

**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 ENDING DECEMBER 31, 2019

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,” 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] (the “Receivership Order”),¹ respectfully submits this *Receiver’s Report* (the “Report”) *for the Period of September 12, 2019 through December 31, 2019* (the “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 Reporting Period.

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

I. LIQUIDATION PLAN.

1. Pursuant to the Receivership Order and Receiver's Motion For Extension to File Liquidation Plan and Order granting the same, the Receiver attaches his Liquidation Plan as **Exhibit A** hereto (the "Liquidation Plan"). Receivership Order at ¶ 59; Dkt. Nos. 80 and 87. The status of marketing and/or sales efforts for the Real Property Assets (defined below) is set forth in the Liquidation Plan. The Liquidation Plan also includes all work performed by the Receiver and his brokers and professionals during the Receivership Period related to the marketing and sale of such assets and, therefore, such information is not repeated in the body of this Report.

II. REAL PROPERTY ASSETS

a. Engagement of Property Manager.

2. Shortly after the Court appointed the Receiver, the Receiver solicited proposals from eight real estate management firms located in the greater Chicagoland area. Four such firms submitted proposals. At the end of this competitive process, the Receiver elected to engage 33 Realty LLC ("33 Realty") as the Receiver's property manager. As such, 33 Realty has been assisting in the operation of the Receivership's real property assets (the "Real Property Assets").

3. With the assistance of 33 Realty, during the Reporting Period, the Receiver has satisfied his duty to manage 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, and (g) resolving any tenant disputes if/when they arise. 33 Realty is also assisting the Receiver to remain in compliance with all relevant safety and regulatory issues relating to the Real Property Assets.

4. During the Reporting Period, the Receiver has been operating the Real Property Assets with the assistance of 33 Realty using a combination of the Receivership Defendants' employees as supplemented by 33 Realty. After transition of the operations to 33 Realty, however, Mr. and Mrs. Mueller were relieved of their employment duties in part to reduce expenses to the Receivership Estate.

5. Lastly, during the Reporting Period the Receiver (with the assistance of 33 Realty) has prepared each 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 Estate. Matters specific to each of the Real Property Assets are as follows:

b. Chablis Property.

6. As set forth in the 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.

7. 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 Reporting Period, with respect to the Timber Lake Property, in addition to the actions outlined above, the Receiver supervised the completion of additional parking, which increased the occupancy and value of the Timber Lake Property.

8. An accounting for the Timberlake Property for the Reporting Period is attached

hereto as **Exhibit B.**

d. Bartlett Lake Property.

9. The Bartlett Lake Property is a 192 unit apartment complex located at 561-564 Deere Park Circle, Bartlett, Illinois (the “Bartlett Lake Property”). During the Reporting Period, in addition to the actions set forth above and as more fully set forth in the Liquidation Plan, the Receiver (i) engaged a real estate broker, sought and obtained Court approval of sales procedures and marketed the Bartlett Lake Property for sale and (ii) has accepted a pending offer to purchase the Bartlett Lake Property, subject to the buyer’s completion of its due diligence which is in progress.

10. An accounting for the Bartlett Lake Property for the Reporting Period is attached hereto as **Exhibit C.**

e. Surrey Property.

11. The Surrey Property consists of 48 condominium units located at 106 Surrey, Glen Ellyn, Illinois (the “Surrey Property”). During the Reporting Period, in addition to the actions set forth above and as more fully set forth in the Liquidation Plan, the Receiver engaged a broker for the Surrey Property and sought and obtained Court approval of the sales procedures.

12. An accounting for the Surrey Property is attached hereto as **Exhibit D.**

f. Elston Property.

13. The Elston Property is an office building located at 5097 N. Elston, Chicago, Illinois (the “Elston Property”). As more fully set forth in the Liquidation Plan, the Receiver has retained a broker for the sale of the Elston Property, who has scheduled an auction for the sale of the property for March 19, 2020.

