

**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 FIRST INTERIM FEE APPLICATION
AND MOTION FOR COURT APPROVAL OF PAYMENT
OF FEES AND EXPENSES OF COUNSEL FOR THE RECEIVER**

N. Neville Reid, not individually, but solely as the Court-appointed receiver (the “Receiver”) for the Estate of Defendant Northridge Holdings, Ltd. and its related entities and affiliates as more particularly set forth in the Receivership Order (as defined herein) (collectively, the “Receivership Defendants”, and their assets as more particularly identified therein, the “Receivership Assets”, and such estate, the “Receivership Estate”, and such administration, the “Receivership”), and pursuant to the powers vested in him by the *Order Appointing Receiver* entered by the Court on September 12, 2019 [Dkt. No. 22] (the “Receivership Order”)¹, respectfully submits this *First Interim Application* (the “Application”) and hereby respectfully moves the Court (the “Motion”) for an order approving payment of the fees and expenses of counsel for the Receiver – Fox Swibel Levin & Carroll, LLP (“Fox Swibel”). In support of the Application, the Receiver states as follows:

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

I. INTRODUCTION AND BACKGROUND

1. The Application covers the period from September 9, 2019 to and including October 31, 2019 (the “Application Period”). In connection with the legal services provided to the Receiver by Fox Swibel, the Receiver respectfully requests compensation for services rendered, along with reimbursement of expenses, totaling \$114,779.88 for the Application Period. The fees requested during the Application Period total \$107,860.50 and the expenses for the Application Period total \$6,919.38. This is the first such application and no prior fees have been sought, awarded or paid.

2. On September 5, 2019, the United States Securities and Exchange Commission (the “SEC”) filed (a) a *Complaint* [Dkt. No. 1] (the “Complaint”) against the defendants as identified therein (collectively, the “Defendants”)² alleging violations of federal securities laws, and (b) *Plaintiff’s Emergency Motion for a Temporary Restraining Order to Prevent Violations of the Federal Securities Laws, to Appoint Receiver, and to Provide for Other Ancillary Relief* [Dkt. No. 3] (the “TRO and Receivership Motion”), requesting a temporary restraining order to prevent violations of federal securities laws, to appoint a receiver and to provide for other ancillary relief set forth therein.

3. In its Complaint, the SEC alleged that: (a) the Defendants violated (i) Sections 5(a), 5(c) and 17(a) of the Securities Act of 1933 (the “Securities Act”) [15 U.S.C. § 77e(a), (e)(c), and q(a)], and (ii) Section 10(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. § 78j(b)], Rule 10b-5(a) and (c) [17 C.F.R. § 240.10b-5(a), (c)]; and

² The following Defendants are identified in the Complaint: Northridge Holdings, Ltd., Southridge Holdings, Ltd., Eastridge Holdings, Ltd., Brookstone Investment Group, Ltd., Guardian Investment Group, Ltd., Unity Investment Group, Ltd., Amberwood Holdings L.P., and Glenn C. Mueller.

(b) Northridge Holdings, Ltd. (“Northridge”) and Glenn C. Mueller (“Mr. Mueller”) violated Rule 10b-5(b) [17 C.F.R. § 240.10b-5(a), (c)].

4. The Complaint further alleges that the Defendants operated a Ponzi-scheme, raising at least \$41.6 million (between May 2014 through April 2019) from more than 300 investors across 32 states by, among other things, fraudulently offering and selling promissory notes in unregistered transactions to such investors, many of whom were unsophisticated and/or unaccredited and of retirement age. *See* Complaint, ¶¶ 1–8, 27–62, 63–76. Further, the Complaint alleges that Mr. Mueller and Northridge misled certain of such investors to believe certain of their promissory notes were secured or equivalently “backed” by properties owned by the Receivership Defendants – when in fact they were not. *Id.* at ¶ 72.

