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RECEIVER'S SECOND REPORT

September 28, 2004

RE: No. CV 2003-005724

The Receiver's Initial Report to the Court and to Investors centered its attention on describing the nature of the purported fraud that was perpetrated against the investors in the ANMP Receivership proceeding. Since that report, the Receiver has been able to concentrate his efforts on collection of outstanding balances owed pursuant to loans made by American National Mortgage Partners and its related Receivership entities (hereinafter "ANMP"). Due to the nature of the loan transactions, ANMP's lack of due diligence regarding both the value of securitized assets and the financial wherewithal of borrowers, the process has been, and will continue to be, time consuming.

Formal written demand has been made upon all borrowers of ANMP entities. With regard to those who have responded, negotiations have commenced in an attempt to resolve the outstanding balances owed. Borrowers have uniformly responded by asserting defenses to the loans, alleging that they were defrauded by the actions undertaken by ANMP and its principals. Through negotiation, several of these accounts have been settled, and arrangements for payment reached with the borrowers. To the extent that the negotiations have not resulted in settlement, lawsuits have been and will continue to be filed in order to collect the outstanding balances.

The substantial settlements which will be discussed below have been the result of the efforts of the Receiver, Receiver's legal counsel and other professionals retained by the Receiver, and are not without offsetting costs. Recoveries are subject to payment of the administrative expenses incurred and approval of a distribution plan.

The following will summarize those loan transactions in which settlements have been negotiated and/or resolutions of the indebtedness reached.

Dexter Distributing (Castle & Taylor Coleman):

Castle Boutique and Taylor Coleman were the largest borrowers of the ANMP entities. Accordingly, the Receiver concentrated a significant amount of his time in attempting to resolve this indebtedness. Castle Boutique through its related entity, Dexter Distributing (hereinafter collectively referred to as “Dexter”), filed bankruptcy and sought to limit recovery to the ANMP Receivership to approximately \$4 million. Shortly after the inception of the Dexter bankruptcy proceeding, meetings were held with the Debtor and its principals, and protracted settlement negotiations resulted in an agreement whereby \$14 million would be paid by the Dexter reorganized debtor to the investors of ANMP. The process, as investors are well aware from the numerous pleadings that were noticed and delivered to them, was protracted. Initially, the Bankruptcy Court, for both the Dexter case and the ANMP case required evidentiary testimony from the Receiver and reorganization specialist of Dexter establishing the nature of the “Ponzi Scheme” which existed in both bankrupt estates. Based upon evidence of fraud which had been committed upon investors, the Court determined that it was within the reasonable business judgment of the Receiver to enter into a settlement which will allow for the payment of ANMP investors by the Dexter debtor. In addition to payments to investors, the Dexter Court issued an order requiring the Dexter estate to pay \$167,000 from the Dexter estate for attorney’s fees incurred by the Receiver’s counsel. Payments were to commence in July, 2004. Dexter made the initial required payment in compliance with the Order Approving the Plan. Thereafter, Dexter is required to make quarterly payments, in the minimal amount of \$500,000. Forty-five percent (45%) of these payments is payable to the ANMP estate, which is to be subsequently distributed by the Receiver upon further Court Order of the ANMP courts. Fifty-five percent (55%) of the payment would go to pay the unsecured creditors of the Dexter estate. While payments are required to be made, ANMP would retain control of two of the five Board of Director seats of Dexter. Two of the remaining five seats would be held by the unsecured creditors of the Dexter estate with the one remaining seat being held by the Dexter entity (by agreement Taylor Coleman would not hold this position.) Once unsecured creditors are paid in full, the ANMP estate would control two of the three seats of the Board of Directors. By maintaining control of management, the Receivership controlled the subsequent decisions being made which would effect future distributions to investors. Taylor Coleman was removed from management thus alleviating the fear of further mismanagement.

Based upon current operations and projections of future income, Dexter is profitable and should be able to fulfill its obligations to ANMP. The interests of the unsecured creditors may be paid off as soon as one (1) year. Assuming that unsecured creditors are paid as projected, thereafter, a minimum quarterly payment of \$500,000 would be paid to ANMP. Based upon conservative projections, it is anticipated that quarterly payments will be significantly higher than \$500,000, and the hope is that the ANMP debt will be paid off within three to five years. After year three, the outstanding balance owed to ANMP will accrue interest at 8% thereby giving incentive to the Dexter estate to pay off the ANMP indebtedness in an expedited manner.

While payment is still speculative, the control of management, and the conservative projections lead the Receiver to believe that Dexter is capable of making the payments required under the Plan, thereby funding approximately \$14 million towards the recovery of ANMP investors and payment of administrative costs.

