



***Robert Sonnenschein, et. al. v. PVPE, LLC, et.
al.***

CV 2013-012420

Receivership Report

Of

Peter S. Davis

Court Appointed Receiver

January 7, 2014

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1.0 Background

On September 27, 2013, Lynne H. Anthony Revocable Trust dated 11/30/2001, Lynne H. Anthony as Trustee; Robert Sonnenschein, as an individual; Gerald R. Hale, as an individual; C. Scott Anthony, as an individual; Janie B. Hale, individually and as Trustee of Janie B. Hale Revocable Trust dated 11/4/1994; Carolyn Sue McMillon, as an individual; Larry McMillon, as an individual; James Stanley Powers, as an individual; and Patricia Ann Powers Trust, Patricia Ann Powers as Trustee (collectively the “Plaintiffs”) filed a Plaintiff’s Verified Complaint for Receivership (“Complaint”) against Palo Verde Capital, L.L.C., an Arizona limited liability company; PVPE, L.L.C., an Arizona limited liability company, Palo Verde Fund, L.P., a Delaware limited partnership; Palo Verde Private Equity Fund, L.P., a Delaware limited partnership; and Anthony R. Stacy, a married man (“Defendants”).

Plaintiffs alleged in both the Complaint and in the Amended Complaint (“Complaints”) for Receivership (“Amended Complaint”) that they relied on and trusted Defendant Stacy as their investment advisor to properly manage monies entrusted to him. The Complaints further allege that Defendant Stacy represented to Plaintiffs that the Fund placed its assets in both liquid and conservative investments. As Stacy represented, and according to an updated Palo Verde Fund Confidential Private Placement Memorandum dated May 7, 2009 (the “May 2009 PPM”), the stated purpose of the Fund was to invest primarily in publicly traded U.S. securities, with only a small portion invested in illiquid “alternative investments”. Mr. Stacy represented that the General Partner, which he controlled, would use its “reasonable best effort to ensure that the aggregate value of the Partnership’s alternative investments represent no more that 35 percent of aggregate value of all of the Partnership assets.”

The May 12, 2011 Amended and Restated Limited Partnership Agreement (“May 2011 Partnership Agreement”) contained even stricter limits on the investments that Palo Verde Fund, L.P. could utilize, stating that the General Partner could not invest more than ten percent of the Fund’s assets in unregistered securities.

Plaintiffs have alleged subsequently learning that the Fund materially deviated from its stated purpose by investing nearly all of its assets in illiquid, private equity ventures (“Alternative Investments”). A December 31, 2009 audit of the Fund by McGladrey LLP (completed in September 2012) showed that Alternative Investments comprised 75% of the Partnership’s capital.

This report outlines the analyses performed by the Receiver to date, and includes information discovered by the Receiver from reading documents, interviewing individuals, and other information. The Receivers analyses are ongoing; therefore, information contained herein is preliminary and tentative, and subject to change.

2.0 Appointment of Receiver

On October 9, 2013, Peter S. Davis (“Receiver”) of Simon Consulting, LLC (“Simon”) was appointed Receiver over PVPE, LLC (f.k.a. Palo Verde Capital, LLC, f.k.a. Paragon Capital Advisors, LLC); Palo Verde Fund, L.P.; and Palo Verde Private Equity Fund, L.P., (“the Fund”) with full power of an equity receiver. The appointment of the Receiver was by stipulation of the Plaintiffs and Defendants. The Receivership Order requires the Receiver to, among other things, indentify, locate, recover, take control of and liquidate the Receivership Assets.

2.1 Receivership Entities

There has been some confusion regarding the exact entities that are encompassed by the Receivership Order. Adding to this confusion, the names PVPE, LLC and Palo Verde Capital, LLC have been used by Mr. Stacy for different entities at different times.

Paragon Capital Advisors, LLC (“PCA”) was formed in December 2005 as a single member Arizona limited liability company with Anthony R. Stacy as the manager and Paragon Financial Group, LLC the sole member. In January 2011 Mr. Stacy changed the name of PCA to Palo Verde Capital, LLC (“PVC”). Concurrent with this name change the First Amended Operating Agreement was executed, adding Paul Ross, Calvin Purdin and Martin Garber as Members. Mr. Stacy retained control with 52% ownership percentage, while Mr. Ross had 40%, and Messrs. Purdin and Garber held 4% interest each. This Palo Verde Capital entity again changed its name on November 1, 2011 to PVPE, LLC (See Graphic Overview as Exhibit 1). No additional changes to the Operating Agreement were made; ownership structure remained as noted above. This PVPE, LLC entity became the General Partner to Palo Verde Fund, L.P. and Palo Verde Equity Fund, LP; it is these three entities that are part of the Receivership Order (See Graphic Overview as Exhibit 2).

Coincidentally, Mr. Stacy formed PVPE, LLC in September 2011 as a single-member limited liability company with himself as the only Member. This entity is operated as a Registered Investment Advisor and changed its name to TRS Funds, LLC in October 2011, and then became Palo Verde Capital, LLC on November 3, 2011. The company remains a single-member limited liability company. Mr. Stacy and his attorney contend that this Palo Verde Capital, LLC entity is not and should not be part of the Receivership. The Receiver continues to investigate the financial activity between and among these entities (See Graphic Overview as Exhibit 1).

3.0 Receivership Activities

3.1 Receivership Bond

Pursuant to Section 4 of the Order the Receiver secured a \$5,000 bond on October 4, 2013.

3.2 Engagement of 3rd Parties

The Receiver retained (or is in the process of retaining) several entities to assist in administering the Receivership:

- Gutilla Murphy Anderson, PC – counsel to the Receiver
- Simon Consulting – Receiver’s firm; retained to assist in administering the Receivership, investigate assets, perform accounting analysis, etc.
- CamTech IT services – this firm is currently used by the Fund to maintain electronic data and email.
- David Cordell, Esq. – Mr. Cordell represents a member of the investor committee, but is also a specialist in the oil & gas industry. The Receiver has requested his retention to assist with the sale of a Receivership asset, Palo Verde Energy Fund, LLC. Mr. Cordell coincidentally offices in the same building as, and has a relationship with, the Bank of Oklahoma (the lender to Palo Verde Energy Fund) and as such is uniquely poised to assist in the sale of the asset and the management of the banking relationship.

3.3 Initial Meeting

On October 16, 2013 the Receiver and Simon conducted an initial meeting with Tony Stacy at 20645 N. Pima Road, Suite 140 in Scottsdale, AZ. During the meeting Mr. Stacy discussed the structure of the Fund entities as well as many of the Fund’s investments. Specifically, Mr. Stacy outlined 18 different investments that he termed “active”, which were defined as investments that needed some attention, but that could be liquidated by the Receiver to bring monies into the Receivership. Other investments the Fund had made were not discussed at this time; indeed Mr. Stacy defined them as “closed” – investments that had paid returns and were complete.

Mr. Stacy provided what he described as “all” hard-copy records related to the investments made by the Receivership entities at this meeting, but also clearly communicated that these records did not represent the entirety of the records related to the Fund. Mr. Stacy explained that the majority of records resided on a server located in Oklahoma. Mr. Stacy provided the contact information for the IT service he used to manage the server.

Also discussed was the matter of the \$75,000 payment to the Fund Mr. Stacy was to make as stated in the Receivership Order. At that time the payment had not been made, although it was due on October 14, 2013. Mr. Stacy said that he was working on getting the funds and would remit as soon as he was able. On October 23, 2013 the \$75,000.00 was delivered to the Receivership

3.4 Electronic Documents

As noted above Mr. Stacy provided the contact information for CamTech, his IT service provider. Simon Consulting staff notified Jimmie Cameron, owner of CamTech, of the Receivership and requested copies of any and all servers related to Receivership entities. Mr. Cameron noted that since the server was located in Oklahoma and Mr. Stacy and his staff were often not there a DropBox account had been created that contained information from the servers related to the investments made by the Fund. Mr. Cameron provided the Receiver and Simon staff access to this DropBox account so that files could be analyzed while he compiled server images.

The Receiver also requested, and received, electronic accounting data from Partners Admin, the accounting firm used by the Receivership entities from 2011 to present. A similar request was sent to Liccar & Co., the accounting firm used by the Fund prior to 2011; however, documentation has not yet been received. Further information regarding this is contained Section 4.0 – Significant Issues and Roadblocks.

3.5 Mail and Website

The Receiver obtained access to the Receivership Defendants website, and regularly posts information regarding the Receivership, including petitions and Court Orders. The website address is:

www.pvfunds.com

The site allows individuals to comment, and those comments are directed to Simon Consulting email for review and follow-up, if necessary.

Additionally, the Receiver took steps to have all mail related to Receivership entities forwarded to Simon Consulting offices. Correspondence that is unrelated to any Receivership entity is sent to Mr. Stacy.

3.6 Notification

The Receiver requested and received a list of all Receivership entity investors, as well as other interested parties, from Mr. Stacy. Notification letters were sent to each. The Receiver continues to send notification letters to parties who have done business with or have an interest in any Receivership entity, as they come to light.

3.7 Insurance

Pursuant to section 5(p) of the Receivership Order the Receiver identified the insurance necessary for the operation and management of the Receivership Defendants. Specifically, property insurance for the business address; property insurance for the single-family home owned by one of the Receivership investments; and Directors and

Officers liability insurance (“D&O”) for PVPE, LLC. None of the Receivership entities employ workers; therefore workers compensation insurance is not applicable.

