BANK AND INVESTMENT ACCOUNTS.

23. There is no material update since the submission of the First Report with respect to bank and investment accounts. The Receiver continues to use a combination of pre-Receivership and post-Receivership accounts as operating accounts for the Real Property Assets. The Receiver continues to maintain separate Receivership accounts, which mirror the operating accounts, for the excess cash flow and property sale proceeds not needed for operations (as determined in consultation with the Receiver’s property manager). The Receiver continues to use these interest-bearing accounts to collect liquid assets of the Receivership Estate and to pay the administrative and other ordinary course expenses of the Real Property Assets (including payment of secured mortgages encumbering such assets).

VI. CASH, ADMINISTRATIVE EXPENSES, UNENCUMBERED FUNDS, AND RECEIPTS AND DISBURSEMENTS

24. The Receiver’s Standardized Fund Accounting Report (“SFAR”) for the Second Reporting Period is attached hereto as **Exhibit H**. The SFAR sets forth certain funds received by and disbursed from the Receivership Estate during the Second Reporting Period. As reported in the SFAR, the amount of cash on hand in the Receivership accounts (in the Receivership Estate) as of March 31, 2020 was \$3,825,051.21. The information set forth in the SFAR is based upon information and records available to the Receiver as of the date of this Report.

25. The Operating Accounts had a collective balance of \$450,993.37 as of March 31, 2020.

26. Collectively, the Receivership Estate had approximately \$4,276,044.58 of cash on hand as of March 31, 2020.

27. The amount of administrative expenses incurred during the Second Reporting Period is summarized as follows:²

Professional	Month/Year	Fees & Costs Requested	Fees & Costs Paid	Fees & Costs Outstanding
Fox Swibel	January 2020	\$54,975.75	\$0.00	\$54,975.75
Fox Swibel	February 2020	\$40,796.85	\$0.00	\$40,796.85
Fox Swibel	March 2020	\$57,360.07	\$0.00	\$57,360.07
AlixPartners	January 2020	\$221,415.33	\$0.00	\$221,415.33
AlixPartners	February 2020	\$172,110.79	\$0.00	\$172,110.79
AlixPartners	March 2020	\$205,984.39	\$0.00	\$205,984.39
PM	January-February 2020	\$2,744.75	\$0.00	\$2,744.75
PM	March 2020	\$581.25	\$0.00	\$581.25
KRD	January 2020 – March 2020	\$3,978.71	\$0.00	\$3,978.71
Total		\$759,947.89	\$0.00	\$759,947.89

28. Additionally, pursuant to the Second Interim Fee Application for Receiver's General Counsel and First Interim Fee Application for the Receiver's other professionals [Dkt. 118] (covering the period of November and December 2020), the Receiver has requested a total of \$220,430.82, including \$68,045.66 in fees and expenses of counsel for the Receiver and \$152,385.16 in fees and expenses of the other professionals engaged by the Receiver as set forth

² The Receiver is in the process of reviewing and analyzing all January 2020, February 2020, and March 2020 invoices. The amounts set forth herein are the gross amounts of fees and costs as set forth on invoices and are subject to review and approval by the Receiver. Accordingly, all finalized fees and expenses to be requested will be set forth in the Receiver's forthcoming fee application. The Receiver anticipates filing his Third Interim Fee Application for his General Counsel and Second Interim Fee Application for the Receiver's other professionals shortly after the filing of this report.

supra. This application remains outstanding and the objection period as modified by the Court's Covid-19 related orders currently runs on June 15, 2020.

VII. WORK PERFORMED BY PROFESSIONALS

a. Tax Appeal Counsel.

29. During the Second Reporting Period, Sarnoff & Baccash continued to pursue appeals of real estate tax assessments for certain Real Property Assets on a contingency-fee basis. All appeals have been timely filed. The appeal with respect to the Elston Property was successful. The remaining tax appeals are still pending as of the end of the Second Reporting Period.

b. Forensic Accountant.

30. During the Second Reporting Period, AlixPartners, the Receiver's forensic accountant performed the following work: (a) determined the amount and validity of potential claims of the investors/creditors of the Receivership Defendants; (b) assisted the Receiver in designing the initial aspects of a claims process; (c) assisted the Receiver in evaluating potential distribution plans; and (d) identified potential claims of the Receivership Estate against third parties, including receivable claims, "finder" claims and insider claims.

31. With respect to investor/creditor claims, AlixPartners focused efforts on tracing money in/money out at the investor level. This substantial effort involved compiling the Receivership Entities' books and records on a digital platform so all cash-in/cash-out transactions could be verified. Specifically, AlixPartners compiled investor data from the Receivership Entities' "FileMaker" system, the repository of investor transactions, QuickBooks and digitized bank records. AlixPartners developed a process and is currently undertaking an exercise to verify that all transactions were accurately recorded.

32. With respect to a claims process, the Receiver anticipates filing a motion to

approve a claims process in the next reporting period. The work performed in the Second Reporting Period will be critical to this process. In order to save time and expense, the Receiver intends to send each investor a claim form with the Receiver's calculation of that investor's claim included. This way, investors will not have to start from scratch when figuring out his/her/its claim; instead, the investor can simply confirm the claim's accuracy or present an objection thereto with specific back up support.

