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 8 GEOFF WINKLER

9 UNITED STATES DISTRICT COURT
 10 CENTRAL DISTRICT OF CALIFORNIA
 11 WESTERN DIVISION

12 SECURITIES AND EXCHANGE
 13 COMMISSION,

14 Plaintiff,

15 v.

16 RALPH T. IANNELLI and ESSEX
 CAPITAL CORP.,

17 Defendants.

Case No. 2:18-cv-05008-FMO-AFM

FIRST INTERIM REPORT AND
 PETITION FOR FURTHER
 INSTRUCTIONS OF RECEIVER,
 GEOFF WINKLER

Date: May 30, 2019
 Time: 10:00 a.m.
 Ctrm: 6D
 Judge Hon. Fernando M. Olguin

18
 19 **TO ALL INTERESTED PARTIES AND THEIR COUNSEL OF**
 20 **RECORD, AND THIS HONORABLE COURT:**

21 **PLEASE TAKE NOTICE THAT**, in accordance with this Court's
 22 December 21, 2018 Order Regarding Preliminary Injunction and Appointment of a
 23 Permanent Receiver (Dkt. No. 66) (the "Appointment Order") and its February 1,
 24 2019 Order in Aid of Receivership (Dkt. No. 69) (the "Order in Aid"), Geoff
 25 Winkler (the "Receiver"), the Court-appointed permanent receiver for Defendant
 26 Essex Capital Corp. ("Essex") and its subsidiaries and affiliates (collectively, the
 27 "Receivership Entities" or "Entities"), hereby submits the following First Interim
 28

1 Report and Petition for Further Instructions (the "Report") for the period from
2 December 21, 2018 through March 31, 2019 (the "Reporting Period").

3 **I. PRELIMINARY STATEMENT.**

4 As reflected in the Court's record, the Receiver has been vested with the full
5 powers of an equity receiver, including, but not limited to, full power over all funds,
6 assets, collateral, premises (whether owned, leased, occupied, or otherwise
7 controlled), choses in action, books, records, papers, and other property belonging
8 to, being managed by, or in the possession of or control of, the Receivership Entities
9 ("Receivership Assets"). To that end, the Receiver was immediately authorized,
10 empowered, and directed to, among other things: (1) take exclusive authority and
11 control over all Receivership Assets; (2) conduct such investigation and discovery
12 as necessary to identify and locate outstanding Receivership Assets; (3) preserve
13 and prevent the dissipation of Receivership Assets; and (4) provide an accounting to
14 the Court and plaintiff Securities and Exchange Commission (the "Commission")
15 regarding the business and financial activities of the Receivership Entities.

16 The Receiver has diligently pursued these goals since the December 21, 2018
17 inception of the receivership. As detailed herein, since the entry of the Appointment
18 Order, the Receiver has made meaningful progress, particularly in connection with
19 his efforts to assert control over the Receivership Entities, better understand their
20 financial and business activities, and identify and marshal their assets for the benefit
21 of the Entities, their investors, and other creditors. However, because the Receiver's
22 work is ongoing, the conclusions presented herein should be deemed preliminary,
23 and potentially subject to modification or amendment as more information becomes
24 available.

25 By way of short summary, during the Reporting Period, the Receiver has:

- 26 • Assumed exclusive authority and control over all identified
27 Receivership Entities;

28

- 1 • Registered the Appointment Order in all federal jurisdictions where he
- 2 believes Receivership Assets may be located;
- 3 • Prepared an inventory of all pending, pre-receivership litigation
- 4 involving or implicating the Receivership Entities, and advised other
- 5 courts of the litigation stay and self-help bars contained within the
- 6 Appointment Order, as necessary;
- 7 • Conducted in-person and telephonic "town-hall" meetings with the
- 8 Receivership Entities' investors to advise them of the receivership and
- 9 address preliminary questions;
- 10 • Commenced an inventory of identifiable Receivership Assets,
- 11 including cash on-hand, investments, receivables (including revenue
- 12 from pending equipment leases), and valuable claims against third
- 13 parties;
- 14 • Developed a plan for recovering and maximizing the value of available
- 15 Receivership Assets;
- 16 • Commenced a detailed analysis of the business and financial activities
- 17 of the Receivership Entities, including in connection with his efforts to
- 18 identify and marshal the Receivership Assets;
- 19 • Obtained and commenced a review of approximately 450,000 pages of
- 20 materials relating to the business and financial activities of the
- 21 Receivership Entities;
- 22 • Nearly completed a preliminary accounting of those Receivership
- 23 Entities' transactions believed to reflect potentially key assets of the
- 24 estate of the Entities; and
- 25 • Collected approximately \$1,236,778, in-cash, for the benefit and
- 26 administration of the Receivership Entities.