The business address is insured by Palo Verde Capital, LLC, a non-Receivership entity. The Funds have effectively ceased operations; the address is used for Mr. Stacy’s other business ventures, therefore the Receiver did not transfer this policy into the Receivership name.

On November 12, 2013 the Receiver was notified by Mr. Stacy’s State Farm agent that the policy on the Palo Properties house (discussed in detail in Section 5.11 below) had lapsed in June 2013 due to non-payment. The Receiver reinstated the policy in his name and the property is now covered.

Little information has been provided to date regarding a D&O policy. Mr. Stacy has stated that he did have one at one time, but it has lapsed.¹ Mr. Stacy further stated that he attempted to contact the original broker but had not received a return call in response to his message. No further information has been provided; the Receiver continues to request more detail regarding this policy.

3.8 Investor Meetings

The Receiver is in regular communication with both the investor committee and all individual investors of the Fund. To date, the Receiver has conducted three (3) investor committee meetings. The Receiver also conducted a global investor meeting on December 18, 2013. Further, the Receiver intends to conduct a monthly teleconference with the investor committee, unless events require more frequency.

3.9 Banking

The Receiver identified one bank account for PVPE, LLC, residing at Chase Bank. Notification was sent to Chase to freeze the account and surrender all funds to the Receivership. Simon Consulting staff received confirmation from the Court Orders and Levies (“COAL”) department at Chase that the account had a zero or negative balance. This confirmation also specified a second account that hadn’t previously been disclosed. This account also had a negative or zero balance; no funds were therefore recovered.

In addition to the Chase bank account Mr. Stacy informed the Receiver that there was an American Express (“AMEX”) card in the name of Palo Verde Fund, L.P. but guaranteed by Paul Ross. The Receiver requested a freeze on the card and requested statements and documentation from AMEX. It was subsequently learned that the card had an approximate \$44,000 balance and had been sent to collection. The Receiver continues to work with Paul Ross and Tony Stacy to determine how the card was handled and who paid the bills.

¹ December 10, 2013 meeting at Simon Consulting offices between Tony Stacy, Ron Stone, Peter Davis, Paula Durham and Jessica Corn.

3.10 Initial Receivership Inventory Report

Pursuant to section 11 of the Receivership Order, the Receiver filed an inventory report with the court on November 8, 2013.

4.0 Significant Issues & Roadblocks

The Receiver has encountered several issues and roadblocks in the administration of his duties. First and foremost is the difficulty in obtaining accurate and timely information and documentation of the Receivership Entities. As previously noted Mr. Stacy did provide some paper documents to the Receiver at his initial meetings. However, this documentation has been found to be incomplete, making it extremely difficult to understand the history and current position of each investment. . Electronic data provided via the DropBox account and the imaged server did fill some gaps, but others remain. For example, Mr. Stacy was not able to provide a legible and complete copy of the lease related to the Palo Properties, LLC investment; each electronic copy of this document was barely legible and incomplete. Ultimately, this document was obtained from the individual currently leasing the property. Also, while the Fund's files may contain agreements associated with various investments, these agreements are often not executed by each party to the transaction, causing the Receiver to have to request fully executed documents from other parties. Lack of sufficient documentation has increased the time and efforts for the Receiver to determine the status of each investment.

In addition, while Mr. Stacy has been cooperative to date, full details of each investment has not been provided. For example, repeated requests have been made to Mr. Stacy to provide further detail on two loans made by the Fund totaling \$600,000; however, nothing has been received from Mr. Stacy to date.

Besides the noted documentation issues the Receiver has also had difficulty obtaining some of the accounting data related to the Receivership entities. Specifically, data related to Palo Verde Fund, L.P. from 2007 – 2010 and PVPE, LLC from 2007 to present.

Mr. Stacy has stated that Palo Verde Fund, L.P. accounting was performed by Liccar and Co., a Chicago based CPA firm. The Receiver notified Liccar of the Receivership and requested accounting documentation for the Fund for the years 2007 – 2010², and was immediately referred to their counsel, Edward J. Kozel. To date nothing has been provided; the Receiver has referred the matter to his counsel.

Additionally, accounting records related to the General Partner, PVPE, LLC, have not been provided. Mr. Stacy states that this data is commingled with accounting data for his other RIA, and as such must be separated.³ Mr. Stacy continues to work on this with

² November 14, 2013 email notification to Donald Pizzafarro, accountant at Liccar who worked on Fund matters.

³ December 10, 2013 meeting between Tony Stacy, Ron Stone, Peter Davis, Paula Durham and Jessica Corn at Simon Consulting offices.

his securities counsel Bob Mottern. The Receiver will continue follow-up on this matter until information is received.

5.0 Discussion of Assets Identified to Date

The Receiver has to date identified 27 Investments of the Fund which generally represent the universe of Receivership Assets in this case. [these 27 Investments do not include litigation claims of the Receivership Estate] As discussed above, during the initial interview and at various times thereafter Mr. Stacy remained focused on the 18 “active” investments of the Fund. The Receiver and Simon personnel performed a comprehensive analysis of the documentation and interviewed multiple related parties in order to gain an understanding of the background and current status of each investment. During this analysis nine additional assets were discovered, bringing the current total number of Receivership Assets for liquidation to 27.

A description of each asset, along with the activities conducted related to each, is found below.

5.1 Acumen Energy Solutions (f.k.a. American Energy Solutions)

The Fund currently owns 100% of Acumen Energy Solutions (“Acumen”)⁴; a Leawood Kansas based company that provides a comprehensive suite of professional energy management services tailored to owners/operators of commercial, industrial and institutional energy facilities.

The Receiver has analyzed hard-copy and electronic documentation and held several discussions with Paul Ross, CEO of AES/Acumen, regarding the company and the current status of business. This investigation revealed that the Fund initially invested \$1,000,000 into American Energy Solutions, Inc (“AES”) in August 2010 via a Convertible Subordinate Note. The Fund subsequently infused approximately \$3.3M of capital into the company through the purchase of an existing note with Arvest Bank⁵ plus various direct loans⁶. Further, the Fund guaranteed two loans worth \$2.2M that AES took out with CrossFirst Bank (“the Bank”).⁷

In August 2013 AES sold all of its assets to Acumen Energy Solutions, an Arizona corporation of which Receivership entity Palo Verde Private Equity Fund, L.P. is the sole shareholder. The purchase price was \$50,000, plus Acumen assumed the CrossFirst loans as part of the purchase agreement.⁸ The loans have been kept current since the Acumen transition. The Receiver was recently informed that the Receivership

⁴ Per the initial Shareholders Meeting Minutes dated June 14, 2013

⁵ According to the February 2011 Loan Sale Agreement between Arvest Bank and Palo Verde Fund, L.P.

⁶ Per various disbursement requests in the investment files

⁷ \$1.5M Guaranty dated August 17, 2011; \$700K Guaranty dated July 17, 2012

⁸ July 31, 2013 Asset Purchase Closing Statement

constitutes an event of default on both of the CrossFirst loans.⁹ The Receiver has had discussions with CrossFirst regarding this default during which the Bank communicated a desire to work towards an equitable resolution rather than seize the loan collateral and file suit against Acumen.¹⁰ The Receiver will continue to work with the Bank to draft a Forbearance agreement that is acceptable to both parties.

Reinvention Capital Advisors ("RCA"), an investment bank that focuses on the alternative and renewable energy and industrial technology sectors, was retained in August 2013 to identify a pool of viable purchasers for AES/Acumen. The RCA broker who is working this project believes that Acumen can fetch a significant price.¹⁰ He has identified 34 parties that are interested in purchasing all or part of Acumen; LOI's have been requested and were due by December 31, 2013. The broker expects that if a viable purchaser is found a sale could close by the end of Q1 2014.¹¹

The Receiver continues to work closely with Paul Ross on this investment, as it represents a good opportunity for the Receivership to obtain capital. Mr. Ross and RCA are working diligently to liquidate this asset for a fair and equitable price.

5.2 Aeromedical Collection Services

The Fund loaned \$250,000 to Aeromedical Collection Services ("ACS") in 2009.¹² ACS is a medical reimbursement management company specializing in EMT billing/collection services, with an emphasis on air ambulance providers. Medical Management Associates ("MMA") is a wholly owned subsidiary of ACS offering the same types of billing/collection services to traditional healthcare facilities.¹³ ACS/MMA entered into a contract to provide billing management services to a South Florida medical imaging firm¹³, and the loan was used by ACS/MMA to purchase capital items necessary to perform on the contract. The loan was a 3-year revenue participation loan whereby the Fund would receive, on a monthly basis, 15% of the revenues generated from the contract. The loan was underwritten by a personal guarantee from Dan Newman, owner of ACS, to reimburse the Fund \$250,000 plus 7% interest per annum.¹²

The Fund received only \$8,517 in contract-related payments from ACS before ACS/MMA lost the contract in July 2010.¹⁴ At that time, the outstanding loan balance of \$241,483 was transferred to a Promissory Note ("the Note") between Palo Verde Fund,

⁹ December 6, 2013 correspondence from CrossFirst Bank counsel Jay Shadwick at Duggan, Shadwick, Doerr & Kurlbaum, LLC

¹⁰ December 4, 2013 teleconference between Peter Shriver, Mary Valentine of CrossFirst, Jay Shadwick, Peter Davis and Paula Durham.