5. On September 9, 2019, the Court held a hearing on the TRO and Receivership Motions. At that hearing, the Court indicated that the Court was likely to grant the SEC’s request to appoint a receiver and that the Court wanted the Receiver to be up and running as soon as he was appointed. Pursuant to the Court’s instruction, work was performed in anticipation of the Receiver’s appointment and, as a result, Fox Swibel is requesting compensation beginning on September 9, 2019.³

6. On September 12, 2019, the Court entered the Receivership Order.

7. Under the Receivership Order, the Receiver is authorized to engage and employ professionals (in his discretion) to assist him in carrying out the duties and responsibilities set forth therein. Receivership Order, ¶¶ 8K, 50. In accordance therewith, the Receiver engaged Fox Swibel as counsel for the Receiver.

³ The invoices submitted to the Court do include pre-September 9, 2019, time entries. Such time entries, however, have designated “no charge” and total in excess of \$10,000.00.

8. Further, on September 12, 2019, the Receiver filed the *Motion for Court Approval of the Rates to be Charged by Receiver's Counsel* [Dkt. No. 29] (the “Fox Swibel Rate Motion”). On September 24, 2019, the Court entered a minute entry Order [Dkt. No. 43] granting the Fox Swibel Rate Motion.

9. Pursuant to the Receivership Order, and subject to Court approval, the Receiver and Retained Personnel are entitled to “reasonable compensation and expense reimbursement” from the Receivership Estate, in compliance with the *Billing Instructions for Receivers in Civil Actions Commenced by the U.S. Securities and Exchange Commission* (the “Billing Instructions”) promulgated by the SEC, which are binding upon the Receiver. *Id.* at ¶ 65.

II. FIRST INTERIM APPLICATION

9. Pursuant to (and in accordance with) the Billing Instructions and the Receivership Order, the Receiver provides the following information regarding the Application.

10. **First**, the Application covers the period from September 9, 2019 to and including October 31, 2019.

11. **Second**, as set forth above, at a hearing on September 9, 2019, the Court indicated that the Receiver would be appointed and the Court appointed the Receiver on September 12, 2019. The Receiver retained Fox Swibel as counsel for the Receiver contemporaneously therewith, and Fox Swibel commenced services immediately. On September 24, 2019, the Court entered an order granting the Fox Swibel Rate Motion.

12. **Third**, the *Certification of Fox Swibel in Support of the Application* is attached hereto as **Exhibit A** and incorporated herein by reference.

13. **Fourth**, the names and hourly rates of all Fox Swibel professionals and paraprofessionals who billed time on this matter during the Application Period are attached hereto as **Exhibit B** and incorporated herein by reference.

14. *Fifth*, the Application constitutes the Receiver's first interim application for compensation for the fees and expenses of Fox Swibel. Accordingly, (a) no previous interim fee application(s) have been submitted or approved, (b) no amounts have been previously allowed or disallowed thereunder, and (c) no such amounts remain unpaid as of the date hereof.

III. Case Status

15. Pursuant to the Billing Instructions, the Receiver hereby provides the following information regarding the services performed and activities undertaken by Fox Swibel during the Application Period.

16. The Receiver's Standardized Fund Accounting Report ("SFAR") – for (a) the stub period from September 12, 2019 to September 30, 2019 and (b) October 2019 – is attached hereto as Exhibit C. The SFAR sets forth certain funds received by and disbursed from the Receivership Estate during the Application Period. As reported in the SFAR, the amount of cash on hand in the Receivership accounts (in the Receivership Estate) as of October 31, 2019 was \$3,966,634.31. As of December 9, 2019, there was no additional activity in these receivership accounts and, therefore, the balances remain the same. The information set forth in the SFAR is based upon information and records available to the Receiver as of the date of the Application.

17. Additionally, as more fully set forth below, the Receiver has been operating the real property assets (with the assistance of his property manager) since the Receivership Order was entered. As of the date hereof, the Defendants and Receivership Defendants used operating accounts through which rents were collected, expenses relating to the properties were paid, etc. Such operating accounts were transferred to the Receiver's control (the "Operating Accounts"),

and are currently being used to operate the real property assets of the Receivership Estate.⁴ A summary of the Operating Accounts' balance (a) as of October 31, 2019 and (b) as of the date hereof are attached hereto as group **Exhibit D**. The Operating Accounts had a collective balance of (a) \$456,643.44 as of October 31, 2019 and (b) approximately \$406,102.36 as of December 9, 2019. Collectively, the Receivership Estates had approximately \$4,453,277.75 of cash on hand as of October 31, 2019 – and as of December 9, 2019 cash on hand was \$4,372,736.67.