27 The Receiver's efforts, analysis, preliminary conclusions, and
28 recommendations are presented, in detail, below.

1 **II. PROCEDURAL SUMMARY.**

2 The Court and all interested parties are invited to review the pleadings¹
3 identified in **Attachment A**, hereto, for a general summary of the relevant facts and
4 procedural background underlying the above-captioned case, including the
5 Receiver's appointment and the activities of the Receiver during the pre-receivership
6 period, in his capacity as Court-appointed monitor.

7 **III. GENERAL RECEIVERSHIP ESTATE ADMINISTRATION.**

8 As is customary and necessary in federal receivership matters of this kind, in
9 the immediate aftermath of his appointment, the Receiver took a number of steps to
10 assume authority and control over the Receivership Entities, to minimize the
11 Receivership Entities' exposure in pending litigation matters, and maximize the
12 likelihood that valuable Receivership Assets are preserved and turned over to the
13 Receiver. The key receivership estate administration tasks taken during the
14 Reporting Period include:

15 **A. Assertion Of Jurisdiction.**

16 The territorial jurisdiction of this Court – and thus of the Receiver – is
17 extended to any district of the United States where Receivership Assets are believed
18 to be, or may be, located. 28 U.S.C. § 754; see also Haile v. Henderson Nat'l Bank,
19 657 F.2d 816, 822 (6th Cir. 1981). In conformity with 28 U.S.C. § 754 and
20 applicable federal law, and based on the information presently available to the
21 Receiver, the Receiver has registered the Commission's Complaint (Dkt. No. 1) (the
22 "Complaint") and the Appointment Order with United States District Courts for the
23 following districts²:

- 24 • Northern District of California (Misc. Case No. 3:19-mc-80009);
25 • Southern District of California (Misc. Case No. 3:19-mc-00036);

27 ¹ These pleadings are also available on the Receiver's website, www.essex-receivership.com.

28 ² A miscellaneous case filing and registration has also been submitted to the Southern District of New York and is pending as of the date of this Report.

- 1 • Southern District of Florida (Misc. Case No. 1:19-mc-20217-UU);
- 2 • District of Massachusetts (Misc. Case No. 1:19-mc-91023);
- 3 • District of Maryland (Misc. Case No. 1:19-mc-00022);
- 4 • Western District of Michigan (Misc. Case No. 1:19-mc-00001);
- 5 • District of New Jersey (Misc. Case No. 2:19-mc-00040);
- 6 • Eastern District of New York (Misc. Case No. 1:19-mc-00104);
- 7 • Eastern District of Pennsylvania (Misc. Case No. 2:19-mc-00005);
- 8 • Western District of Pennsylvania (Misc. Case No. 2:19-mc-00083);
- 9 • Northern District of Texas (Misc. Case No. 4:19-mc-00006); and
- 10 • District of Utah (Misc. Case No. 2:19-00026).

11 As additional actual or potential Receivership Assets are located, the Receiver
12 will file/register the Complaint and Appointment Order in other districts, as the
13 Receiver deems necessary. The Receiver has also recorded a Notice of Pendency of
14 Receivership in the County of Santa Barbara, California, which appended the
15 Appointment Order and notified all interested parties that the Receiver has exclusive
16 authority and control over the Receivership Assets located therein.

17 **B. Marshaling And Preserving Receivership Assets.**

18 Immediately upon his appointment, the Receiver, either directly or through
19 his counsel of record, Allen Matkins Leck Gamble Mallory & Natsis LLP ("Allen
20 Matkins"), delivered formal notice of the instant receivership (and the asset control
21 and turn-over provisions of the Appointment Order) to entities and individuals
22 presently believed to be in possession of Receivership Assets, whether in the form
23 of hard assets (money and investments) or books and records, as in the case of the
24 Receivership Entities' pre-receivership attorneys, accountants, and other
25 professionals.