¹¹ December 6, 2013 teleconference between Alex Koles of RCA and Paula Durham of Simon Consulting.

¹² July 13, 2009 Agreement between Palo Verde Fund, L.P./Paragon Capital Advisors and ACS/MMA

¹³ ACS/MMA Contract

¹⁴ Per July 14, 2010 email from Paul Ross to Dan Newman and corroborated by Simon Consulting's analysis of receipt information found in the files.

L.P. and ACS, which was guaranteed by Dan Newman.¹⁵ ACS defaulted on this Note and in August 2013 a judgment was issued against ACS and Dan Newman.¹⁶

Mr. Newman filed for personal bankruptcy on September 3, 2013.¹⁷ Palo Verde Fund has been named a creditor in this case. On December 23, 2013 the Receiver filed a claim against the bankruptcy for the amount of the original judgment; \$215,857.79. The Receiver does not have an optimistic outlook for recovering anything further from this investment.

5.3 AF1 Investments, LLC

AF-1 Investments, LLC (“AF-1”) was established in December 2009 to facilitate the purchase, by Arena Football One, LLC (“the League”), of certain assets of the former Arena Football League (“AFL”) after that league filed for Chapter 11 bankruptcy reorganization.¹⁸ The League and AF-1 executed a Promissory Note (“the Note”) for \$6,400,000 in December 2009.

The Fund contributed \$1,350,000 of the \$6.4M loaned to the League.¹⁹ The \$6.4M loan was repaid in full, with interest, as of February 2012 and the Fund subsequently received their contribution, with interest.²⁰ The Fund maintains a 21.09% ownership in AF-1 Investments.

Rather than a straightforward sale of equity, this transaction is complicated by two factors, the terms in the \$6.4M note between AF-1 and the League and the financial condition of the League. The Note requires the League to pay AF-1 50% of any and all net expansion/licensing revenues above \$1,500,000 received each year for the five years after the Note is satisfied, decreasing revenues and making these activities less attractive for both the League and any potential expansion teams. Additionally, according to League representatives, the League is in such poor financial condition that the upcoming 2014 season is in jeopardy.

According to Mr. Stacy, and corroborated by current League CFO Rob Canton,²¹ prior to the Receivership an offer was made by a representative of the League to purchase the Fund interest in AF-1 for \$100,000. The Receiver requested Mr. Canton discuss sale of this equity with other members of League leadership and tender an offer to the Receivership for the Fund’s interest.²⁰ No offer or information has yet been received from Mr. Canton; the Receiver plans to follow-up on this very soon.

¹⁵ July 1, 2010 Promissory Note between ACS/MMA and Palo Verde Fund, L.P..

¹⁶ Suit Number 569237, Sec. A, 1st Judicial District Court, Caddo Parish, Louisiana

¹⁷ Case No. 13-12245, US Bankruptcy Court, Western District of Louisiana Shreveport Division

¹⁸ December 15, 2009 AF1 Operating Agreement, Section 2.4

¹⁹ December 15, 2009 AF1 Operating Agreement, Schedule 1.1

²⁰ Payment worksheet included in the electronic files. Corroborated by Paul Ross in a December 5, 2013 email.

²¹ December 11, 2013 teleconference between Peter Davis, Paula Durham and Rob Canton.

5.4 Aviary China II, LLC

The Fund invested \$250,000 in Aviary China II, LLC (“AC II”) in January of 2009.²² AC II was organized to raise capital that was loaned, via Convertible Note Agreement (“the Note”), to a company called BayPeak, LLC for the purpose of completing a reverse merger and listing two privately held Chinese companies on a US Stock or OTC exchange.²³ The Note paid an interest rate of 5% per annum and was convertible into shares of the targeted acquisition companies.²⁴ The structure provided debt security with an option to convert debt into new equity/public shares on the exchange. The goal of the investment was for the Fund to be repaid through publicly traded equity once the companies were publicly listed.²⁵

The Chinese companies specifically supported by AC II were Trunkbow International Holdings (“TBOW”) and Golden Dragon Travel (“GDT”).²⁶ TBOW succeeded in going public and is now traded on the US Stock Exchange. The Fund received a share distribution and subsequently liquidated their equity in TBOW in April 2011. GDT, however, failed to achieve a listing. The Fund has not received any financial distribution related to GDT from AC II to date.

The Receiver is not optimistic regarding the liquidation of this asset. First and foremost is the fact that the underlying investments are privately held Chinese companies with little impetus to cooperate with foreign investors. Additionally, the Fund is not a direct shareholder of GDT making it difficult to engage directly with the underlying Chinese entities, which appear to have discontinued communication with foreign investors anyway.

The Receiver is working with AC II Management and other GDT shareholders to determine whether there is an appropriate and effective course of action to liquidate this investment. The Receiver has consulted with various parties, including legal counsel, to determine what might be the best method to get the attention of the Chinese entities. At this time the options appear both limited and costly.

5.5 Aviary China III, LLC

The Fund purchased a 45% preferred equity stake in Aviary China III, LLC (“AC III”) in October 2009 for \$1,000,000.²⁷ The capital raised by AC III was used to acquire shares of common stock in Golden Dragon Travel (“GDT”), the same company noted in AC II above. The shares were acquired privately through a warrant agreement with The Aviary, LLC.²⁸

²² January, 2009 Subscription Agreement

²³ April 2008 Operating Agreement, Section 1.4

²⁴ Aviary II, LLC Investment Summary document

²⁵ Pre-public Investment Platform document included in the investment file

²⁶ Per Jeff Hahn on November 5, 2013 total investible cash in ACII was split as follows: \$1,000,000 into GDT and \$550,000 into TBOW.

²⁷ 2012 Schedule K-1

²⁸ October 2009 Aviary China III Private Placement Memorandum

The equity is structured with a 15% preferential return on outstanding capital, a priority return of capital, and 70% of AC III's profits in the event of distributions and sale and/or a liquidity event.²⁶ The goal of this investment was to acquire private Chinese companies with a growth rate of at least 35%, create liquidity within 18 months through the reverse merger process, and to subsequently achieve double-digit rates of return.²⁹

As noted above, GDT failed to achieve public status and remains a private Chinese entity. The Fund has not received any financial distribution from AC III to date; AC III holds all shares in GDT. The Receiver is not optimistic regarding the liquidation of this asset for all of the same reasons outlined in the AC II information above.

5.6 BOAI (Asia Leechdom)

The Fund purchased 386,454 shares of common stock plus warrants to purchase 38,646 additional shares of common stock in Asia Leechdom Holding Corporation ("Asia Leechdom") for \$1,000,000 in April 2010. Asia Leechdom is a US corporation that, through another US holding company, wholly owns Tianjin BOAI Pharmaceuticals, Co. Ltd ("BOAI"), a privately held Chinese pharmaceutical company.³⁰ The Fund's shares represent direct ownership of approximately 1% in Asia Leechdom.³¹

The investment strategy involved taking advantage of BOAI's conversion from a People's Republic of China private company to a public company listed on the US Stock Exchange. BOAI produces and distributes pharmaceutical products and medical supplies throughout China, as well as North America, Europe and East Asia. BOAI has two distinct lines of business: Specialty Pharmaceutical distribution and manufacturing/sales of traditional Chinese medicines ("TCM"). BOAI's portfolio of western medicines and branded TCM products allows it to capitalize on both traditional medicines used in Chinese households and western medicines used in China's healthcare system.³²

In order to purchase equity in BOAI, the Fund borrowed \$1,000,000 from Bay Peak, LLC ("the Loan")³³. The Loan was structured with a 10% interest rate and a 90-day term, and was allegedly secured with the 386,454 BOAI shares that were eventually purchased with the proceeds. To date the Fund has made \$511,525.82 in payments against the loan, the last of which was made in June 2012.

After liquidating 168,538 shares the Fund currently hold 217,916 shares of common stock and all of the original warrants purchased.³⁴ In addition, the outstanding amount on the Loan is approximately \$815K, with a per diem interest rate of approximately \$225.00.³⁵

²⁹ Aviary/HPCG Asia Fund China-Focused Pre-Public Investment Platform

³⁰ Asia Leechdom Form 10

³¹ Per BPAC6-VT French-Combined Register and Capitalization Table provided by Chris Jensen of Aviary, LLC

³² Per the Investment Information Memo sent by Bay Peak to prospective investors

³³ April 9, 2010 Promissory Note between Palo Verde Fund, L.P. as Borrower and Bay Peak, LLC as Holder.

³⁴ Per the February 2013 stock certificate.

³⁵ Per Cory Roberts, Principal of Bay Peak, \$511,525.82 has been paid on this loan to date.

As is the case with the AC II and AC III investments discussed above, the market for these types of investments collapsed before BOAI could go public on a US Exchange. Foreign investors are left in a tenuous position; owning shares in a US holding company that wholly owns a private Chinese company does not offer foreign investors much power to get any return on investment. Attorneys familiar with situations like this state that there are not many options to choose from and those that do exist are costly and time consuming. The Receiver is not optimistic regarding the liquidation of this asset.

5.7 Empire Financial Services, LLC

The Fund purchased 100% of the stock in Empire financial Services, Inc. (“EFS”) in July 2009 for \$1,350,000 and became the exclusive owner of the company.³⁶ EFS has been in business since 1992 and provides leasing and loan services to both businesses and municipalities throughout Oklahoma. The Fund purchased the company with the goal of annual distributions in the double-digits. The Fund further expected to grow the business over a 3-5 year time period and then sell at a profit.