14. An accounting for the Elston Property is attached hereto as **Exhibit E.**

g. Miami Property.

15. The Miami Property is a condominium located at 3470 E. Coast Avenue, Unit #1003, Miami, Florida 33137 (the “Miami Property”). During the Reporting Period, in addition to the actions set forth above and as more fully set forth in the Liquidation Plan, the Receiver engaged a broker for the Miami Property and the property is actively being marketed.

16. An accounting for the Miami Property is attached hereto as **Exhibit F**.

h. Palatine Property.

17. 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 Liquidation Plan, the sale of the Palatine Property has been approved by the Court and closing is scheduled.

18. There have been no renters or operations with respect to the Palatine Property during the Receivership.

i. Vacant Lots Property.

19. 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 Palatine Property during the Receivership. Taxes, however, have been kept current.

20. An accounting for the Vacant Lots Property is attached hereto as **Exhibit G**.

j. North Dakota Property.

21. Upon information and belief, Receivership Defendant Willow Creek Ventures Limited Partnership owns a farm property in North Dakota. The Receiver’s investigation into this property is ongoing.

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

III. OTHER ASSETS.

23. As more fully set forth in the 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 Mr. 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.

24. Upon his appointment, the Receiver dispatched an information technology expert to secure and copy Northridge’s 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 the 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 and his team interviewed key employees and principals of Northridge and examined certain files and records. The Receiver’s team has also undertaken ongoing efforts to identify and secure all relevant documents and records.

25. The Receiver has directed 33 Realty and all Northridge principals and employees to, *inter alia*: (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.

26. 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 have been cooperative regarding the provision of requested information.

27. Furthermore, on December 13, 2019, the Receiver engaged the discovery consultant firm TAB to digitize certain investor related records that were stored at the Addison Office. This was done in order to further ensure proper information preservation and so that AlixPartners (defined below) could more easily analyze such records. In order to collect all relevant records and ensure the protection of information and the ability to recover such information in the event of a disaster, TAB has done/will do the following:

- i. Collect all pertinent records from the Addison Office with the oversight of a representative on behalf of the Receiver and securely transport such records to TAB's records center.
- ii. Complete the intake of all records at the TAB records center.
- iii. Digitize all records.
- iv. Organize and prepare all records for secure electronic distribution to the Receiver.
- v. Release all records to the Receiver via Secure File Transfer Protocol (sFTP).
- vi. Reassemble all documents into the form equivalent to that upon receipt by

TAB.

vii. Return all documents to the Addison Office.

viii. Ensure a highly confidential chain of custody throughout all stages of data and document processing.

28. The cost incurred for the above-stated TAB services was \$13,685, and the estimated date of completion for the above-stated services is February, 7 2020. Lastly, as set forth below, AlixPartners has assisted 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 investor's investments.

V. BANK AND INVESTMENT ACCOUNTS.

29. 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 such funds or accounts, the Receiver either: (a) took control of such funds or accounts or (b) confirmed that the assets therein were frozen pending further direction by the Receiver or Court order. The Receiver then transferred ownership of identified bank accounts of the Receivership Defendants into the name of the Receiver. Some of these accounts are presently being used as operating accounts for the Real Estate. The Receiver also opened separate Receivership Accounts which mirror the operating accounts and will maintain the excess cash flow and property sale proceeds not needed for operations, after consultation with the Receiver's property manager. The

Receiver is presently using 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 Estate (including payment of secured mortgages encumbering the Real Estate).

30. The Receiver also learned that certain accounts had contained potentially valuable stock or shares in legal entities unrelated to the Receivership. The Receiver has secured those assets.

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

31. The Receiver's Standardized Fund Accounting Report ("SFAR") for the Reporting Period is attached hereto as **Exhibit H**.² 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 December 31, 2019 was \$3,966,634.31. The information set forth in the SFAR is based upon information and records available to the Receiver as of the date of the Application.