26 As of the date of this Report, the Receiver has delivered over twenty-six (26)
27 formal notices of the Receiver's appointment, along with corresponding turn-over
28 requests for Receivership Assets. In addition, shortly after the Appointment Order

1 was entered, the Receiver and his staff visited 1486 East Valley Road, Montecito,
2 California 93108 (the "Premises"), the location at which the Receivership Entities
3 maintained a physical office. In connection with this visit, the Receiver was able to
4 retrieve additional Receivership Entity books, records, and computers that were
5 located at the Premises, which the Receiver anticipates will assist in his analysis of
6 the business and financial activities of the Receivership Entities. Further, the
7 Receiver has arranged for all future mail addressed to the Entities to be delivered to
8 him.

9 **C. Administration Of Pre-Receivership Litigation Against The**
10 **Receivership Entities.**

11 In order to protect the estate of the Receivership Entities from diminution, the
12 Receiver has compiled an inventory of all known and active state and federal actions
13 implicating the Receivership Entities, and filed Notices of Pending Receivership,
14 appending the Appointment Order and directing the litigants' attention to the
15 litigation stay and self-help bar therein, in those matters where the Entities are
16 implicated or their assets appear to be at risk.

17 1. Pending State Court Litigation.

18 As of the date of this Report, the Receiver has filed Notices of Pending
19 Receivership in the following state court actions:

- 20 • Gabler v. Essex Capital Corp., et al., Santa Barbara Super. Ct. Case No.
21 18CV03423; and
- 22 • Dennis et al. v. Iannelli, et al., Santa Barbara Super. Ct. Case No.
23 18CV03317.

24 2. Other Litigation Matters.

25 In addition to the aforementioned matters, with the assistance of Allen
26 Matkins, the Receiver has successfully negotiated the dismissal, without prejudice,
27 of an unlawful detainer action, styled MUFG Union Bank v. Essex Capital Corp.,
28 Santa Barbara Super. Ct. Case No. 18CV05089, against Essex, and in relation to the

1 Premises. By way of background on this matter, Essex was the subtenant, and
2 MUFG Union Bank, N.A. ("MUFG") was the sublessor, in connection with the
3 Premises, pursuant to a sublease agreement ("Sublease"). At the time of the
4 Receiver's appointment, Essex had defaulted under the Sublease by failing to timely
5 pay amounts owed thereunder. Thereafter, on or around October 17, 2018, MUFG
6 filed an unlawful detainer action against Essex in Santa Barbara County Superior
7 Court.

8 Shortly after his appointment, the Receiver commenced negotiations with
9 MUFG regarding the abandonment of the Premises. Ultimately, to secure dismissal
10 of MUFG's action, the Receiver entered into a sublease termination agreement with
11 MUFG, whereby he agreed to vacate and return the Premises in a satisfactory
12 condition and terminate the Sublease, and MUFG reserved its rights to petition for
13 payment of its damages, if any, via a claims process in the instant receivership,
14 should one be approved by the Court.

15 The Receiver also oversaw the United States Court of Appeals for the Second
16 Circuit's (the "Second Circuit") affirmance of the United States District Court for the
17 Southern District of New York's (the "SDNY") dismissal, with prejudice, of a
18 lawsuit against Essex and Defendant Ralph Iannelli, styled Sequoia Healthcare
19 Servs., LLC v. Essex Capital Corp., et al., S.D.N.Y. Case No. 17-cv-6440 (the
20 "Sequoia Case"). The Sequoia Case was an action filed by Sequoia Healthcare
21 Services, LLC ("Sequoia") in connection with certain loan transactions between
22 Sequoia and Essex, the proceeds of which were used to fund certain sale-leaseback
23 transactions between Essex and non-party Passaic Healthcare Services d/b/a Allcare
24 Medical ("Allcare"), an affiliate of Sequoia. In these transactions, Essex purchased
25 equipment from Allcare, leased that equipment back to Allcare, and Passaic agreed
26 to make repayment to Essex. Sequoia's complaint alleged that Essex and
27 Mr. Iannelli breached a purported oral agreement to repay Sequoia \$2 million that
28 Sequoia allegedly lent to Essex.