EFS performance has been up and down since acquisition.³⁷ According to Ronnie Herron, acting CEO, they are having trouble growing the business due to lack of capital.³⁸ Information provided to the Receiver by Investors in the Fund suggests that monies have been taken out of EFS and used for other investments; this has been confirmed to some extent by Tony Stacy. For example, the \$50K used by Acumen Energy Solutions to purchase the assets of American Energy Solutions came from a distribution from EFS.³⁹ An analysis of EFS’ 2013 financials reveals approximately \$400,000 worth of Current Assets that are not directly related to EFS, including office sharing expenses incurred by Palo Verde Fund, L.P. when they shared office space with EFS; notes to Palo Verde Capital, LLC and Tony Stacy; a note to NephroTech initiated by Tony Stacy; and an as-yet undefined note of \$50,000.⁴⁰ Documentation related to all of these transactions was requested by the Receiver and will be analyzed upon receipt. The Receiver considers these items additional Receivership assets.

Additionally, the Receiver and Simon Consulting continue to analyze other documentation and financial information in an effort to determine exactly what distributions were made from EFS and why.

The Fund engaged GWCM, LLC as a consultant to sell EFS.⁴¹ There have been several interested buyers but no offers have been received by the Receiver to date.

³⁶ July 14, 2009 Stock Purchase and Sale Agreement

³⁷ Documentation included in the files indicates first year or two performance was not as expected. Ronnie Herron stated that 2012 was a great year, however, due to several large deals coming through in Q4.

³⁸ November 13, 2013 teleconference between Ronnie Herron, Peter Davis and Paula Durham

³⁹ December 10th meeting at Simon Consulting offices between Tony Stacy, Ron Stone, Peter Davis, Paula Durham and Jessica Corn.

⁴⁰ Per Ronnie Herron in a December 19, 2013 teleconference

⁴¹ June 2013 Consulting Agreement between GWCM, LLC and Palo Verde Private Equity Fund, L.P..

5.8 FF Arabian, LLC

FF Arabian, LLC (“FF-A”) was formed to develop, partially finance, and arrange domestic distribution for various Hollywood movies.⁴² The LLC initially focused on a movie entitled “Arabian Nights”⁴³, but an amendment to the LLC Agreement changes the projects to “Thunder Run” “Race to Save Nome” and a third, unnamed movie.⁴⁴ According to Tony Stacy FF Arabian is currently focused on two movies entitled “Thunder Run” and “Buck Rogers”.⁴⁵

According to an analysis of available documentation, The Fund contributed a total of \$8,250,000 to FF Arabian between July 2010 and August 2011.⁴⁶ In December 2010 \$4,000,000 was temporarily invested, by FF Arabian, with Palo Verde Funds, L.P., who was to return the capital plus earnings to FF Arabian on or before March 15, 2011.⁴⁷ The Receiver is still researching the disposition of this \$4,000,000; there is disagreement between Tony Stacy and Paul Ross (a member of the General Partner) as to how these funds were treated once Palo Verde received them. What is not in dispute is that Palo Verde Fund, L.P. was left with a final capital contribution of \$4,250,000, representing a majority equity percentage in FF Arabian of 53.072%.⁴⁸

In October 2012, the Fund, along with three other members - Patterson Thoma Investment, Doug MacGregor and One Longhorn (collectively, "the Members") - executed an agreement to sell their interest in FF-A to Freedom Films, LLC for \$7,812,500.⁴⁹ Freedom Films defaulted on the agreement causing the Members to file suit in Collin County, Texas for breach of contract.⁵⁰

As noted above the general consensus is that FF Arabian was focused on the films “Thunder Run” and “Buck Rogers”. “Thunder Run” is reportedly in production but status of the film is unknown at this time. Buck Rogers is in pre-production according to a December 2012 status report provided by Freedom Films.

Current understanding is that the asset here consists of domestic distribution rights to the films in question; however, because neither film is complete, in fact one has not even begun production, the Receiver is not optimistic about the value of the asset.

⁴² April 2010 Limited Liability Company Agreement of FF Arabian

⁴³ July 2010 Limited Liability Company Agreement

⁴⁴ According to notes in the file this third movie was entitled “Now Is the Winter”. A July 31, 2011 email from Brian Presley to Tony Stacy contemplates replacing “Now Is the Winter” and “Race to Save Nome” with “Buck Rogers”; however there is no amendment to the Company Agreement to memorialize this. Nevertheless, all parties the Receiver has spoken with state that “Thunder Run” and “Buck Rogers” are the movies related to the LLC.

⁴⁵ November 21, 2013 meeting with Tony Stacy and Ron Stone at Simon Consulting offices

⁴⁶ Total of wire requests found in the files.

⁴⁷ December 2010 FF Arabian, LLC Action by a Majority in Interest of Members

⁴⁸ October 1, 2011 Capital Table included with the Second Amendment to the Limited Liability Company Agreement of FF Arabian, LLC.

⁴⁹ October 2012 Membership Interest Purchase Agreement

⁵⁰ Palo Verde Fund et al v. Freedom Films, LLC

The Texas lawsuit has been put on hold until the Receiver has had an opportunity to analyze documents that are forthcoming from Freedom Films.

5.9 HPCG Hospital Investments, LLC (“HHI”)

HHI was formed to provide financing in the form of loans to HMC/CAH (“HMC”) for the purpose of acquiring and operating acute care hospitals in rural areas throughout the Midwest that have been certified as Critical Access Hospitals (“CAH”) by the Center for Medicare and Medicaid Services.⁵¹ At the time of HHI’s involvement, HMC already owned seven of these hospitals and was slated to purchase up to 50 more.⁵² The expectation was that HMC would acquire, refurbish and run these hospitals profitably, then sell HMC to a larger healthcare management system at a profit.⁵³ Members of HHI were to earn a preferred return of ten percent with warrants in HMC that could be converted into common stock. The Fund contributed a combination of \$1,000,000 in common equity and a \$1,000,000 term note to HHI in March 2009.⁵⁴ A second term note for \$660,000 was executed in December 2009.

Differences in operational management between HHI and HMC resulted in a lawsuit filed by HMC against HHI in July 2011, and a subsequent countersuit by HHI.⁵⁵ HMC then filed for Chapter 11 bankruptcy protection in October 2011. Per the December 2012 Bankruptcy Reorganization Plan HHI emerged with \$5,000,000 in secured debt and approximately \$10,000,000 in preferred & common equity.

The Receiver continues to analyze documentation and have discussions with relevant parties in this matter.

5.10 Ice Now, LLC

Ice Now, LLC is an ice distributor based in Mesa, Arizona focused on providing bulk bagged ice to restaurants, bars, hotels, golf courses, special events and commercial companies. The company was formed in March 2009 and by June 2009 was seeking capital to fund an expansion of operations.⁵⁶

The Fund executed and funded a convertible loan in the amount \$200,000 on July 8, 2009.⁵⁷ The loan was secured by Membership Interest Pledge Agreements executed by the principals of Ice Now. On July 8, 2009 (the same date), the Fund executed an amended and restated Convertible Loan Agreement which added an additional \$100,000 to the loan balance, aggregating to \$300,000. The loan had an interest rate of 10% per annum and a three-year term. Interest was to be paid quarterly and a balloon payment of

⁵¹ August 2008 HHI Operating Agreement

⁵² March 2009 Critical Access Hospital Joint Venture Opportunity marketing document

⁵³ January 2009 Confidential Information Memorandum.

⁵⁴ March 27 2009 Subscription & March 31, 2009 Loan Agreement

⁵⁵ December 2, 2013 meeting between David Harbour of HPCG, Peter Davis and Paula Durham

⁵⁶ June 2009 Funding Memorandum

⁵⁷ July 8, 2009 Convertible Loan Agreement

principal and unpaid interest was due on July 10, 2012. The note also included a conversion option allowing the Lender to convert the \$300,000 to 15% of the membership units of Ice Now.⁵⁸

On January 10, 2010, the Fund converted the \$300,000 Convertible Loan obligation into 100% of the membership units of Ice Now.⁵⁹ This equity was converted back to debt via a Promissory note in 2011.⁶⁰ Additionally, throughout 2010 the Fund contributed an additional \$250,000 to Ice Now resulting in a total capital infusion of \$550,000.⁶¹

As of December 31, 2012 the Fund retains an 11% ownership in Ice Now.⁶² This ownership percentage results from a repayment by Ice Now of \$120,000 in principal against the March 2011 \$300,000 note. The Receiver is investigating why the Fund's interest is 11% as a result of this transaction.

The Receiver has had initial discussions with Nolan de Graaf, majority shareholder of Ice Now, regarding his desire to purchase the Fund's remaining interest in the enterprise. Mr. de Graaf does not have the capital to purchase the interest himself but is working on a proposal to do so with the help of investors.⁶³

5.11 Palo Properties, LLC

The Fund formed Palo Properties, LLC in November 2008 for the specific purpose of acquiring and/or constructing real property.⁶⁴ In May 2009, Palo Verde Fund, L.P. purchased a residential property located in a North Scottsdale master-planned community commonly known as DC Ranch for approximately \$1.1M.⁶⁵ The home was purchased with the intent of holding for a three to five-year period before selling, with a subsequent double-digit return on investment after sale.