18. Upon entry of the Receivership Order, the Receiver immediately proceeded to use “reasonable efforts” to investigate the nature, location and value of all property interests of the Receivership Defendants in accordance therewith.⁵ Receivership Order, ¶ 8A. Further, during the Application Period, the Receiver undertook actions (including, but not limited to the following) in accordance with the Receivership Order:

A. Notice of Appointment of Receiver.

19. Upon entry of the Receivership Order, the Receiver noticed interested parties of the appointment of the Receiver in this SEC enforcement action. Further, the Receiver provided such interested parties (e.g., investors, IRS, financial institutions, lenders, insurance brokers, creditors, attorneys and accountants) with notice of the Receivership and a copy of the Receivership Order (in accordance therewith). *Id.* at ¶¶ 17, 29.⁶

⁴ The Receiver will provide more robust financial reports for the real properties as part of his First Receiver's Report which will cover the Application Period and through the end of 2019. During the Application Period, and presently, the property manager has been migrating the real property operations to a generally accepted property management software platform which will allow for such financial reports to be more easily generated.

⁵ All of the Receiver's actions during the Application Period, as set forth below, were done with the assistance of Fox Swibel.

⁶ For the Court's benefit, after the Application Period – on November 15, 2019 – the Receiver launched a website providing investors/ interested parties with (a) information regarding the Receivership, (b) a telephone hotline giving such parties access to material updates regarding the same, and (c) answers to frequently asked questions. The Receiver and the engaged professionals intend to further develop such website (*available at*,

B. Sale of Chablis Property.

20. Pursuant to the Receivership Order, Defendant Glenn C. Mueller was authorized to consummate a pending sale of real estate commonly known as the Chablis Apartments (the “Chablis Property”). *Id.* at ¶ 40. The Chablis Property closing occurred on September 20, 2019. In connection therewith, the Receiver: (a) reviewed closing documents to ensure compliance with the Receivership Order, (b) ensured proper payment of the outstanding mortgage loan balance encumbering such property, and (c) secured receipt of the remaining proceeds into the Receivership Estate. *Id.* at ¶¶ 40(H), 40(J). The Receivership Estate was paid **\$3,882,611.02** at closing.

21. Shortly after closing, the Receiver determined that the mortgage lender had failed to timely turnover a mortgage loan overpayment and tax escrow balance to the Receiver. Accordingly, the Receiver made demand for turnover of the same and thereafter filed a *Motion to Enforce Receivership Order and for Entry of an Order Compelling J.P. Morgan Chase Bank, N.A. to Account for and Turnover Receivership Assets to the Receiver* [Dkt. No. 53] (the “Turnover Motion”). Pursuant to the Turnover Motion, the Receiver sought to (a) recover such proceeds of the sale of the Chablis Property from the mortgage lender and (b) obtain a related accounting from such lender. Thereafter, the Receiver and mortgage lender consensually resolved the Turnover Motion, permitting the Receiver to recover an additional (approximately) \$82,000 into the Receivership Estate.

C. Asset Investigation.

22. Upon entry of the Receivership Order, the Receiver promptly began investigating the location and value of Receivership Assets (e.g., real estate, property and books and records). The Receiver worked with the SEC and counsel for the Receivership Defendants regarding the same. Accordingly, the Receiver determined that, as of the date hereof, the Receivership Estate includes the following real estate (collectively, the “Real Estate”): (a) two (2) multi-family residential apartment complexes located in West Chicago, IL and Bartlett, IL – comprising 768 units, (b) 48 condo units located at Surrey, Glenn Ellyn, IL, (c) one (1) office building located in Chicago, IL, (d) single condo units located in each of Palatine, IL and Miami, FL, (e) a potential interest in a house located in Glenn Ellyn, IL, and (f) vacant lots located in Palm Springs, CA. The Receiver is presently investigating whether Northridge owns interests in any other real estate.