1 Although Sequoia commenced the case in New York Supreme Court, New
2 York County, Essex's pre-litigation counsel for the matter, Locke Lord LLP ("Locke
3 Lord"), removed the case to the SDNY and later moved to dismiss the lawsuit. The
4 SDNY granted the motion to dismiss on statute of frauds grounds, and dismissed the
5 complaint with prejudice. Subsequently, Sequoia appealed the decision to the
6 Second Circuit. The appeal was fully briefed and submitted to the Second Circuit
7 panel without oral argument, and, on February 26, 2019, the Second Circuit
8 affirmed the SDNY's decision.

9 **D. Administration Of Pre-Receivership Litigation On Behalf Of The**
10 **Receivership Entities.**

11 At the time of the Receiver's appointment, Essex was engaged in an action
12 styled Essex Capital Corp. v. Garipalli, et al., S.D.N.Y. Case No. 17-cv-06347 (the
13 "Garipalli Action"), in which, among other things, Essex alleged that Sequoia and
14 its principals made fraudulent financial misrepresentations to Essex in order to
15 induce Essex into entering numerous commercial lease agreements, and later to
16 surrender certain default and collection rights in connection with defaults on those
17 leases, all of which resulted in Essex losing millions of dollars in funds, at least
18 partly derived from investors.

19 The Receiver has reviewed the key pleadings filed to-date in the Garipalli
20 Action, including Essex's original and amended complaints, along with materials
21 provided by Essex's pre-litigation counsel for the matter, Locke Lord, and he
22 believes the remaining causes of action alleged in the Garipalli Action to be
23 meritorious, and worth continued prosecution. The Receiver understands and
24 believes that, if successful on summary judgment or at trial, Essex could recover
25 significant damages. Indeed, based on the facts as he presently understands them,
26 even an early-stage settlement of the Garipalli Action might result in a seven-figure
27 recovery for the Receivership Entities.

28

1 Accordingly, the Receiver proposes to continue Locke Lord's engagement as
2 special litigation counsel to Essex for the Garipalli Action, and to authorize Locke
3 Lord to continue to prosecute Essex's claims until such time as an appropriate
4 settlement is reached and submitted to this Court for approval, or through summary
5 judgment or trial, if necessary.

6 Locke Lord has presented the Receiver with an initial, post-receivership
7 budget for the Garipalli Action, to cover anticipated fees and costs through initial
8 discovery and the completion of settlement efforts. Based on this budget the
9 Receiver recommends that he be permitted to incur up to \$35,000.00 in fees and
10 expenses in connection with Locke Lord's proposed discovery and settlement
11 strategy, and he believes this amount is consistent with the fiduciary nature of his
12 appointment and the financial realities of the receivership, and that the expenditure
13 will maximize the likelihood of a recovery in the Garipalli Action, either via a
14 Court-approved settlement, summary judgment, or trial.

15 **E. Communications With Investors.**

16 In accordance with the Order in Aid, the Receiver has established a
17 receivership website for this matter (www.essex-receivership.com) which, among
18 other things, he is using as a means of communicating with Receivership Entity
19 investors. Specifically, the Receiver is posting all of his filings to the website,
20 which also includes a registration portal through which interested parties may
21 register to receive email notice of such filings. In the coming weeks and months,
22 the Receiver will further populate the website with periodic updates, as well as
23 written responses to frequently asked investor questions. Pursuant to the terms of
24 the Order in Aid, the Receiver will also post all receivership filings to the website.

25 In addition to the establishment of the website, in February 2019, the
26 Receiver conducted an in-person, town-hall style meeting with Entity investors in
27 Santa Barbara. The purpose of the meeting was to introduce the Receiver, provide a
28 general overview of the receivership process, and address the Receiver's plans for

1 the administration of the receivership estate. Thereafter, the Receiver completed a
2 telephonic town-hall meeting, largely attended by out-of-state investors who were
3 unable to attend the initial meeting personally. Since then, the Receiver has
4 endeavored to respond to investor and interested party inquiries on an individual
5 basis, either directly or through staff or counsel. The Receiver will continue to be as
6 responsive to investors as possible throughout the duration of his appointment.

7 **IV. RECEIVER'S PRELIMINARY INVESTIGATION AND**
8 **ACCOUNTING EFFORTS**

9 **A. Overview.**

10 At present, it appears that Receivership Assets generally fall into the
11 following categories: (1) cash on-hand at the time of the Receiver's appointment;
12 (2) monthly lease revenues and associated accounts receivable; (3) loans to third
13 parties and their attendant collateral, if any; (4) claims for disgorgement or damages
14 arising from pre-receivership transactions and services; and (5) partial interests in
15 assets and entities owned or controlled by third parties.

