

**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 SUPPLEMENTAL STATUS REPORT RE: TAX ISSUES

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 13, 2020 [Dkt. 18; see also Dkt. 102] (the “Receivership Order”),¹ respectfully submits this *Receiver’s Supplemental Status Report re: Tax Issues* pursuant to this Court’s Order [Dkt. 326]. The purpose of this Report is to provide the Court and all interested parties with a description of the status of the Receiver’s efforts to resolve all outstanding tax issues of the Receivership Estate.

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

1. At the May 13, 2022 status hearing in this matter, the Receiver, as part of his update to the Court, informed the Court that the Receiver and his tax team had scheduled a meeting with the Chief Counsel's office on May 19, 2022. The purpose that call was to engage the Internal Revenue Service ("IRS") to initiate a process to obtain finality as to all material tax issues. Again, as set forth to the Court in other filings, the primary issue here is that the Receiver has potential personal liability for any amounts that were not properly paid by the Receivership Entities to taxing authorities (mainly the IRS). Thus, the need for finality on this issue.

2. By way of background, in 2021, tax counsel for the Receiver at Miller Kaplan began outreach to certain contacts at the office of Chief Counsel, IRS. Once contact was made with R. Matthew Kelly, Special Counsel to the Branch Chief of Income Tax and Accounting, on February 3, 2022, a formal written request for a pre-filing conference was sent to Mr. Kelly. The purpose of this request was to have a dialogue with Mr. Kelly's office on obtaining a "closing agreement" (i.e., IRS sign-off on the Receiver Entities' tax filings). Several weeks elapsed before a response was received from the Office of Chief Counsel. Tax counsel for the Receiver followed up on this request, on a weekly basis.

3. The Receiver's request for a pre-filing conference was ultimately referred to Roy Hirschhorn, Branch Chief, Income Tax and Accounting, Branch 6. Tax counsel for the Receiver and Mr. Hirschhorn had several telephone calls and emails in an effort to schedule the pre-filing conference and on the scope of the requested conference.

4. On May 19, 2022, a pre-filing conference was held with Mr. Hirschhorn and his Chief Counsel colleagues (colleagues with responsibility over various substantive tax issues relevant to the Receiver's request), the Receiver and his counsel. During the conference one of Mr. Hirschhorn's colleagues, William Beard, offered to assist in an informal process with the IRS

Regional office, which could result in certain Receivership Entities obtaining a no change letter(s) with respect to the Receivership Entities' tax returns that contain the vast majority of potential risk/uncertainty. Obtaining a no change letter from the IRS after review of tax returns essentially means that a taxpayer has substantiated all of the items being reviewed and no changes are needed. The Receiver's tax counsel believes that obtaining such relief will likely be much quicker and, if obtained, should still provide enough certainty on the outstanding tax issue such that a significant distribution can be made (and the amount of any tax reserve can be significantly reduced).

5. On May 20, 2022, tax counsel for the Receiver spoke with the Office of Chief Counsel regarding the best way to advance the process offered by Mr. Beard.

6. On the May 23, 2022, Mr. Beard referred a list of receivership entity returns to the IRS regional office for the purpose of seeking an expedited review of the returns and a no change letter(s).

7. On June 1, 2022, Mr. Beard posed some clarifying questions to tax counsel for the Receiver. On June 8, 2022, responses to those questions were provided to Mr. Beard. Tax counsel for the Receiver has sought to schedule a follow-up status meeting with Mr. Beard (i.e. the Receiver's tax team is doing everything possible to keep this process moving toward completion as fast as possible).

8. Based on the scope of the requested relief by the Receiver to the IRS, the Receiver's tax counsel's best estimate of obtaining a no change letter(s) is ninety (90) days from the date of this Report. Of course, the IRS may, after review of the tax returns, not issue a no change letter or seek further information. In that case, the Receiver will notify the Court and will need to re-evaluate his strategy as to obtaining finality on tax issues.

9. The Receiver will continue to update the Court on tax issues in all future status reports filed with the Court.

Dated: June 9, 2022

Respectfully submitted,

N. Neville Reid, Receiver

By: /s/ Ryan T. Schultz

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