D. Engagement of Receiver’s Property Manager – 33 Realty.

23. To identify a property manager shortly after his appointment, the Receiver solicited proposals from eight (8) real estate management firms located in the greater Chicagoland area. Four (4) such firms submitted proposals. At the conclusion of the foregoing competitive process, the Receiver selected 33 Realty Management, LLC (“33 Realty”) as the Receiver’s property manager.

24. The Receiver quickly engaged 33 Realty to immediately satisfy his duty to manage the property of the Receivership Estate (e.g., (a) informing tenants of the Receivership, (b) collecting rents, (c) continuing proper property management and maintenance, (d) assist with any sales of real property, and (e) resolving tenant issues as they arise). 33 Realty is also

assisting the Receiver to remain in compliance with health, safety and regulatory issues at the Real Estate.

25. On September 20, 2019, the Receiver filed the *Motion for Court Approval of the Rates to be Charged by Receiver's Property Manager* [Dkt. No. 41]. Thereafter, on October 11, 2019, the Court entered the *Order Approving the Rates to be Charged by Receiver's Property Manager* [Dkt. No. 52], granting the foregoing motion.

E. Business Operations and Preservation of Books and Records.

26. The Receiver immediately dispatched an information technology expert to secure and copy Northridge servers and local computers storing electronic information and records. Additionally, the Receiver has toured certain of the (a) Real Estate and (b) the Northridge headquarters in Addison, Illinois (the "Addison Office"). At the Addison Office, the Receiver and 33 Realty confirmed that Northridge employees used that space to undertake management and perform back-office functions (e.g., accounting and payroll, investor relations and tracking and IT). There, the Receiver: (a) interviewed key employees and principals of Northridge; (b) examined certain files and records and (c) began the process of preserving all documents and records.

27. Further, the Receiver directed 33 Realty and all Northridge principals and employees to, among other things: (a) suspend communications with investors, lenders, financial institutions, vendors and other relevant parties absent express permission from the Receiver; (b) preserve all records and information in respect of the Receivership Defendants; and (c) restrict access of the Addison Headquarters to only those professionals and key employees of the Receivership Defendants assisting the Receiver in maintaining ongoing business operations and property management.

F. Bank and Investment Accounts.

28. Upon the inception of the Receivership, the Receiver notified, contacted, and conferred with the banks and other financial institutions that the Receiver identified (in consultation with the SEC and Northridge staff) as having (at that time) custody or control of any funds, operating or other accounts, or other assets held by, in the name of, or for the benefit of (directly or indirectly) any of the Receivership Defendants. With respect to each such fund or account, the Receiver either: (a) took control of such fund or account or (b) confirmed the assets of the fund or account were frozen pending further direction by the Receiver or Court order. The Receiver then transferred ownership of identified bank accounts of the Receivership Defendants in the name of the Receiver. Some of these accounts are presently being used as operating accounts for the Real Estate (the “Operating Accounts” as described above). The Receiver also opened separate Receivership Accounts which mirror the operating accounts. Such interest-bearing accounts are presently being used by the Receiver to collect liquid assets of the Receivership Estate and to pay the administrative and other ordinary course expenses of the Real Estate (including payment of secured mortgages encumbering the Real Estate).

29. The Receiver also discovered that certain bank accounts in the name of Receivership Defendants were substantially depleted prior to the date of his appointment. More specifically, the Receiver learned that certain accounts had contained potentially valuable stock or shares in legal entities unrelated to the Receivership. The Receiver has secured those assets.

G. Engagement of Receiver’s Accountant – KRD.

30. In respect of business operations, the Receiver engaged Kutchins, Robbins & Diamond Ltd. (“KRD”) to provide accounting, tax, payroll and related services for the Receivership and the Receivership Defendants. Among other services, KRD is working to

defend an audit and to prepare and file federal tax returns for certain of the Receivership Defendants and related entities for tax year 2018. KRD will also provide tax preparation and filing services on a go-forward basis.