16 Pursuant to the terms of the Appointment Order, the Receiver is charged with,
17 among other things, marshaling and maximizing the value of available Receivership
18 Assets. To that end, the Receiver has commenced his efforts to identify and recover
19 available Receivership Assets, and to resolve the administration of certain assets that
20 he has determined, in his reasonable business judgment, are unnecessary to, or do
21 not represent a net benefit in connection with, the administration of the receivership
22 estate. Specifically, as of the date of this Report, and in addition to making turnover
23 demands upon entities and individuals confirmed to be in possession of assets
24 subject to the provisions of the Appointment Order (i.e., unapplied retainer funds
25 held by pre-receivership professionals, funds in bank accounts maintained by or for
26 the benefit of the Receivership Entities, and other categories of assets), the Receiver
27 is working to recover or administer all actual and potential Receivership Assets.

28

1 **B. Document Recovery and Review.**

2 As noted above, as of the date of this Report, the Receiver has delivered over
3 twenty-six (26) formal notices of the Receiver's appointment, along with
4 corresponding turn-over requests for Receivership Assets. Additionally, the
5 Receiver has served a total of thirteen (13) document subpoenas on third-party
6 financial institutions believed to be in possession of documents necessary to the
7 Receiver's accounting and analysis. The Receiver and Allen Matkins are presently
8 working with all recipients who have responded to these requests to coordinate the
9 turn-over of materials, and to address any issues that have arisen as a consequence
10 of the Receiver's appointment.

11 As a result of his efforts, the Receiver has obtained or recovered
12 approximately 450,000 pages of material relating to the business and financial
13 activities of the Receivership Entities, including: (1) bank and other financial
14 statements; (2) professional records (including client-files from pre-receivership
15 professionals); (3) real property records; (4) loan files; (5) lease agreements and
16 associated materials; and (6) organizational and transaction documents associated
17 with a number of subsidiary and affiliate entities used to transact Entity business or
18 putatively to address pre-receivership Entity and individual obligations. Additional
19 materials are obtained weekly.

20 The Receiver has made progress in working through the materials obtained
21 to-date, in order to, among other things: (1) develop an initial inventory of likely
22 Receivership Assets under his control or subject to the turnover provisions of the
23 Appointment order; (2) understand the prospective liabilities of the Entities,
24 including to investors and other creditors; and (3) better calculate what Receivership
25 Assets, including funds derived from investors, were diverted, expended, or
26 deployed for Defendant Ralph Iannelli's direct or indirect benefit, including via the
27 acquisition of assets or interests held by Mr. Iannelli in his personal capacity, or the
28 resolution of any of Mr. Iannelli's personal financial obligations.

1 All records recovered to-date are presently under review by the Receiver, and
2 the Receiver will continue to issue additional demand letters and subpoenas as
3 deemed necessary to collect material information that may lead to sources of
4 recovery for the receivership estate.

5 **C. Asset Identification, Administration, and Recovery.**

6 1. Lease Administration And Revenue.

7 The Receivership Entities are presently parties to twelve (12) active
8 equipment leases as of the date of the Receiver's appointment, eleven (11) of which
9 were financed by Montecito Bank & Trust ("MBT"). A small equipment lease to
10 915 Elm Ave CVL, LLC was not financed. Pursuant to its rights under its financing
11 agreements, MBT is presently acting as a *de facto* servicer for the leases, collecting
12 payments from lessees and remitting lease revenue (less funds sufficient to cover the
13 Entities' loan payments to MBT) to the Receiver.

14 Notably, MBT has also set aside, and appears to be still setting aside, funds
15 from lease payments to cover the attorneys' fees it incurred in connection with
16 responding to the Commission's pre-receivership discovery requests and otherwise
17 contending with issues arising in connection with the above-captioned action. The
18 Receiver has requested that MBT document its contractual right to recover
19 attorneys' fees other than in connection with the preservation of specific security
20 interests in specific collateral, but has not yet received a response on this issue from
21 MBT. In the meantime, the Receiver continues to coordinate with MBT to ensure
22 that its administrative processes for loan servicing are consistent with the fiduciary
23 nature of the Receiver's appointment, including, but not limited to, MBT's
24 preparation and production of monthly reconciliations, and MBT's retention of loan
25 payments and other funds.

