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SEC v. Champion-Cain, ANI Development, LLC, et. al.

Dear Investor/Creditor,

Re: October 2019 Monthly Interim Investor Update in the matter of Securities and Exchange Commission, Plaintiffs, v. GINA CHAMPION-CAIN and ANI DEVELOPMENT, LLC, Defendants, and American National Investments, Inc., Relief Defendant, United States District Court, Southern District of California, Case No. 3:19-cv-01628-LAB-AHG

As you are most likely aware, on September 3, 2019, I was appointed receiver of ANI Development, LLC, American National Investments, Inc. and their subsidiaries and affiliates (the “Receivership Entities”) pursuant to an Order entered by the United States District Court for the Southern District of California in an action filed by the Securities and Exchange Commission. We have asked the Court to approve the filing of quarterly Receiver’s Reports, which will reflect, amongst other things, updates on all known assets, liabilities, receipts and disbursements for the receivership estate. Such approval is pending. In order to keep you informed, we intend to provide a monthly update (for the months in which a quarterly report is not filed with the Court) to investors¹ to highlight the activities, progress and status of the receivership estate and its assets, and to address frequently asked questions. As previously advised, however, the receivership website, www.anireceivership.com, will be the main source of communication regarding the ongoing status of the case. If you have not already done so, we invite you to sign up to receive updates at the bottom of the website. The information herein is not meant to be comprehensive, is subject to change and is based on the best information we have at this time. It is still very early in the case; records are still being gathered and the discovery and plan for recovery of the assets is an ongoing process.

1) Chicago Title Company Litigation

At this point, the Receiver is aware of two lawsuits filed by investors against Chicago Title Company and other parties concerning alleged losses suffered in connection with, among other things, the alleged ANI Development, LLC (“ANI”) investment scheme. One case was filed by Ovation Finance Holdings 2 LLC, Ovation Fund Management II LLC, and Banc of California, and another case was filed by two individual investors on behalf of a proposed class of investor victims. Copies of both complaints are being posted to the receivership website.

With counsel, I am exploring whether to file an action against Chicago Title Company on behalf of certain of the Receivership Entities. Prior to making any decisions concerning litigation, however, I will need to complete our investigation into the facts surrounding ANI's business and the activities of its principals, including Gina Champion-Cain, as well as accounting work related to the total amount of funds paid to and from the Receivership Entities. If I decide to proceed with litigation, I will seek Court authority to do so.

It should be noted that whether or not I bring independent claims against Chicago Title Company, I will likely seek the cooperation of all litigants with regard to the claims and distribution process in order to achieve a fair and equitable scenario for all investors and creditors.

2) Operational Overview

To reduce administrative costs, the Receivership Entities are operating at very efficient staffing levels. With four operating restaurants, two active hospitality agreements (transitions for which are underway), an operating vacation and residential rental business, and a co-working office business, our bi-weekly payroll is now under \$175,000.² This amount will continue to decrease as staff works through the numerous tasks associated with the transition, including but not limited to restaurant closure tasks (including human resources tasks associated with the staff reduction) and operational changes and improvements. In addition, we continue to work with staff to fine tune insurance coverages, consolidate and prepare the voluminous personal property assets for sale, resolve the remaining business concepts (e.g. clothing brand and other retail products, chocolates, CBD products, etc.), and evaluate the intellectual property associated with the businesses.

3) Real Estate Overview

Since the beginning of the case, we have been working diligently to obtain and assess the estimated market values, mortgage balances and terms, and other obligations (if any) for all of the real estate in the receivership estate. Such analysis is critical to determining the next steps and the options for maximizing value, to the extent possible, for each asset.

Consistent with modern real estate practices, most properties that are listed for sale are listed with local brokers. Prior to my engagement, three properties had been listed for sale with local brokers and escrow was already open. For each of the properties already under contract, the contracts were reviewed to determine whether both the listing terms and the purchase contract terms were representative of the market. Additionally, buyers were asked to sign an amendment allowing for an overbid auction (discussed further below in 28 USC § 2001) to ensure we achieve the highest price possible for the sale.

For each new listing, I, or a member of my staff, interviews several qualified brokers and solicits

proposals which reflect the broker's recent and relevant performance, their estimates of property value (BOVs), marketing plan, and listing terms. Where possible, the brokers terms are negotiated to ensure that the listing and associated commissions are consistent with or below market rates. Ultimately, payment of the broker's commissions will be presented to the Court for approval.

4) Sales of Real Property and Overbidding (28 USC § 2001)

The sale of real property in an equity receivership must comply with 28 USC § 2001. As indicated in the motions already filed, we will follow a hybrid approach that incorporates the requirements of Section 2001 with modern real estate sales practices. In practice, this means that, in most cases, (1) we hire a broker to widely market the property, (2) a buyer is secured (i.e. a purchase contract is signed and contingencies are released), (3) we then file a motion with the Court seeking approval of the sale, (4) while we publish a notice in a local newspaper advertising the sale and notifying potential overbidders of the opportunity to bid for the property at a price higher than the buyer (we publish the notice for four consecutive weeks), and (5) if an overbidder presents a qualified bid, then (6) we hold an auction at which the original buyer and all qualified overbidders are allowed to bid. If there are no qualified overbidders, then we simply ask the Court to confirm the sale to the original buyer. If there is an auction, we ask the Court to approve the sale to the winner of the auction and, if there are multiple overbidders, we also ask the Court to approve a backup buyer (just in case our auction winner does not close the sale). Once the court order is entered, we proceed to close the transaction just like any other real estate sale.