Little documentation was provided for this investment. Analysis of documents that were provided reveals that the Palo Verde Fund, L.P. contributed \$302,800 to Palo Properties, LLC between December 2009 and June 2011, although it is not currently known what these expenditures were for.⁶⁶ During the hold period the property was available for lease. Mr. Stacy has indicated that on several occasions he occupied the property for short stays, each time reimbursing the Fund. This has not yet been corroborated by the Receiver.

⁵⁸ July 8 2009 Amended and Restated Convertible Loan Agreement

⁵⁹ January 10, 2010 Assignment and Assumption of Membership Interest

⁶⁰ February 10, 2011 Letter of Intent; March 1, 2011 Promissory Note

⁶¹ According to wire request information found in the files

⁶² December 31, 2012 Loan Modification Agreement

⁶³ December 13, 2013 teleconference with Nolan de Graff.

⁶⁴ Per the Investment Summary document created by Ron Stone

⁶⁵ Per MLS data

⁶⁶ Summary of disbursement requests contained in the file

The property is currently being leased to an associate of Mr. Stacy's. The original one-year lease, executed in August 2013, stated a monthly rental amount of \$3,900, of which \$400/month was deferred. No security deposit was collected. In November of this year the Receiver amended the lease to require full payment of the \$3,900/month rent; reduce the lease period to 6 months beginning November 1, 2103; require payment of a refundable \$3,500 security deposit; and require payment of \$1,200 in back rent relating to the previously deferred amounts. In addition, the tenant may vacate the property, without penalty, at any time. The tenant is current on all amounts due related to the property.

There is a \$600,000 loan against the property, taken in January 2013. The proceeds of this loan were allegedly used to fund the purchase of equipment to be installed in a cancer care facility and to repay a loan from Blue Sands Securities, LLC to American Energy Solutions, Inc.⁶⁷ (the latter is another Fund investment, now known as Acumen Energy Solutions, LLC). More information is needed regarding both of these items. Mr. Stacy has represented that both amounts are recoverable; however, after repeated requests no further information has been provided.⁶⁸

The Receiver placed the property for sale; offering price is \$1,139,000. While the Receiver is optimistic about the ultimate sale of the home, it does not appear at this time that the Funds full investment will be recovered.

5.12 Palo Verde Energy, LLC

This investment began as a January 2010 loan from Arkoma Natural Gas Partners, LLC ("Arkoma") to Par III, L.L.C., in the amount of \$300,000.⁶⁹ Arkoma subsequently became Palo Verde Energy Fund, L.L.C. ("PVEF"), and is wholly owned by Palo Verde Fund, L.P..⁷⁰ In October 2010, PVEF applied the initial \$300K loan to the purchase of an undivided 60% of PAR III's working interest in and to oil and gas leases located in Sebastian and Logan County, AR. The leases include approximately 450 producing wellbores plus development acreage ("the Wells"), and are operated by Forest Oil out of Denver, CO.⁷¹ In addition to forgiving the initial loan, PVE paid \$160,000 to Par III, LLC, and assumed a then \$2,990,000 loan from the Bank of Oklahoma ("BOK").⁷² Paul Ross retained, and currently holds, the remaining 40% interest in these wells.

In April 2011, PVEF, with Paragon Capital Partners, LLC ("Paragon"), entered into a loan agreement with BOK for a revolving credit facility limited to a maximum amount of \$2,784,549.11 ("the Loan"). In concert with the Loan agreement, PVEF and Paragon executed a Promissory Note promising payment of the debt pursuant to the Loan

⁶⁷ June 11, 2013 email from Bob Mottern to Jason Braun

⁶⁸ December 10, 2013 meeting at Simon Consulting offices between Tony Stacy, Ron Stone, Peter Davis, Paula Durham and Jessica Corn.

⁶⁹ Per the January 2010 Loan Agreement and Promissory Note. It is important to note that this document does not specify a loan amount; instead, it stipulates the "initial principal amount to be determined". The \$300K initial loan amount is noted in the subsequent Purchase and Sale Agreement.

⁷⁰ February 2010 Arkoma Articles of Organization

⁷¹ October 1, 2010 Purchase and Sale Agreement

⁷² October 1, 2010 Assignment and Assumption of Borrowers Interest in Loan Agreement and Loan Documents

agreement. As security for the Promissory Note, PVEF, Anthony R. Stacy, and Paul A. Ross executed a guaranty in favor of BOK in which they jointly and severally guaranteed any and all indebtedness to BOK.

The Loan was amended on April 30, 2012 to extend the maturity date to October 31, 2012.⁷³ The debt was not satisfied at date of maturity and began accruing interest at the default rate of prime plus 5.0%. BOK subsequently called the note in default and in April 2013 filed suit in Oklahoma claiming damages of \$2,140,264.33 in principal plus per diem interest of \$532.41; post-judgment interest; all costs and expenses; and any further relief the Court deemed just.⁷⁴

Palo Verde Fund, L.P., Palo Verde Private Equity Fund, L.P., Paul A. Ross and Anthony R. Stacy (“the Guarantors”) executed a Forbearance Agreement in August 2013 with BOK (“the Agreement”). This Agreement gave the Guarantors three months to secure financing in order to pay off the note to BOK. During those three months Guarantors were to make monthly payments of \$10,000. A Confessed Judgment was also executed, to be filed in the event the terms of the Agreement were not met. The terms were not satisfied, and the Confessed Judgment was entered October 28, 2013. The Judge, however, removed Palo Verde Private Equity Fund, L.P. and Palo Verde Fund, L.P. from the judgment.⁷⁵ As of October 31, 2013 the outstanding loan amount was \$2,000,201.80, with a per diem interest of \$496.68.⁷⁶ The Receiver has held several discussions with BOK representatives and their legal counsel, who appear to be amenable to working with him to resolve the issue.

The Receiver is currently exploring options to sell both the Fund’s 60% interest and the other 40% held by Paul Ross. An engineering report dated December 31, 2012 compiled by the reputable engineering firm Degoyler and MacNaughton values the proven reserves at \$5.678M. Mr. Ross has indicated that he has at least one interested party, and Forest Oil, the operator of the wells, is also potentially interested in purchasing full interest. The Receiver plans to engage an Oklahoma specialist in oil & gas acquisitions/divestitures to market the property as well, and is optimistic about the potential sales price of the wells.

5.13 SDX Acquisition, LLC

The Fund purchased membership interest in SDX Acquisition, LLC in October 2010 for \$500,000.⁷⁷ Total preferred equity in this subscription was \$2,100,000, giving the Fund an initial 17.86% preferred equity stake in the LLC.⁷⁸

⁷³ Second Amendment to Loan Agreement

⁷⁴ Petition in case CJ-2013-02053 BOKF, NA v. Palo Verde Private Equity Fund, L.P., Palo Verde Fund, L.P., Paul A. Ross, Anthony R. Stacy, filed April 25, 2013.

⁷⁵ Confessed Judgment in Case CJ-2013-02053, filed October 28, 2013

⁷⁶ Per Palo Verde Default Rate (2).pdf provided by Nora O’Neill on November 9, 2013

⁷⁷ SDX October 8, 2010 Subscription Agreement

⁷⁸ August 19, 2011 Capitalization Table

Subsequent to the initial investment the Fund executed two Promissory Notes, one in April 2012 for \$125,000 and one in April 2013 for \$139,297.89. The April 2012 note is subordinated to Texas Capital Bank, and the April 2013 note was allegedly cancelled in September 2013, although the Receiver's copy of the cancellation is not signed by representatives of SDX. The April 2013 Note was allegedly converted to Class B Units.⁷⁹ The Receiver is still working to determine the Fund's position in this investment, but a June 2013 Capital Table indicates that the Fund maintains an 18.3% equity percentage in the company.

The Subscription Agreement contains language giving other LLC Members right of first refusal to purchase the shares of another Member who wants to sell. To that end the Receiver has had initial discussions with the Manager of Patterson Thoma Family Office, the LLC Manager, who in turn has had initial discussions with the Members. The Receiver is optimistic that the asset can be sold, however at this time its value is uncertain.

5.14 Sidewinder Investment Group, LLC

On February 1, 2010, the Fund invested \$200,000.00 to purchase a membership interest in Sidewinder Investment Group, LLC ("Sidewinder") which owned one hundred percent (100%) of the Arizona Rattlers Arena Football Team. During the course of its ownership, the Fund made approximately eight (8) additional capital investments into Sidewinder to bring the Fund's gross investment to \$578,450.00 which is approximately thirty-nine percent (39%) ownership interest in Sidewinder.

During 2011, various capital calls from Sidewinder went unfunded by the Fund resulting in significant dilution of the Fund's ownership interest. By failing to meet their capital obligations, the Fund's ownership in Sidewinder was eventually substantially diluted.