26 2. 915 Elm Avenue CVL, LLC.

27 The Receiver is currently reviewing transactions relating to 915 Elm Avenue
28 CVL, LLC ("CVL"), which was created on November 23, 2015, by and between

1 Mr. Iannelli and another individual, in order to purchase, own, and operate a small
2 hardware and building materials store in Carpinteria, California. The CVL
3 acquisition was partly financed by the seller, via an unsecured note in the amount of
4 \$1.5 million, pursuant to which Essex, not Mr. Iannelli, is the borrower. In other
5 words, and although none of the Receivership Entities have an ownership or
6 membership interest in CVL, the Receiver believes, based upon his initial document
7 analysis, that Essex may have incurred certain financial obligations in connection
8 with the purchase and sale of CVL, the interest in which Mr. Iannelli appears to
9 have taken in his personal, individual capacity. The Receiver is presently reviewing
10 all of the CVL-associated materials he has recovered in order to make a conclusive
11 determination regarding the potential use of Receivership Assets in connection with
12 CVL, at which time he will make a recommendation to the Court regarding how to
13 proceed as to CVL.

14 3. Amagansett Partners LLC.

15 Amagansett Partners LLC ("Amagansett") was formed in 2018, apparently as
16 a mechanism for Essex to restructure pre-existing debt obligations to an investor.
17 Pursuant to Amagansett's Operating Agreement, as amended, Essex was obligated to
18 deposit certain illiquid securities with the LLC, and the investor was to deposit
19 outstanding promissory notes issued to Essex. Upon their respective contributions,
20 the notes were apparently cancelled, and Essex's Amagansett capital account was
21 reduced to \$0. Thereafter, pursuant to the Operating Agreement, proceeds from the
22 illiquid securities were to be split between Essex and the individual investor, with
23 the apparent intent being the repayment of Essex's prior debt to the investor over
24 time.

25 The Receiver is working with the investor's counsel to develop a complete
26 understanding of the pre-receivership transactions and obligations that led to
27 Amagansett's creation, and to contend with certain Amagansett obligations that have
28 arisen in the post-receivership period. The Receiver will continue his efforts to

1 determine the potential value, if any, of Amagansett to the estate of the Receivership
2 Entities. Upon completion of his investigation and analysis of Amagansett, the
3 Receiver will inform the Court regarding his conclusions and recommendations.

4 4. Miscellaneous Issues.

5 In addition to the aforementioned issues, the Receiver is also analyzing a
6 number of transactions relating to transfers of private equity to certain investors,
7 lease assignments to certain investors, and grants of security interests in real
8 property to certain investors. The Receiver is diligently working through
9 voluminous files related to these miscellaneous issues and continues to make
10 meaningful progress. The Receiver will provide additional details and the results of
11 his analysis, along with any attendant administrative recommendations, in
12 subsequent interim reports.

13 **D. Preliminary Accounting In Connection With Expected Mediation.**

14 A mediation of the Commission's claims against Mr. Iannelli was originally
15 scheduled for April 4, 2019. In connection with that mediation, the Receiver
16 endeavored to prepare a preliminary accounting – based on his document review and
17 analysis as it stood in late March 2019 – of the transactions relating to Mr. Iannelli,
18 including those potentially implicating Receivership Assets used or deployed for
19 Mr. Iannelli's personal benefit, or against which the Entities may have a claim for
20 repayment. The results of this preliminary accounting were provided to the
21 Commission and Mr. Iannelli's counsel in order to facilitate their settlement
22 discussions, and in anticipation of mediation.

23 **E. General Preliminary Accounting.**

24 On the basis of his review of the materials obtained to-date, the Receiver has
25 begun to develop a summary accounting for the receivership estate, which
26 accounting includes details regarding the Receivership Assets and the Entities' use
27 of funds, including funds derived from investors. The accounting is not complete,
28 and will likely be supplemented as additional materials and information are

1 recovered. Nonetheless, the Receiver has begun to develop certain preliminary
2 conclusions, discussed below, regarding the business and financial activities of the
3 Receivership Entities.