31. On October 30, 2019, the Receiver filed the *Motion for Court Approval of the Rates to be Charged by Receiver's Accountant* [Dkt. No. 58] (the "KRD Rate Motion"), which motion remains pending.

H. Engagement of Certain Real Estate Brokers of the Receiver.

32. Regarding marketing and sale of the Real Estate (subject to sale order(s) at the appropriate time), the Receiver sought professional input regarding maximizing value of the Real Estate. The first of the larger assets that was ready to go to market was the Bartlett Lakes property. Accordingly, the Receiver has sought Court-approval to set the rates of brokers in connection with the marketing and sale of almost all of the Real Estate identified to-date. On October 30, 2019, the Receiver filed the *Motion for Court Approval of the (A) Rates to be Charged by Receiver's Real Estate Broker (Bartlett Property) and (B) Receiver's Retention of Brokers for Certain Other Real Estate* [Dkt. No. 62] (the "Essex Motion"). As set forth in the Essex Motion, the Receiver sought marketing proposals from multiple brokers along with proposed commission rates. Pursuant to the Essex Motion, the Receiver sought authority to approve the rates of (a) Essex Realty Group, Inc. regarding the Bartlett Property (as defined therein) and (b) other brokers regarding certain Other Real Estate (as defined therein). The Essex Motion is presently pending.

I. Engagement of the Receiver's Property Tax Appeal Counsel.

33. In order to maximize the value of the Real Estate, the Receiver was advised to appeal real property tax liability whenever possible. As a result, the Receiver solicited proposals

for a property tax appeal counsel on a contingency-fee basis. Such counsel will pursue appeals of selected properties on a strictly contingency-fee basis, subject to Court-approval.

34. Accordingly, on October 30, 2019, the Receiver filed the Receiver's *Motion for Court Approval of the Rates to be Charged by Receiver's Property Tax Appeal Counsel* [Dkt. No. 60]. Pursuant to the foregoing motion, the Receiver is seeking authority to retain Sarnoff & Baccash ("S&B") as property tax appeal counsel as more particularly set forth therein. The foregoing motion is presently pending.

J. Engagement of the Receiver's Forensic Accountant – AlixPartners.

35. In fulfilling his duties under the Receivership Order, the Receiver will need to, among other things, determine the: (a) amount and validity of claims of the investors/ creditors of the Receivership Defendants and (b) legal and equitable rights of such parties in respect of the funds marshalled in this case. This effort necessitates engagement of a forensic accountant. In order to identify a forensic accountant, the Receiver solicited proposals from four (4) firms, each of whom submitted a proposal. The Receiver engaged AlixPartners, LLP ("AlixPartners") to perform, among other things, the following services: (a) tracing money in/ money out at the investor level; (b) tracing funds between the Receivership Defendants (i.e., intercompany), including determining the amount of intercompany receivables and/or whether or not the Receivership Defendants' finances are hopelessly commingled; (c) assisting with discovery; (d) identifying potential claw-back targets, fraudulent conveyances or transfers (e.g., undisclosed insider transfers, suspicious transactions generally, etc.), professional liability targets and breach of fiduciary duty claims; (e) assisting in the design and implementation of a claims process (for investors and general creditors), including verifying claim amounts and identifying potential objections; (f) modeling potential distribution plans based on different distribution methods (e.g.,

pro rata, rising tide, etc.); and (g) supporting motions filed by the Receiver (e.g., motion(s) to approve a distribution plan).

36. On November 8, 2019, the Receiver filed the *Motion for Court Approval of the Rates to be Charged by Receiver's Forensic Accountant* [Dkt. No. 67], which motion is presently pending. While filed outside the Application Period, much of the work associated with this motion was performed during the Application Period.

K. Fact Investigation and Document Requests.

37. The Receiver has requested certain documentation in the possession, custody, or control of Mr. Mueller or other principals or employees/ agents of the Receivership Defendants. Such disclosures remain ongoing at this time as Mr. Mueller and such employees are presently cooperating with the Receiver regarding such disclosures. The Receiver has been reviewing such disclosures on a rolling basis.