32. The Operating Accounts had a collective balance of \$383,137.29 as of December 31, 2019.

33. Collectively, the Receivership Estates had approximately \$4,349,771.60 of cash on hand as of December 31, 2019.

34. The amount of administrative expenses is summarized as follows:³

² Pursuant to the Receivership Order, this attachment must contain one column for the quarterly period covered and a second column for the entire duration of the receivership. [Dkt. 22, ¶ 61(C).] As this is the Receiver's first report, the receipts and disbursements for the quarter and the entire duration of the receivership are equivalent.

³ The Receiver is in the process of reviewing and analyzing all November 2019 and December 2019 invoices. Accordingly, all finalized fees and expenses to be requested will be set forth in the Receiver's forthcoming fee application.

Professional	Month/Year	Fees & Costs Requested	Fees & Costs Paid	Fees & Costs Outstanding
Fox Swibel	September & October 2019	\$114,779.88	\$114,779.88 ⁴	\$0
Fox Swibel	November 2019	\$39,620.24	\$0.00	\$39,620.24
Fox Swibel	December 2019	\$28,565.42	\$0.00	\$28,565.42
AlixPartners	November 2019	\$61,927.17	\$0.00	\$61,927.17
AlixPartners	December 2019	\$88,328.24	\$0.00	\$88,328.24
PM	November 2019	\$1,150.00	\$0.00	\$1,150.00
PM	December 2019	\$4,337.50	\$0.00	\$4,337.50
KRD	October 2019 – December 2019	\$3,767.50	\$0.00	\$3,767.50
Total		\$342,475.95	\$114,779.88	\$227,696.07

35. The Receiver has requested a total of \$342,475.95, including \$182,965.54 in fees and expenses of counsel for the Receiver and \$159,510.41 in fees and expenses of the professionals engaged by the Receiver as set forth *supra*.

VII. ENGAGEMENT OF PROFESSIONALS

a. Tax Appeal Counsel.

36. In order to maximize the value of the Real Estate, the Receiver was advised to appeal real property tax liability whenever possible. The Receiver therefore solicited proposals for a property tax appeal counsel on a contingency-fee basis. With the Court's approval, the Receiver retained Sarnoff & Baccash ("S&B") as property tax appeal counsel. [Dkt. Nos. 60 and 79.] S&B is pursuing appeals of certain Real Property Assets on a contingency-fee basis.

b. Forensic Accountant.

37. To fulfill his duties under the Receivership Order, the Receiver must, *inter alia*, determine the: (a) amount and validity of claims of the investors/ creditors of the Receivership

⁴ This payment has been made pursuant to the Court's Order approving fees [Dkt. 93], and was made on January 6, 2020. Accordingly, this figure does not appear in Exhibit H.

Defendants and (b) legal and equitable rights of such parties in respect of the funds marshalled in this case. These efforts necessitated the engagement of a forensic accountant.

38. In order to identify a forensic accountant, the Receiver solicited proposals from four firms, each of whom submitted a proposal. With the Court's approval, the Receiver engaged AlixPartners, LLP ("AlixPartners") to perform, *inter alia*, 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). [Dkt. Nos. 67 and 79.]

39. During the Reporting Period, AlixPartners has: (a) visited the Addison Property and interviewed key employees; (b) assisted with reconstruction and compilation of books and records that will be analyzed in connection with performing their duties; (c) created an investor website (more fully described below); and (d) responded to investor inquiries (more fully described below).

c. Tax Accountant and Forensic Tax Accountant.

40. With the Court's approval, the Receiver engaged Kutchins, Robbins & Diamond

Ltd. (“KRD”) to provide accounting, tax, payroll, and related services for the Receivership and the Receivership Defendants. [Dkt. Nos. 58 and 79.] 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 is also utilizing KRD’s services to carry out accounting obligations in connection with the Receivership Defendants’ business operations and management of the Receivership Estate’s property.