4 At the outset of the Receiver's appointment, Mr. Iannelli provided the
5 Receiver with a single accounting file for Essex, and which contains certain
6 operations accounting entries for the period from 2007 to 2018. The Receiver has
7 identified and is reviewing at least nineteen (19) other QuickBooks files containing
8 information relating to Essex transactions, as well as to eight (8) related entities
9 apparently managed by Mr. Iannelli, in some cases going back as far as the 1990s.

10 In addition, and to date, the Receiver has identified and is reconciling 62,358
11 cash transactions across sixty-five (65) brokerage accounts and fifty-three (53) bank
12 accounts of the Receivership Entities, with entries going back as far as Essex's
13 founding in or around 1996. Additionally, the Entities' records include nearly 4,000
14 non-cash journal entries that detail value moving among Entity accounts. These
15 adjusting entries, along with those within the nineteen (19) other sets of books
16 identified by the Receiver reflect a total of more than 6,000 non-cash journal entries
17 which must be reviewed as part of the Receiver's accounting effort.

18 In anticipation of an eventual claims process governed by equitable
19 principles, the Receiver's analysis of investor losses will emphasize and include a
20 detailed money-in/money-out ("MIMO"), or netting analysis; that is, investor losses
21 will be based on actual funds invested in the Entities, less actual payments returned
22 to investors. At this time, and as reflected in the preliminary accounting summary
23 appended hereto as **Exhibit A**, the Receiver estimates that aggregate MIMO claims
24 to be approximately \$40 million.³

25 The Receiver has identified sixty (60) private equity investments participated
26 in by Essex since 2006. The total cash invested appears to be at least \$47 million,
27

28 ³ The accounting summary appended hereto is preliminary, and subject to further
revision as the Receiver obtains and reviews additional information.

1 and cumulative losses in the amount of approximately \$4.3 million were booked in
2 the pre-receivership period. However, on a strictly cash basis, the amount lost on
3 these investments appears to exceed \$24 million, suggesting losses as high as 51.7%
4 of all cash invested. The Receiver expects will further review these apparent losses
5 to better understand the discrepancy between booked and actual losses, and seek to
6 identify opportunities for recovery.

7 Even at this initial point in the Receiver's accounting of the Receivership
8 Entities' historical brokerage accounts, it appears clear that Essex's actual brokerage
9 investment holdings at any given point in time were significantly lower than what
10 was reflected in the financial statements generated by its accounting software. For
11 example, from December 2006 through December 2016, the amount reflected in
12 Entities' books was, on average, approximately \$24 million higher than the actual
13 aggregate amount in the brokerage accounts. On December 31, 2015, Essex's books
14 reflected brokerage investments totaling over \$60 million, yet the Receiver's review
15 of all known accounts suggests a total of \$20 million. As a consequence, the
16 Receiver is closely reviewing all brokerage transactions to better understand this
17 discrepancy.

18 Once the Receiver's accounting is completed, he will provide the Court with a
19 detailed Accounting Report, potentially in connection with a future interim report
20 submission.

21 **V. CONCLUSION AND PETITION FOR FURTHER INSTRUCTIONS.**

22 Assuming the Court authorizes the Receiver to undertake the actions
23 recommended herein, as well as to continue those actions provided for in the
24 Appointment Order and the Order in Aid, the Receiver proposes to submit a further
25 interim report to this Court, addressing his progress, findings, conclusions, and
26 additional recommendations, in approximately 90 days.

27 Accordingly, and based on the foregoing, the Receiver respectfully requests
28 that the Court enter an order:

- 1 1. Accepting this Report;
- 2 2. Authorizing the Receiver to continue to administer the Receivership
- 3 Entities and their estate in accordance with the terms of the Appointment Order;
- 4 3. Authorizing the Receiver to undertake the recommendations presented
- 5 herein, including a continued document recovery and review effort, and the
- 6 engagement of those professionals he deems necessary for the proper administration
- 7 of the Receivership Entities and their estate, including the continued engagement of
- 8 Locke Lord in connection with the Garipalli Action; and
- 9 4. Providing such other and further relief as the Court deems necessary
- 10 and appropriate.