The Fund subsequently discovered that Galloway took control of Sidewinder, through the issuance of the disputed capital calls, and then sold Sidewinder at a significant profit to a third party. In response to what it believed was an improper series of activities, the Fund engaged the Law Firm of Gordon & Rees, LLP and on November 23, 2011, filed a Complaint against Galloway, the former manager of Sidewinder, alleging securities fraud, fraud, and claims related to Galloway's breach of fiduciary duties.⁸⁰

Soon after his appointment, the Receiver was briefed on the status of the Sidewinder litigation and the numerous challenges facing the continued prosecution of the Fund's legal claims (specific detail can be found in the Receiver's Motion to Approve Settlement Agreement in *Palo Verde fund v. Galloway*). The Receiver called an emergency Investor Committee meeting on October 21, 2013, during which the committee voted to approve dismissal of the fraud related claims against Mr. Galloway,

⁷⁹ September 5, 2013 Agreement to Cancel Debt (executed by Tony Stacy only)

⁸⁰ The lawsuit is CV2011-020246, *Palo Verde Fund LP et al. vs. Michael J. Galloway, et al.*

leaving the single claim of breach of good faith and fair dealing. It was thought that Mr. Galloway would agree to settle this remaining count; this, however, was not the case. In a subsequent meeting with the Receiver Mr. Galloway advised that he would not agree to any monetary settlement of the litigation.⁸¹

Despite the Receiver's frustration that the Fund and its litigation counsel would allow this case to be procedurally and factually compromised, the Receiver's investigation has determined that despite the allegations that Galloway improperly diluted the Funds ownership in Sidewinder, it is essentially undisputed that the capital calls issued by Galloway were approved by Sidewinder's Board of Directors; the terms of the capital calls were set by the Board and not Galloway; and the Fund knew or should have known that failure to meet the capital calls would have a significant effect on the Funds ownership interest in Sidewinder. Accordingly, it became clear to the Receiver that not only was the Fund's litigation facing numerous procedural challenges, the underlying claims were factually and legally suspect.

Thereafter, the Receiver negotiated the Mutual Release Agreement, which was filed on December 23, 2013. This Agreement calls for the dismissal of the Fund's lawsuit against Galloway and allows Galloway to file a claim in the Receivership for \$100,000.00. However, Galloway has agreed that no money shall be paid to his claim unless and until all investors and partners in the Fund are fully repaid their capital investments in the Fund.

5.15 TCP Mach Speed, LLC

The Fund contributed \$210,000 to a \$2.1M preferred equity subscription agreement with TCP-Mach Speed ("TCP-MS") in February of 2011.⁸² TCP-MS was formed to acquire Mach Speed Technologies ("MST"), an Oklahoma based manufacturer of low price-point digital media players.

In 2012 Mach Speed Technologies acquired two companies: JLab, and Bear River International. The Fund contributed \$55,200 and \$60,454, respectively, to the capital calls associated with these acquisitions. Also in 2012 the Fund performed a partial redemption of shares in TCP-MS, redeeming a total of 151,261.6 shares in the company. The Fund currently has a 4.58% Preferred Equity position and a 3.66% Total Equity Position in the LLC.⁸³ According to the Q3 2013 Business Summary provided by TCP the business is performing very well.

The Subscription Agreement contains language giving other LLC Members right of first refusal to purchase the shares of another Member who wants to sell. To that end the Receiver has had initial discussions with the Manager of TCP, the LLC Manager,

⁸¹ November 7, 2013 meeting between Peter Davis, Paula Durham and Mike Galloway

⁸² February 8, 2011 Subscription Agreement. Note that investment was oversubscribed, resulting in a return of \$40,000 to the Fund. \$210K was the final invested amount, after the return.

⁸³ Per Capital Table provided by Jason Faucett of TCP on December 6, 2013

who in turn has had initial discussions with the Members. The Receiver is optimistic that the asset can be sold. Discussions with Tony Stacy indicate that this business is poised to be sold to a larger venture capital firm at a profit to current investors.⁸⁴ This has not; however, been confirmed by the Receiver.

5.16 TCP SuccessEd, LLC

The Fund contributed \$875,000 to a \$2.9M preferred equity subscription agreement with TCP-SuccessEd (“TCP-SED”) in June 2011.⁸⁵ TCP-SED was formed to acquire GG Consulting, a leading Texas education software company.⁸⁶

The Fund redeemed half of its shares in TCP-SED in January 2012, selling a total of 437,500 shares of the LLC back to the LLC members at par value. After a Growth Equity Round in March 2013, the fund currently has a 10.54% Preferred Equity position and an 8.43% Total Equity position in the LLC.²⁵

As with the other TCP investments, the Subscription Agreement contains language giving other LLC Members right of first refusal to purchase the shares of another Member who wants to sell. To that end the Receiver has had initial discussions with the Manager of TCP, the LLC Manager, who in turn has had initial discussions with the Members. The Receiver is optimistic that the asset can be sold, however at this time value is uncertain.

5.17 TCP-GBS, LLC

The Fund contributed \$275,000 to a \$2.25M preferred equity subscription agreement with TCP-GBS in July of 2011.⁸⁷ TCP-GBS was formed to acquire Genie B’s Specialties, d.b.a. GBS, a market leader in providing mattress protection covers and warranty service for bedding and furniture. The company designs, manufactures and distributes mattress protection covers and other textiles under different labels for major national retail and wholesale outlets and also provides insurance based furniture protection plans.

The Fund redeemed half of its shares in the investment in January 2012 at par value. Currently, the Fund retains a 6.11% preferred equity share of this LLC. According to the Q3, 2013 Business Summary document provided by Transition Capital Partners (“TCP”) the business is experiencing mixed success.

⁸⁴ November 21st meeting at Simon Consulting offices

⁸⁵ May 25, 2011 Subscription Agreement. Note that the initial investment was \$1,000,000 but oversubscription resulted in a \$125,000 refund to the Fund.

⁸⁶ June 8 Amended and Restated Company Agreement of TCP-SuccessEd Investments, LLC.

⁸⁷ July 29, 2011 Subscription Agreement. Note that initial investment was \$350,000 but oversubscription resulted in a \$75,000 refund to the Fund.

The Subscription Agreement here also contains language giving other LLC Members right of first refusal to purchase the shares of another Member who wants to sell. To that end the Receiver has had initial discussions with the Manager of TCP, the LLC Manager, who in turn has had initial discussions with the Members. The Receiver is optimistic that the asset can be sold, however at this time value is uncertain.

5.18 USDA Loan J46

The Fund paid \$236,520 to purchase an interest strip spread (the “Strip”) on the USDA/Farmer Mac guaranteed portion of a \$3,285,000 promissory note in August 2009. The guaranteed balance of the loan is \$2,628,000; and the Strip provides for a 3.0% interest rate on this balance for the 20 year amortization of the loan.⁸⁸

As of December 2012 the Fund recouped its initial investment. Interest payments have been made on the loan since October 2009, with the exception of January 2012 and March-October 2013.⁸⁹ This is one of seven other similar USDA strip loans purchased by the Fund; the other six were sold prior to Receivership.⁹⁰ The Receiver is unsure of the marketability of this investment. According to Mr. Stacy this particular strip loan may be difficult to sell due to the gap in interest payments. Although payments have restarted, Mr. Stacy states that the payment gap can be perceived as an indication that the loan may default, making it an undesirable investment for another party.⁹⁰ The Receiver plans to approach USDA Capital, the entity from which the investment was purchased (but not affiliated with the USDA), to obtain further information as to whether there is a market for this asset.

5.19 W.P. Bistro, LLC

The Fund purchased 10 shares of membership interest in W.P Bistro, LLC on July 1, 2010.⁹¹ The company was formed to provide investors direct participation in the ownership of Wolfgang Puck Bistro restaurant and bar, located in Tulsa Oklahoma. The Fund contributed a total of \$150,000 of a \$1,500,000 subscription agreement representing a 10% equity percentage in the LLC. Funds were to be used to build and start the restaurant. The Equity was structured with a preferential return of 6% in year one, 7% in year two, and 8% for every year after; a return of outstanding capital from 70% of distributable cash flow; and 50% of WPB’s distributable cash thereafter. The restaurant opened on July 16, 2010.

The Fund never received any returns from this investment,⁹² and the restaurant closed on November 1, 2013. The Receiver is not optimistic regarding recovery of anything from this investment. The Receiver has been informed that there are a number

⁸⁸ September 8, 2009 Confirmation of Trade

⁸⁹ Spreadsheet entitled “J00046.xls” provided by Tony Stacy.

⁹⁰ December 10, 2013 meeting at Simon Consulting offices between Tony Stacy, Ron Stone, Peter Davis, Paula Durham and Jessica Corn.

⁹¹ June 16, 2010 Subscription Agreement

⁹² Per Ron Stone’s investment summary

of investors pursuing Tony Henry, the LLC Manager, for information regarding the failure of this business.⁹³ One potential avenue of recovery lies in the assets of the restaurant and/or the lease agreement for the location. The location is considered to be good, and Mr. Henry purportedly holds the master lease; he leased the location to the LLC for the restaurant. Additionally, Mr. Henry has represented to investors that there is demand for the furniture and fixtures of the restaurant.⁹⁴

5.20 TCP-Peds Rehab, LLC

The Fund invested in \$250,000 into TCP-Peds Rehab, LLC (“TCP-PEDS”) in December, 2009 and received 250,000 shares of preferred stock in the LLC.⁹⁵ This LLC was established to acquire 75% of Santè Pediatric Group, a Texas pediatric rehabilitation company.

In January 2012 the Fund redeemed 175,000 shares, leaving the investment at 75,000 shares and a 2.14% Preferred Equity percentage.⁹⁶ The investment finalized in December 2012 when the LLC sold 100% of its stock in Santè to Webster Capital. At the time of the sale a certain portion of the proceeds were put into escrow pending the resolution of an outstanding Office of Inspector General (“OIG”) investigation. This investigation is related to Santè’s billing practices prior to TCP-Peds ownership. Currently, the Fund’s portion of escrow is \$10,170. TCP-Peds has certain indemnities from the original sellers in the event that the issue is not resolved, however Webster Capital will not release escrow until a resolution is reached.⁹⁷ At this time the Receiver has no timeline of recovery of this amount.