38. Further, the Receiver and his professionals are working to collect, review, and analyze documents relevant to the administration of the Receivership Estate (e.g. loan documents, documents from investors, etc.).

L. Other Potential Receivership Assets.

39. The Receiver has also begun investigating the existence of other real estate properties that may be Receivership Assets. These include properties that may have been purchased with Northridge/ Receivership Defendants' investor funds. Based on evidence gathered to-date, these include without limitation: (a) a North Dakota property/ farm; and (b) certain other property located in West Chicago, IL.

M. Open Litigation.

40. In accordance with the Receivership Order, the Receiver has begun efforts to (a) apprise relevant courts of the stay of litigation entered under the Receivership Order or (b) otherwise seek relief from the stay to permit such actions to continue (e.g., where assets of the Receivership Estate would not be depleted on account of such actions (e.g., an Illinois tort action currently being defended by the insurance carrier)).

N. Communications with Investors.

41. The Receiver has compiled a list of known investors of the Receivership Defendants and is using best efforts to identify any previously unidentified investors of the Receivership Defendants. On September 16, 2019, the Receiver noticed over 300 investors of the Receivership. Such correspondence provided information about the matter, the Receivership, a copy of the Receivership Order and certain other information. Shortly thereafter, the Receiver became aware of additional investors that had not been provided notice. Accordingly, on September 19, 2019, the Receiver provided notice of the Receivership to such investors.

42. As of the date hereof, the Receiver and his professionals have received hundreds of telephone calls and correspondence from investors and have returned telephone calls of each such party.⁷

IV. BILLING ADDRESSED IN THIS APPLICATION

43. Pursuant to the Billing Instructions, the Receiver provides the following information regarding current billing:

⁷ Certain investors have filed letters or documents on the docket in this matter. (*See, e.g.*, Dkt. No. 46). The Receiver intends to monitor such letter-filings to ensure they receive appropriate response in due course.

a. Total Compensation and Expenses Requested. The Receiver respectfully requests compensation for services rendered, along with reimbursement of expenses, totaling \$114,779.88 for the Application Period. The fees requested during the Application Period total \$107,860.50 and the expenses for the Application Period total \$6,919.38. True and correct copies of Fox Swibel's invoices for September and October 2019 are attached hereto as **Exhibit E**. A summary of the requested expenses and true and correct copies of invoices and other documents substantiating the requested expenses are attached hereto as group **Exhibit F**.

b. Source of Funds for Requested Compensation and Expenses. The Receiver requests payment of the foregoing fees and expenses from the Receiver's accounts at the Receiver's reasonable discretion. As set forth above, current cash on hand is approximately \$4,372,736.67.

c. First Application for Payment of Professional Fees and Expenses. This is the Receiver's first interim fee application. No fees or expenses have been sought or previously awarded by the Court.

d. Summary of Activity. A "Summary of Activity," providing the total hours billed and the amount of billing for each person who billed time during the Application Period (for each of (a) September 9, 2019 through and including September 30, 2019 and (b) October 2019) precedes Fox Swibel's invoices (*see* **Exhibit E**)

V. NO OBJECTION BY THE SEC

44. Counsel for the SEC has indicated that the SEC has reviewed and approved the fees and costs requested requested herein.

WHEREFORE, for the foregoing reasons, the Receiver respectfully requests that the Court approve the Application and enter an Order (a proposed form of which is attached hereto as **Exhibit G**) as follows:

- a. finding the fees and expenses of counsel for the Receiver at Fox Swibel Levin & Carroll, LLP (as set forth in **Exhibit E** and **Exhibit F**) to be reasonable and necessary to the Receivership;
- b. approving the Receiver's payment of such fees and expenses to Fox Swibel (counsel for the Receiver) from the Receivership Estate as described and recommended herein; and
- c. granting all other or further relief that is just or proper.

Dated: December 9, 2019

N. Neville Reid, Receiver

By: /s/ Ryan T. Schultz

N. Neville Reid
Ryan T. Schultz
Suj M. Pandya
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
spandya@foxswibel.com