11
12 Dated: April 30, 2019

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS LLP
DAVID R. ZARO
JOSHUA A. DEL CASTILLO
NORMAN M. ASPIS

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15 By: /s/ Joshua A. del Castillo
16 JOSHUA A. DEL CASTILLO
17 Attorneys for Receiver
18 GEOFF WINKLER
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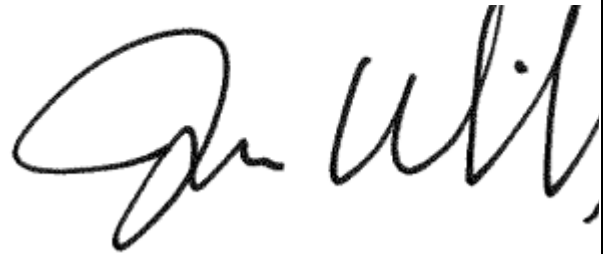
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VERIFICATION

I have read the foregoing FIRST INTERIM REPORT AND PETITION FOR FURTHER INSTRUCTIONS OF RECEIVER, GEOFF WINKLER, and know its contents.

I am the Receiver appointed in the above-entitled action. I believe the matters stated in the foregoing document are true, to the best of my knowledge.

Executed on April 30, 2019, at Salem, Oregon.



Geoff Winkler, Receiver

SEC v. Essex Capital Corporation
Receivership Estate Balance Sheet
December 21, 2018 - March 31, 2019

Attachment 3

Assets:

Cash	\$	1,236,778
Marketable Securities	\$	216,406
Net Lease Receivables	\$	1,369,198
Equipment Residual Value ¹	\$	1,925,107
Private Equity Investments ¹	\$	4,502,750
Existing Litigation ²	\$	5,400,000
Third Party Litigation ³	\$	-
Professional Liability Litigation ³	\$	-

Liabilities:

State/Federal Taxes ⁴	\$	-
Property Taxes ⁴	\$	-
Total Liabilities	\$	-

Claims:¹

Investors	\$	40,849,068
Creditors	\$	153,228
Total Claims	\$	41,002,296

Total Assets**\$ 14,650,239****Total Liabilities plus Claims****\$ 41,002,296**

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1. Estimated value that is subject to further revision.
 2. Probability of successful recovery unknown.
 3. Value currently unknown and under evaluation.
 4. There is no known tax liability, but the Receiver is reviewing.

PROOF OF SERVICE

Securities and Exchange Commission v. Ralph T. Iannelli and Essex Capital Corporation
USDC, Central District of California – Case No. 2:18-cv-05008-FMO-AFM

I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a party to the within action. My business address is 865 S. Figueroa Street, Suite 2800, Los Angeles, California 90017-2543.

On **April 30, 2019**, I caused to be served the document entitled: **FIRST INTERIM REPORT AND PETITION FOR FURTHER INSTRUCTIONS OF RECEIVER, GEOFF WINKLER** on all the parties to this action addressed as stated on the attached service list.

OFFICE MAIL: By placing in sealed envelope(s), which I placed for collection and mailing today following ordinary business practices. I am readily familiar with the firm's practice for collection and processing of correspondence for mailing; such correspondence would be deposited with the U.S. Postal Service on the same day in the ordinary course of business.

OVERNIGHT DELIVERY: I deposited in a box or other facility regularly maintained by express service carrier, or delivered to a courier or driver authorized by said express service carrier to receive documents, a true copy of the foregoing document(s) in sealed envelope(s) or package(s) designed by the express service carrier, addressed as indicated on the attached service list, with fees for overnight delivery paid or provided for.

HAND DELIVERY: I caused to be hand delivered each such envelope to the office of the addressee as stated on the attached service list.

ELECTRONIC MAIL: By transmitting the document by electronic mail to the electronic mail address as stated on the attached service list.

E-FILING: By causing the document to be electronically filed via the Court's CM/ECF system, which effects electronic service on counsel who are registered with the CM/ECF system.

FAX: By transmitting the document by facsimile transmission. The transmission was reported as complete and without error.

I declare that I am employed in the office of a member of the Bar of this Court at whose direction the service was made. I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed on **April 30, 2019** at Los Angeles, California.

/s/ Martha Diaz
Martha Diaz

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SERVICE LIST

Securities and Exchange Commission v. Ralph T. Iannelli and Essex Capital Corporation
USDC, Central District of California – Case No. 2:18-cv-05008-FMO-AFM

Mark Riera, Esq.
Jeffer Mangels Butler & Mitchell LLP
1900 Avenue of the Stars, 7th Floor
Los Angeles, CA 90067-4308

Via First Class Mail