6.0 Pre-Receivership Debt

The Receiver identified \$228,508.99 in debt incurred prior to the appointment of the Receiver. See Exhibit 4 for detail.

7.0 Receivership Accounting

Details of the cash processed through the Receivership bank account are attached hereto as Exhibit 5. The current balance of the Receivership account is \$73,885.48 as of January 6, 2014.

8.0 Receivership Fees and Expenses

Receiver and his firm incurred a total of \$28,341.43 in fees and costs for October 2013 (Exhibit 6) and \$43,822.02 for November, 2013 (Exhibit 7). In addition, Gutilla, Murphy & Anderson, counsel for the Receiver in this matter, compiled fees of

⁹³ December 18, 2013 email from Lynwood Moore to Jessica Corn, Paula Durham and David Cordell

⁹⁴ December 23, 2013 teleconference between Lynnwood Moore and Paula Durham

⁹⁵ December 2009 Subscription Agreement

⁹⁶ Sante Exit Capital Table

⁹⁷ December 18, 2013 email from Jason Faucett of TCP detailing current status of escrow

\$19,144.42 in fees and costs for October 2013 (Exhibit 8) and \$13,693.53 for November, 2013 (Exhibit 9).

9.0 Causes of Action

The Receiver is investigating whether there are any causes of action against individuals or entities in order to recover further assets for the estate.

10.0 Conclusion

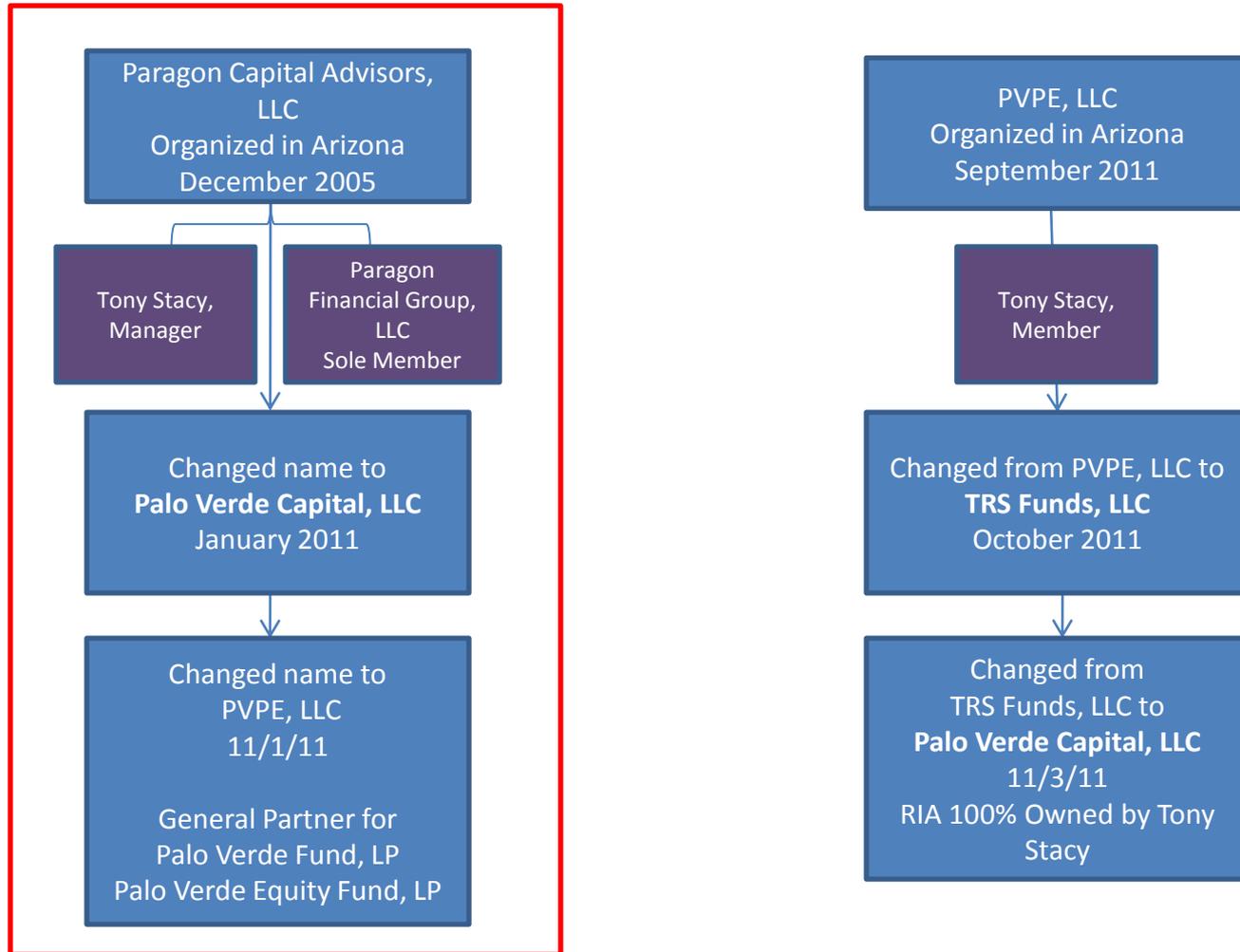
As noted previously, this report is preliminary and tentative, and subject to change. The Receiver's investigation is ongoing; future updates to the Court will reflect any changes or additions to the information contained herein.



Peter S. Davis
Receiver

January 7, 2013
Date

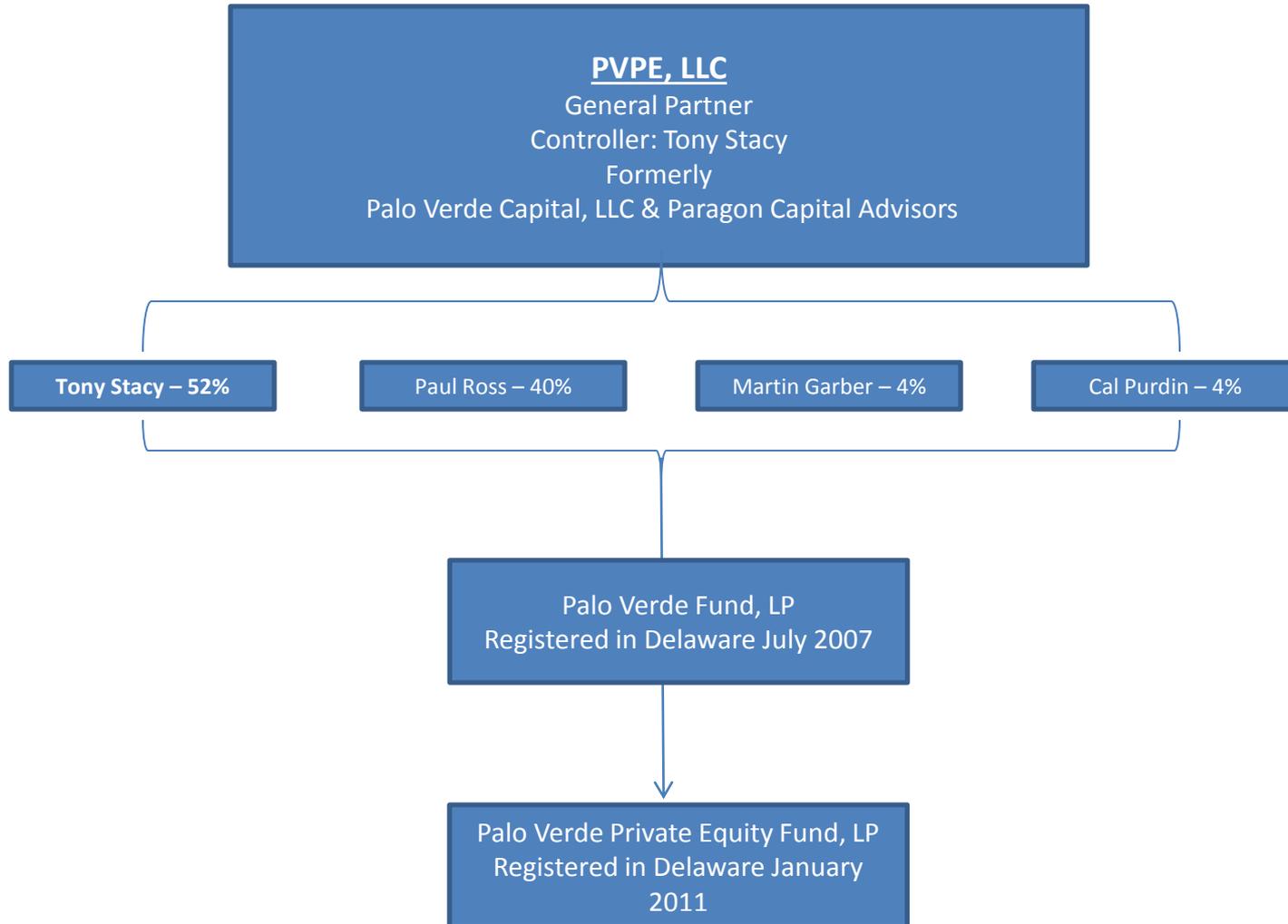
Sonnenschein et. al. v. Palo Verde Fund, et. al.
January 7, 2014 Receiver Report
Exhibit 1