Taylor Coleman:

In addition to Dexter having filed bankruptcy, the principal of Dexter, Taylor Coleman (“Coleman”), also filed bankruptcy. Coleman guaranteed the obligations of Castle, and thereby created liability to the ANMP estate and its investors. In addition, to the extent that Coleman may have been personally involved in the solicitation of monies used to fund Dexter loans, the investors retained certain additional claims. To the extent these claims existed, the ANMP estate and ANMP creditors’ committee commenced negotiations with the Coleman Estate. The negotiations culminated in the Dexter estate agreeing to fund an additional \$2 million to alleviate further liability of Coleman. Based upon the Coleman and Dexter settlements, the investors of ANMP will now have a pool of at least \$16 million available for distribution and payment of administrative costs. Once again, distribution of the Coleman/Dexter monies is contingent upon determination by the ANMP estate as to the appropriate means and amount of distribution. Pursuant to both the Dexter and Coleman Plans, the investors of ANMP were noticed of all pending proceedings, and given the opportunity to either accept, or reject the settlement. Based upon the ballots that were filed in the various proceedings, or the lack of formal objection, the Court determined that the investors of ANMP accepted the terms of both settlements, and the settlements were approved by Orders in the ANMP Bankruptcy Court and State Court proceedings.

36th Street & Oak:

Initial review of the 36th Street and Oak investment revealed that title to the property had been transferred to third parties prior to entry of an Order appointing the Receiver. In order to protect the interest of the investors, the Receiver filed an action in the Superior Court for the county of Maricopa, seeking to avoid the transfer, and to obtain title to the property. Pursuant to this litigation, title to the property was transferred back to the Receivership estate. By recent motion, the Receiver has sought approval of the Court to facilitate the liquidation of the property. It is anticipated that the property will be auctioned and sold within the next ninety (90) to one hundred twenty (120) days.

Secluded Lane:

This transaction involved a loan to Kenneth Magill which was purportedly securitized by an Illinois Land Trust. Prior to the appointment of the Receiver, title was foreclosed in accordance with the Illinois Land Trust documents and transferred into the name of the ANMP entity. Kenneth Magill subsequently filed a bankruptcy proceeding, and the Trustee for the Magill bankruptcy asserted ownership of the property. A title inspection revealed a \$1.8 million first lien against the property, secured by a Note and Deed of Trust to a third party lending institution. The lending institution sought relief from the

automatic stay in order to foreclose its interest in the property. In order to facilitate any recovery from the property, the Receiver sought authority of the Court to transfer the property into the Kenneth Magill estate, thereby enjoining the lender from being able to foreclose against the property. The transfer took place with the reservation of rights as to the Receiver's claim to either ownership, or to the proceeds from the eventual sale of the property. The transfer of the property to the Magill estate facilitated the Receiver's ability to obtain financing to allow for a national auction company to be retained to sell the property. Based upon the actions undertaken by the Receiver, the property was eventually auctioned, and a settlement reached with the Magill estate which netted approximately \$736,000 for the ANMP estate.

998 E. Indian School Road:

A review of the 998 E. Indian School transaction revealed that numerous transfers of title had taken place. The last transfer resulted in the ANMP estate retaining a landlord's interest in a lease, which lease was subject to an option to purchase. The property was subject to a first encumbrance in excess of \$400,000. The option rights of the tenant required the payment of approximately \$380,000. It was determined that in the event the tenant was to exercise its option, the Receivership estate would be required to fund the difference to the first lender to assure the transfer of title would take place free and clear of liens. The Receiver had collected approximately \$70,000 in rents, and was holding these rents subject to further Court Order. Based upon this scenario, the Receiver determined that maintaining an interest in the property was not in the best interest of the estate, and negotiated a settlement with the existing first lienholder which allowed for the Receiver to keep approximately \$50,000 of the proceeds. The settlement alleviated any exposure for the option price or expenses. The Receiver sought, and obtained Court authority to enter into this agreement.

Lungaro / TN Corporation:

The Receivership estate held a secured interest in the amount of approximately \$475,000 in certain real property located at 3303 Medina Road, Medina, Ohio. After contacting the borrower, and being advised of the purported defenses that may exist, a settlement was negotiated whereby the borrower paid \$400,000 to the Receivership estate. The settlement was noticed out to all creditors in both the state court and bankruptcy court proceedings and Orders were obtained approving the Receivership's authority to enter into the transaction.

Penthouse:

Upon identifying Penthouse as a potential source of significant recovery, the Receiver reviewed the files and determined that the transaction had not been appropriately documented, nor had security instruments been recorded to protect the interests of the investors. The investors were to have been secured by a mortgage on Robert Guccione's personal residence, his summer home, and on a \$40 million art collection. In order to protect the interests of the investors, local counsel was retained in New York and an

action filed in order to assert the estate's liens against the properties. As a result of the action initiated by the Receiver, a Judgment was entered authorizing the recordation of liens against the properties. Unfortunately, prior to the Receiver having been appointed, a judgment for foreclosure had been entered against the personal residence, and the first lienholder on the subject properties had completed its foreclosure. An action is still pending as to the summer home and any remaining art work. Negotiations have been ongoing with the Penthouse estate and Robert Guccioine, and significant inroads have been made towards reaching a sizeable settlement beneficial to the investors of the ANMP estate. Once settlement is reached, it will be noticed to all creditors of ANMP and they will be given an opportunity to voice their approval.

