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

Dear Investor/Creditor,

Re: November 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 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 (the “Court”) in an action filed by the Securities and Exchange Commission. The Court has approved 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. However, 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. The receivership website, www.anireceivership.com, will continue to 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. While progress is being made, 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) Operational Overview

The Receivership Entities continue to operate 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 \$150,000.² We do anticipate that this amount will continue to decrease as staff works through the numerous tasks associated with the transition, including 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, and evaluate the intellectual property associated with the businesses.

2) Real Estate Overview

We continue to work diligently to assess the 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. We have listed certain assets for sale, and are actively engaged and making significant progress with the various lenders who encumber the real estate, negotiating reasonable accommodations in resolution of delinquent payments (caused from the lack of cash on hand) and communicating ultimate collateral disposition plans as applicable.

3) 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 – The two beach homes not listed are likely to be soon. In addition to the prospective sale updates below, we are fielding inquiries on the listed vacation homes and anticipate additional activity on those assets in the near term.
 - i. 4205 Lamont St. #12 – This unit was under contract for sale at the time of my appointment. The overbidding requirements of 28 USC § 2001 were met, and no overbids were received. We have received Court approval of this sale and are now moving towards closing with buyer. The loan on this property was cross-collateralized (one loan covers various assets) with a different residential property and certain Surf Rider personal property. This sale is expected to free up equity such that we are currently estimating six figure sales proceeds when all three assets have been sold.
 - ii. 1617 Thomas Avenue – This unit was also under contract for sale at the time of my appointment. The overbidding requirements were met and no overbids were received. We have received Court approval of this sale and are now moving towards closing with buyer. The loan on this property was cross-collateralized with various other Mission Beach vacation rentals/homes. The sale of all of these properties is estimated to recover between \$3,500,000 and \$4,000,000 combined for the receivership estate.
 - iii. 805 Brighton Ct. – This property is under contract for sale, the buyer has released contingencies and we have filed a motion for approval of the sale (the motion is

scheduled to be heard on January 24, 2020). Concurrently with seeking the Court's approval, we continue to seek overbidder interest. The loan on this property is the same as the Thomas Ave property discussed above, so this sale is expected to contribute to the recovery of the same \$3,500,000 to \$4,000,000 for the receivership estate.

- 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 locate new tenants, as applicable. Once leases are updated, the properties will be more valuable for eventual sale. We are currently interviewing brokers who specialize in multi-family and mixed-use asset sales to assist in developing our sales strategy on these assets. We anticipate listing most of these properties in the near term; for a variety of reasons, a few of the listings are expected to push into the second quarter of 2020.
 - i. 83 Royal Saint Georges Way – This property is under contract for sale, the buyer has released contingencies and we have filed a motion seeking Court approval (the motion is scheduled to be heard on January 24, 2020). Concurrently with seeking approval, we are seeking overbidder interest. We anticipate that this sale will recover approximately \$1,260,000 for the receivership estate.
- c. Restaurants – We have engaged two brokers to market and sell the restaurants owned (Patio on Lamont, Saska's, Himmelberg's, Surf Rider La Mesa, Surf Rider Crown Point and Swell Coffee shop) and restaurants leased (Surf Rider Mission Beach, Surf Rider Ocean Beach, Bao Beach) for sale. Included in this grouping is our leased and owned interest in two parking lots located within a block or two of Saska's restaurant. These parking lots provide needed parking to support that restaurant and otherwise generate modest revenue. We are currently gathering due diligence items which will assist buyers in their purchase analysis and anticipate having a call for offers deadline at the end of January 2020 for all restaurants and the two parking lots.
- d. General Commercial Real Property
 - i. 132 Keller Street, Petaluma, CA – This unit was under contract for sale at the time of my appointment. The overbidding requirements were met, and no overbids were received. We are currently awaiting Court approval of the sale. Prior to transition, the property had been split from one parcel containing a restaurant space (132 Keller Street) and a co-working office space (140 Keller Street), into two parcels to allow the separate disposition of each property. However, one loan continues to encumber both properties. The sale of this property will free up significant equity such that the sale of 140 Keller Street is anticipated to recover high six-figure to low seven-figure net proceeds for the receivership estate.
 - ii. 140 Keller Street, Petaluma, CA – This property contains a co-work office space, where dozens of tenants can rent office space by the day, week or month, with various accommodation options (from open space in a community table to reserved desks or small offices). A listing agreement has been entered into for this property.
- e. Other Investments/Loans – Since my initial report was filed, we have identified 11 additional investments and/or loans made by the Receivership Entities. We are working to assess the value and prospects for recovery from such investments.

f. Personal Property and Liquor Licenses

- i. We have filed a motion seeking authority to sell personal property assets, including liquor licenses. This motion is set for hearing with Magistrate Judge Goddard on January 24, 2019. The Court has authorized the engagement of auctioneers and brokers to assist with these sales.
- ii. The Patio on 101 – About six months prior to my appointment, this restaurant closed, and ANI struggled to come to an agreement with the landlord. My counsel and I have negotiated a settlement with the landlord to purchase the furniture, fixtures and equipment ("FF&E") located at the premises, as well as the liquor license; such settlement includes a release by the landlord of claims for rents or damages against the receivership estate. The total amount to be paid by the landlord is \$120,000. We have opened escrow for this sale and have filed a Joint Motion seeking Court approval.

g. Real Estate Leased – Other than as noted below (and above for The Patio on 101), we have removed the FF&E and terminated all leasehold interests including one office location and five storage locations.

- i. 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). Lender has published a notice to sell the FF&E and we expect proceeds therefrom will be applied to the loan.
- ii. Patio on Goldfinch – My counsel and I have negotiated a settlement with the landlord to purchase the FF&E located at the premises, as well as the liquor license; such settlement also includes a release by the landlord of claims for rents or damages against the receivership estate. The total amount to be paid by the landlord is \$152,000. We are in the process of opening escrow for this sale and thereafter intend to seek Court approval.
- iii. 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. We continue to work with the respective owners to transition operations/management, to recover ongoing costs and to collect on receivables associated with reimbursable expenditures.

4) Answers to Other Frequently Asked Questions

a. What if I invested through an IRA?

A primary purpose of an IRA is their tax benefits. However, we cannot provide individual tax advice. Please seek the guidance of your qualified tax professional or financial advisor. We will reach out to known IRA administrators to advise them of the receivership.

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 practicable.

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.

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You are receiving this email because our records indicate you invested in, loaned funds to, or had other financial dealings with the entities in Receivership.

www.anireceivership.com

Our mailing address is:

ANI Receivership 501 West Broadway, Ste 290 San Diego, CA 92101 USA

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