5) Asset Highlights

As mentioned before, this report is not intended to be a comprehensive description of all receivership estate activities, but rather to provide highlights for the various assets with notable updates.

- a. Vacation Homes Owned – Six of the eight beach rental homes are listed with a qualified broker who is active in the Mission Beach market and who agreed to very competitive commission terms.
 - i. 4205 Lamont St. #12 – This unit is under contract and continues to be marketed. Public notice was published for 4 consecutive weeks and a hearing to approve the sale is scheduled for December 5, 2019. The motion for approval is posted on the receivership website.
 - ii. 1617 Thomas Avenue – This property is under contract and continues to be marketed. Public notice is being published for 4 consecutive weeks and a hearing to approve the sale is scheduled for December 9, 2019. The motion for approval is posted on the receivership website.
 - iii. 805 Brighton Ct. – This property is under contract and the buyer is conducting their due diligence. Once all contingencies are waived, I will seek court approval of the sale pursuant to the sale process described above. We are continuing to develop overbidder interest throughout the process.
- b. Mixed Use and General Residential Real Property Owned – We continue to operate the residential rentals and are working with existing tenants to bring lease rates to market standards or locating new tenants, as applicable. Once leases are updated, the properties

- to engage a broker to sell the leasehold interest in this property along with the FF&E associated with the location.
- iv. 3779 Mission Blvd (Parking Lot) – As part of the restaurant portfolio, we are working to engage a broker to sell the leasehold interest in this parking lot situated amongst the restaurant holdings.
 - v. 2855 Perry Road (Fireside by the Patio) – We have terminated the leasehold interest; however, the FF&E therein serves as collateral for a SBA loan, so such FF&E was not removed. We did, however, obtain an itemization and estimated values for all FF&E remaining (to ensure the value thereof did not exceed the balance owing on the SBA loan). We expect the lender will sell the FF&E and apply the proceeds to the loan.
 - vi. The Patio Marketplace Restaurant Concept – this general concept was to provide a food and beverage establishment amenity to large office buildings in San Diego, Orange County and Los Angeles. The Receivership Entities do not own any of the real estate or FF&E associated with these operations. The concept locations' remuneration varied, but for the most part involved prepayment for start-up costs (reimbursed), a minimal management fee and an obligation to absorb any operational losses. Moreover, it was difficult to obtain operational efficiencies as the locations were largely outside of ANI's core San Diego market. Accordingly, we have terminated contracts and/or are working with the respective building owners to transition the operations and/or management to new operators, to collect on start-up cost reimbursements and to attempt to negotiate operational loss reimbursements.

6) Answers to Other Frequently Asked Questions

- a. Am I on the list of investors?

If you have signed up to the receivership website, then you can be sure we have your contact information and you will receive notices that go out to investors. If your email address or physical address changes during the receivership, be sure to notify us by email to ani@ethreadvisors.com.

- b. How do I file a claim? Where do I submit my documents?

Claims do not need to be submitted at this time. At the appropriate time, we will seek approval of procedures for the administration of claims and a distribution plan. Once the procedures have been approved, you will receive notice and instructions regarding submitting claims.

- c. Why aren't all the court documents on the receivership website?

The receivership website is intended to provide relevant information for investors about the receivership, but it is not a duplicate of the District Court's electronic docket system. If investors want to review pleadings and orders as they are filed with the District Court, they can obtain a PACER log in and password from the District Court.

- d. Why aren't I receiving updates?

If you have subscribed to the receivership website, then you can be sure we have your contact information and you will receive the monthly and quarterly notices that go out to investors.

- e. Who has possession of ANI's records and is the Receiver researching those records?
We have obtained forensic images of ANI computers and servers at takeover, have possession and control of ANI records and we are using them as we discharge our duties.
- f. Is Ovation Finance Holdings part of the receivership?
Ovation Finance Holdings is not a party to or an entity in the receivership.
- g. Should I join the class action lawsuit against Chicago Title and other parties?
We are aware that some investors have been contacted regarding a class action lawsuit. We cannot advise investors on their legal rights or whether to retain counsel. Please also see my comments above regarding the two lawsuits against Chicago Title and other parties.
- h. What is the timeframe for resolution? How much will I recover?
It is too early in the receivership to be able to estimate when distributions to investors will be made or how much investors will recover. The Court-ordered accounting and the Court approval of a distribution plan and claims process must be completed first.
- i. Will promised returns on current promissory notes be addressed in the claims process?
No decisions regarding investor claims have been made yet.

It is also important to note that while we continue to gather records, we have commenced the process of performing an accounting of all funds transferred to and from the Receivership Entities, how such funds were moved between and among the Receivership Entities, and where the funds were transferred to by the Receivership Entities. While it will take some time to complete the accounting, it is a critically important part of the receivership. It will not only continue to assist with identifying assets and prospects for recovery but will also provide the foundation for the claims process and an equitable distribution of receivership estate assets.

I hope this update provides you with meaningful information as we progress. As always, feel free to reach out to me and my staff at ani@ethreadvisors.com with questions or concerns. We will respond as soon as practical.

Sincerely,



Krista L. Freitag
Receiver

¹ Please note that reference to investors generally is not intended to pre-judge the nature of how funds were paid into the Receivership Entities or the nature of any potentially resulting claims. But for clarity in discussion, the term "investor" will be used throughout this update.

² Bi-weekly payroll was approximately \$550,000 (not including benefits) with approximately 70 corporate-level employees at the time of my appointment.