Abandonment of Properties and Litigation:

The terms of the Receivership Order provided as follows:

10. The Receiver is hereby authorized to make such ordinary and necessary payments, distributions and disbursements as he deems advisable or proper for marshalling, maintenance or preservation of the Receivership Assets. The Receiver shall have the authority to contact and negotiate with any creditors of the Receivership Defendant, for the purpose of compromising or settling any claim. To this purpose, in those instances in which receivership assets serve as collateral to secured creditors, the Receiver may surrender such assets to secured creditors and shall have authority to make such surrender conditional upon the waiver of any deficiency of collateral. Furthermore, the Receiver is authorized to remove, cancel, terminate or otherwise adjust any pending lease agreements to which the Receivership defendants are a party.

In his review of the Receivership files, the Receiver determined that several properties were over-encumbered and that there was no economic benefit to the Receivership estate in retaining an interest in them. These properties included the following:

- 24003 N. Dobson Road (Sultan Al Shae)
- 125 S. 52nd Street, Tempe, Arizona (FutureCom Global)
- 300 Acacia Drive, Sedona, Arizona (Bed, Boat and Breakfast)
- 1256 Rand Avenue, Franklin County, Ohio (Colonial Exeter)

Each of the proceeding properties were determined to be a detriment to the estate in that they were an accruing liability without any corresponding benefit to the estate. Each was over-encumbered by senior liens and the liquidation of the properties would not result in any income to the estate.

After notice and hearing, Court Orders were obtained authorizing the Receiver to enter into settlements which resulted in the abandonment of the properties.

350 Forest Avenue, Amsterdam, New York:

The property located at 350 Forest Avenue, Amsterdam, New York, was owned by the Receivership estate, subject only to existing taxes, which approximated \$40,000. The Receiver obtained authority to retain a local auction company in order to facilitate the sale of the property.

The property is located in a depressed area in New York, and was not readily marketable. As a result, the auction process did not result in a viable buyer. The taxes are believed to exceed the value of the property. Negotiations have been ongoing to locate a buyer to assume the liability for taxes and relieve the estate from any further liability. It is anticipated that the Receivership estate will obtain limited, if any, recovery from the subject property.

Future Collection Efforts:

Negotiations towards settlements continue with numerous borrowers. To the extent that settlements are reached, these settlements will be noticed out to investors for their approval. Due to the sensitive nature of the negotiations, it would be inappropriate to set forth the nature of those discussions in this report.

In addition, various third parties, including several lending institutions and professionals, have been contacted regarding their potential exposure to the ANMP estate. Negotiations have been ongoing in an attempt to obtain recovery. As to the professionals, litigation has been instituted and is currently pending in the Maricopa County Superior Court.

To the extent that the negotiations do not result in settlement, the Receiver anticipates initiating litigation in order to collect the outstanding balances. As to those borrowers who have not responded, litigation will be instituted shortly to collect the outstanding balances.

Status of Bankruptcy:

The Receiver anticipates filing Bankruptcy Schedules in the ANMP and ANMP 74th Street bankruptcies within the next several weeks. Based upon full review and analysis of the estates, the Receiver believes that all of the Receivership entities should be consolidated into the pending bankruptcy proceedings. The Receiver anticipates filing the appropriate pleadings to consolidate all of the entities into the pending Bankruptcy Court proceedings. As a result, the Receiver will then be in a position to file a Disclosure Statement and Plan which will facilitate the transfer and disposition of assets. Under the terms of the Receivership Order, the Receiver has been mandated to “prevent the inequitable distribution of assets and determine, adjust and protect the interests of persons with an interest in, or claim against, the Receivership assets.” In order to meet this requirement, the Receiver anticipates the filing of a Plan and Disclosure Statement which will request an equitable distribution of proceeds on a “net investment” basis. Investors

have been previously advised of this position, and its affect, as a result of the pleadings that have been noticed in the Dexter proceeding. Until such time as the Court issues an Order addressing the appropriate distribution plan, the Receiver is precluded from disbursing any funds to investors.

The Receiver anticipates filing the appropriate pleadings shortly in order to facilitate the required Orders in order to allow for distributions to commence. This process will require approval of the Disclosure Statement and Plan of Distribution prior to disbursement. The timing of distributions will be affected by the timing of the Court hearings and any opposition received to the position asserted by the Receiver.

Sincerely,

James C. Sell, Receiver