33. With respect to evaluating potential distribution plans, in addition to the aforementioned work related to the claims process (which is also critical to designing and implementing a distribution plan), AlixPartners traced funds between the Receivership Defendants (i.e., intercompany claims), reviewed and analyzed potential interest claims of the investors and reviewed various other creditor claims. AlixPartners is assisting the Receiver with designing an equitable distribution plan. The Receiver anticipates seeking approval of a distribution plan contemporaneously with seeking approval of the claims process or shortly after a claims process is approved.

34. With respect to identifying potential litigation targets, after compiling all of the financial records of the Receivership Entities, AlixPartners has provided the Receiver and his legal team a list of potential targets which may owe the Receivership Entities significant funds (it has been discovered that the Receivership Entities loaned funds to some persons and entities). The Receiver is following up on these leads by reviewing the various records and emails to confirm that these claims are valid and/or determine the amount of such claims. The Receiver intends to pursue any valid claims in the next reporting period by sending demand letters, subpoenas and/or pursuing litigation. Additionally, AlixPartners has identified potential claims against people and entities related to Mueller and the Receivership Entities. Such claims will be

investigated and pursued in the same manner as the third-party claims. Claims against “finders” and “net-winners” continue to be investigated as well.

c. Tax Accountant and Forensic Tax Accountant.

35. During the Second Reporting Period, Kutchins, Robbins & Diamond Ltd. (“KRD”) continued to provide accounting, tax, payroll, and related services for the Receivership and the Receivership Defendants. Additionally, KRD is continuing to defend an audit and prepare/file tax returns for certain of the Receivership Defendants and related entities for tax year 2018. The Receiver utilized KRD’s services to carry out accounting obligations in connection with the Receivership Defendants’ business operations and management of the Receivership Estate’s property.

36. During the Second Reporting Period, Plante Moran, PLLC (“PM”) provided forensic tax accounting and related tax services on behalf of the Receivership Entities. Specifically, PM reviewed and analyzed prior tax returns filed by the Receivership Defendants and provided advice relating to minimizing the tax burden on the Receivership.

VIII. COMMUNICATIONS WITH INVESTORS.

37. During the Second Reporting Period, the Receiver has primarily communicated with investors through the northridgereceiver.alixpartners.com website, the investor hotline maintained by AlixPartners and the Receiver and his legal team’s direct communication with investors when AlixPartners deems it necessary to escalate hotline questions. With respect to the website, a feature was added whereby investors (and all parties in interest) can sign up to be automatically noticed by email when new documents are posted. Notice of this feature was emailed to all known investor emails. Additionally, the website has been continually updated throughout the Second Reporting Period. The website and hotline have resulted in fewer calls

seeking information directly from the Receiver and his counsel. As of the end of this Reporting Period, the Receiver, with the assistance of AlixPartners, has responded to all inquiries submitted via the Northridge Receivership Portal.

IX. LIABILITIES/INVESTOR CLAIMS.

38. As set forth above, in conjunction with the claims process, the Receiver is continuing to investigate the existence and nature of potential liability and investor claims. Based on the analysis performed to date, such investor claims are generally as described in the SEC's *Emergency Motion for a Temporary Restraining Order to Prevent Violations of the Federal Securities Laws, to Appoint a Receiver, and Provide for Other Ancillary Relief* [Dkt. 3].

X. LIQUIDATED AND UNLIQUIDATED CLAIMS

39. The Receiver's investigation of liquidated and unliquidated claims is ongoing.

XI. OPEN LITIGATION

40. In accordance with the Receivership Order, the Receiver is in the process of settling a New Jersey regulatory action. No other open litigation exists.

XII. RECEIVERSHIP ASSET DESCRIPTION

41. The assets of the Receivership Estate are described in the attached Amended Liquidation Plan which in turn includes descriptions of anticipated and/or proposed dispositions of such assets. At this time, the Receiver anticipates liquidating all of the Receivership Assets and, therefore, no such assets are expected to be retained.

XIII. KNOWN CREDITORS

42. The names and addresses of approximately 476 investors are known to the Receiver. Additionally, the Receiver has knowledge of the secured lenders (who are all notice parties to this case) and some small trade creditors. All will get notice of the claims process once initiated.

XIV. STATUS OF CREDITOR CLAIMS PROCEEDINGS

43. The claims administration process has yet to commence.

XV. RECOMMENDATION FOR CONTINUATION OF RECEIVERSHIP

44. In order to ensure the orderly liquidation of the Receivership Estate and equitable distribution of the funds obtained from such liquidation, the Receiver recommends that the Receivership continue.

Dated: May 4, 2020

Respectfully submitted,

N. Neville Reid, Receiver

By: /s/ Ryan T. Schultz

N. Neville Reid
Ryan T. Schultz
L. Brandon Liss
Fox Swibel Levin & Carroll LLP
200 West Madison Street, Suite 3000
Chicago, IL 60606
Tel: 312.224.1200
Fax: 312.224.1201
nreid@foxswibel.com
rschultz@foxswibel.com
bliss@foxswibel.com