Source: Arizona Corporation Commission

DRAFT - Subject to Change

Sonnenschein et. al. v. Palo Verde Fund, et. al.
January 7, 2014 Receiver Report
Exhibit 2



Source: Arizona Corporation Commission; Delaware Department of State, Division of Corporations

DRAFT - Subject to Change

**Palo Verde Receivership
Investment Summary**

Preliminary & Tentative - Subject to Further Revisions

Exhibit 3

Item	Investment	Initial Investment Amt	Additional Investments	Other	(Pay Backs or Returns)	TOTAL	Note Guarantees	Approximate Ownership Amount
1	Acumen Energy Solutions, Inc. (f.k.a. American Energy Solutions, Inc.)	\$ 500,000.00	\$ 4,162,307.00	\$ -	\$ -	\$ 4,662,307.00	\$ 2,200,000.00	100.00%
2	FF Arabian	\$ 1,500,000.00	\$ 6,750,000.00	\$ -	\$ (4,000,000.00)	\$ 4,250,000.00	\$ -	53.07%
3	HPCG Hospital	\$ 1,000,000.00	\$ 1,660,000.00	\$ -	\$ -	\$ 2,660,000.00	\$ -	15.00%
4	Palo Properties	\$ 1,823,765.00	\$ -	\$ -	\$ -	\$ 1,823,765.00	\$ -	100.00%
5	Empire Financial Services	\$ 1,350,000.00	\$ -	\$ -	\$ -	\$ 1,350,000.00	\$ -	100.00%
6	Aviary III	\$ 1,000,000.00	\$ -	\$ -	\$ -	\$ 1,000,000.00	\$ -	45.45%
7	BOAI (Asia Leechdom)	\$ 1,000,000.00	\$ -	\$ -	\$ -	\$ 1,000,000.00	\$ -	217,916 Shares
8	Aviary II	\$ 250,000.00	\$ -	\$ -	\$ (15,137.75)	\$ 234,862.25	\$ -	15.14%
9	SDX Acquisition	\$ 500,000.00	\$ 125,000.00	\$ -	\$ -	\$ 625,000.00	\$ -	17.86%
10	TCP SuccessEd	\$ 875,000.00	\$ -	\$ -	\$ (437,500.00)	\$ 437,500.00	\$ -	10.54%
11	TCP-GBS	\$ 275,000.00	\$ -	\$ -	\$ (137,500.00)	\$ 137,500.00	\$ -	6.11%
12	TCP Mach Speed	\$ 210,000.00	\$ 55,200.00	\$ -	\$ (162,827.00)	\$ 102,373.00	\$ -	4.58%
13	TCP-Peds Rehab, LLC	\$ 250,000.00	\$ -	\$ -	\$ (239,830.00)	\$ 10,170.00	\$ -	N/A
14	Sidewinder	\$ 200,000.00	\$ 378,450.00	\$ -	\$ -	\$ 578,450.00	\$ -	Unknown
15	Palo Verde Energy	\$ 300,000.00	\$ 160,000.00	\$ -	\$ -	\$ 460,000.00	\$ 2,900,000.00	100.00%
16	Blue Sands Securities	\$ -	\$ -	\$ 300,000.00	\$ -	\$ 300,000.00	\$ -	N/A
17	Cancer Care Centers of Am.	\$ -	\$ -	\$ 300,000.00	\$ -	\$ 300,000.00	\$ -	N/A
18	AFI	\$ 1,350,000.00	\$ -	\$ -	\$ (1,549,894.20)	\$ (199,894.20)	\$ -	21.09%
19	Ice Now Holdings	\$ 300,000.00	\$ -	\$ -	\$ (120,000.00)	\$ 180,000.00	\$ -	11.00%
20	Aeromedical Collection Svc	\$ 250,000.00	\$ -	\$ -	\$ (93,545.39)	\$ 156,454.61	\$ -	N/A - Loan
21	W.P. Bistro	\$ 150,000.00	\$ -	\$ -	\$ -	\$ 150,000.00	\$ -	10.00%
22	USDA	\$ 236,520.00	\$ -	\$ -	\$ (268,286.64)	\$ (31,766.64)	\$ -	N/A
23	Empire Financial - PV Fund Expenses	\$ -	\$ -	\$ 32,507.09	\$ -	\$ 32,507.09	\$ -	N/A
24	Empire Financial - PVF Note	\$ -	\$ -	\$ 75,000.00	\$ -	\$ 75,000.00	\$ -	N/A
25	Empire Financial-NephroTech Loan	\$ -	\$ -	\$ 175,000.00	\$ -	\$ 175,000.00	\$ -	N/A
26	Empire Financial-Tony Stacy Personal Loans	\$ -	\$ -	\$ 64,185.00	\$ -	\$ 64,185.00	\$ -	N/A
27	Empire Financial-TOAD	\$ -	\$ -	\$ 50,000.00	\$ -	\$ 50,000.00	\$ -	N/A
		\$ 13,320,285.00	\$ 13,290,957.00	\$ 996,692.09	\$ (7,024,520.98)	\$ 20,583,413.11	\$ 5,100,000.00	

Palo Verde Receivership - Summary of Known Pre-Receivership Non-Investor Debt

Exhibit 4

Provider	Amount	Description
Partners Admin	\$ 1,500.00	September 2013 Fund Administration Svcs.
American Express	\$ 43,278.44	Palo Verde Fund AMEX Card
McGladrey, LLP	\$ 55,000.00	Audit/Accounting Svcs.
Sacks Tierney, PA	\$ 1,358.31	Legal Fees
Gordon & Rees, LLP	\$ 126,508.86	Legal Fees - Sidewinder Lawsuit
Kelsoe, Khoury, Rogers, Caughfield & Clark, PC	\$ 863.38	Legal Fees - FF Arabian Lawsuit
TOTAL	\$ 228,508.99	

Palo Verde Private Equity Fund, LP
Transaction List by Date
October 9, 2013 through January 6, 2014

Exhibit 5

Receiver Account Activity Details

Type	Date	Num	Name	Memo	Description	Amounts
Deposit	10/23/2013		Tony Stacy	Deposit	Received from Defendant Stacy	75,000.00
Check	10/24/2013	4953	United States Treasury	45-1540577 Form 4506 Request	Tax Record Retrieval Expense	-100.00
Check	10/24/2013	4954	United States Treasury	26-0832045 Form 4506 Request	Tax Record Retrieval Expense	-100.00
Deposit	10/30/2013		Michael Nemeth	Deposit	Rent - Palo Verde Properties, LLC	3,500.00
Check	10/30/2013	4955	Downtown Associates, LLC	Oct 2013 - Interest & Property Tax	Palo Verde Properties, LLC	-5,755.00
Check	10/30/2013	4956	CamTech	Invoice No. 3305 for server imaging	Computer and Internet Expenses	-567.79
Deposit	11/08/2013		Colson Services Corp.	Deposit	USDA-J46 Interest	6,587.64
Check	11/13/2013	1001	CamTech	Invoice No. 3370 for website creation	Computer and Internet Expenses	-350.00
Check	11/13/2013	1002	CamTech	Invoice No. 3371 for email exports	Computer and Internet Expenses	-1,010.00
Check	11/13/2013	1003	Downtown Associates, LLC	Nov 2013 - Interest & Property Tax	Palo Verde Properties, LLC	-5,755.00
Check	11/15/2013	EFT	State Farm Insurance	20368 N 98th St - Property Insurance	Property Insurance	-1,089.00
Deposit	12/02/2013		Michael Nemeth	Deposit	Rent - Palo Verde Properties, LLC	3,500.00
Deposit	12/02/2013		Michael Nemeth	Deposit	Rent - Palo Verde Properties, LLC	1,200.00
Check	12/02/2013	1005	CamTech	Invoice No. 3387 for email exports	Computer and Internet Expenses	-3,675.00
Check	12/02/2013	1006	CamTech	Invoice Nos. 3450 & 3451 for website & d	Computer and Internet Expenses	-140.00
Deposit	12/03/2013		Colson Services Corp.	Deposit	USDA-J46 Interest	7,439.77
Deposit	12/03/2013		Michael Nemeth	Deposit	Rent - Palo Verde Properties, LLC	3,900.00
Check	12/13/2013	1004	Downtown Associates, LLC	Dec 2013 - Interest & Property Tax	Palo Verde Properties, LLC	-5,755.00
Check	12/17/2013	1008	CamTech	Invoice No. 3410	Computer and Internet Expenses	-3,675.00
Check	12/17/2013	1009	CamTech	Invoice No. 3436	Computer and Internet Expenses	-29.95
Deposit	12/18/2013		Chase Bank	Deposit	Pre-Receivership Accts	6.17
Deposit	12/19/2013		United States Treasury	Deposit	Tax Record Retrieval Refund	200.00
Deposit	01/02/2014		Colson Services Corp.	Deposit	USDA-J46 Interest	3,283.59
Check	01/03/2014	1010	CamTech	Invoice No. 3464	Computer and Internet Expenses	-2,700.00
Check	01/06/2014	1011	CamTech	Invoice No. 3522	Computer and Internet Expenses	-29.95
Current Balance						73,885.48