41. With the Court’s approval, the Receiver has also engaged the tax accounting firm Plante Moran, PLLC (“PM”) in order to provide forensic tax accounting and related tax services on behalf of the Receivership Defendants (and in accordance with applicable law). [Dkt. Nos. 70 and 92.] As set forth more fully in previous filings,⁵ AlixPartners does not provide forensic tax services, thus necessitating the procurement of certain supplemental forensic services.⁶ Such services include performing accounting, financial, or income tax-related services upon the Receiver’s request. Accordingly, in order for the Receiver to maximize recovery to affected persons, among other tasks, PM continues to:

- i. Review and analyze prior tax returns filed by the Receivership Defendants.
- ii. Offer opinions with respect to potential amendments and tax refunds.
- iii. Provide advice in order to minimize the tax burden on the Receivership, including in connection with the sale of real estate assets.
- iv. Provide advice related to the Internal Revenue Code and related treasury regulation in order for the Receiver to maintain the Receivership Estate’s status as a “Settlement Fund” pursuant to the Receivership Order.

⁵ See *Receiver’s Motion for Court Approval of the Rates to be Charged by Receiver’s Accountant* [Dkt. 70].

⁶ The Receiver continues to monitor the work of and invoices from AlixPartners, KRD, and PM to ensure they do not duplicate their respective services to the Estate.

VIII. COMMUNICATIONS WITH INVESTORS.

42. The Receiver has compiled a list of known investors of the Receivership Defendants and is using his 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 (i) information about the matter and the Receivership, (ii) a copy of the Receivership Order and (iii) 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.

43. In order to execute the aforementioned services, AlixPartners has created a Northridge Receivership website through which the following information is available:

- i. General information regarding this case and the Receivership.
- ii. A list of all Defendants and affiliates of Defendants.
- iii. A link enabling individuals to contact AlixPartners with inquiries to which a representative of the Receiver will respond.
- iv. A phone contact for direct inquiries.
- v. Key documents related to this case.
- vi. Answers to frequently asked questions regarding, *inter alia*, the matter generally, the Receivership and Receivership Estate, investments, and filing claims.
- vii. Upcoming hearing dates to be conducted before the Court.

44. The website can be found at: northridgereceiver.alixpartners.com. The Receiver provided written notice of the website to all known investors.

45. As of the date of this submission, the Receiver and his professionals have received hundreds of telephone calls and other correspondence from investors.⁷ Since its inception, the vast majority of investor communications have taken place via the Northridge Receivership website discussed *supra*, which contains active information on the webpage and a hotline for investors to call. The Receiver, with the assistance of AlixPartners, has responded to all inquiries submitted via the Northridge Receivership Portal through this Reporting Period.

IX. LIABILITIES/INVESTOR CLAIMS.

46. The Receiver is presently investigating the existence and nature of potential liability and investor claims. To the Receiver's current knowledge, 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].

47. In addition, the Receiver is currently working with AlixPartners to generate an efficient system through which claims may be asserted.

X. LIQUIDATED AND UNLIQUIDATED CLAIMS

48. The Receiver's investigation of liquidated and unliquidated claims is ongoing. With the assistance of AlixPartners, the Receiver anticipates seeking approval of a claims process in the next reporting period.

XI. OPEN LITIGATION

49. In accordance with the Receivership Order, the Receiver is in the process of (a) apprising relevant courts of the stay of litigation entered under the Receivership Order or (b) otherwise seeking relief from the stay to permit such actions to continue (e.g., where assets of

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 responses in due course.

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)). No other open litigation exists.

XII. RECEIVERSHIP ASSET DESCRIPTION

50. The assets of the Receivership Estate are described in the attached Liquidation Plan as well as 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 will be anticipated being retained.

XIII. KNOWN CREDITORS

51. As set forth above, 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

54. To date, the claims administration process has yet to commence.

XV. RECOMMENDATION FOR CONTINUATION OF RECEIVERSHIP

55. 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: January 30, 2020

Respectfully submitted,

N. Neville Reid, Receiver

By: /s/ Ryan T. Schultz_____

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