IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. JAMES A. TORCHIA, CREDIT NATION CAPITAL, LLC, CREDIT NATION ACCEPTANCE, LLC, CREDIT NATION AUTO SALES, LLC, AMERICAN MOTOR CREDIT LLC, AND SPAGHETTI JUNCTION, LLC, Defendants.	Civil Action File No. 1:15-cv-3904-WSD

INITIAL REPORT OF RECEIVER

Pursuant to an Opinion and Order (the "Order") entered at approximately 4:20 p.m. on April 25, 2016, this Court appointed Al Hill as Receiver for James A. Torchia, Credit Nation Capital, LLC ("CNC"), Credit Nation Acceptance, LLC, Credit Nation Auto Sales, LLC, American Motor Credit, LLC ("AMC"), and Spaghetti Junction, LLC (collectively, the "Defendants"). This is the Receiver's initial report of his actions, observations, and determinations since April 25, 2016.

Initial Actions of the Receiver

1. The Receiver contacted counsel for the Defendants, James Johnson, on the evening of April 25, 2016 and arranged to meet with the senior management team of the Defendant companies (the "Companies") at 2:00 p.m. on April 26, 2015. That meeting was attended by the Receiver, his counsel, Amy Weber of Taylor English Duma LLP, James Torchia (CEO of the Companies), Marc Celello (General Counsel of the Companies) and Lee Berman (Vice President of Marketing of the Companies). At that meeting, the Receiver informed the Defendants of the duties of the Receiver and the continuing obligations of the Defendants and their employees, including the duty to preserve evidence as set forth in the Order. The Defendants gave an overview of their operations and agreed to abide by the Order.
2. On the morning of April 27, the Receiver and counsel met with the remaining employees of the Companies and informed them of the role and duties of the Receiver, and their duties and obligations pursuant to the Order. At that time, the Companies had 25 employees, plus five independent marketing representatives located outside of Georgia.

3. The Receiver and counsel spent the remainder of the week and the week of May 2 at the Companies' office in Canton, observing operations and interviewing key employees. The following actions were taken:
   a. Secured all known bank accounts.
   b. Opened new bank accounts in the Receiver's name.
   c. Secured all information technology systems and turned off remote access capabilities.
   d. Extended off-site backup capabilities (at nominal cost) to ensure that no data is lost.
   e. Placed Mr. Torchia on an unpaid leave of absence, effective April 27.
   f. Reduced employee headcount to seven (7) employees by terminating employment of marketing and underwriting staff and other non-essential personnel. At this point, all remaining employees are involved in either: (i) management, collection and sale of the subprime automobile loan portfolio; (ii) management, monitoring, premium payment and collection of the life settlement portfolio, or (iii) sale of the life settlement portfolio.
   g. Limited access to the offices so that only remaining employees have access.

h. Retained the services of Susan Hartman of Park Hartman, LLC to provide an up-to-date accounting review of the Companies.

i. Interviewed several firms in the life settlement business in order to find an entity to manage the life settlement portfolio on an outsourced basis. Discussions with two vendors are in the final stages.

j. Obtained approval from the Court to sell the Companies' portfolio of subprime auto loans owed by debtors who have filed for bankruptcy.

k. Obtained approval from the Court to sell the remainder of an existing policy to its current fractional investors in order to (i) avoid future payment of premiums on this expensive policy and (ii) obtain cash which will be needed to wind down operations and pay future premiums to keep existing policies from lapsing.

l. Suspended purchase of additional life settlement policies.

m. Suspended payment of principal and interest on all Promissory Notes (as defined below under "Liabilities," subpart b; see discussion under "Cash Position" below).

Observations on the Status of the Companies

1. Business. The Companies are involved in two separate lines of business: (a) the purchase, management, and sale of life settlement (or viatical) policies and (b) subprime automobile loan business, in which one of the Companies, AMC, makes automobile loans to high credit risk borrowers and purchases similar loans from other lenders.

2. Assets. The Companies' assets are primarily derived from its two lines of business.

   a. Life Settlement Assets. On the life settlement side, CNC has invested in life settlement policies that fall into three categories:

      i. Policies purchased by CNC for which CNC is the sole beneficiary and CNC pays all premiums. Many of these policies are actually registered with the insurers in the name of James Torchia, who is also registered as the beneficiary. Despite this, Mr. Torchia routinely delivers the benefit to CNC.

      ii. Policies purchased by CNC which CNC has sold to outside investors, but which remain registered with the insurer in the name of CNC or James Torchia. These policies may have been sold entirely to outside investors or CNC may have retained a portion of the death benefit. In either case, CNC retained the responsibility to pay future premiums until two years past the life expectancy of the insured. Death benefits on these policies are payable to CNC, which redistributes the death benefit to the investors in accordance with their interests.

iii. Policies purchased by CNC which CNC has sold to outside investors and for which the investor(s) has been registered with the insurer as the owner and beneficiary of the policy. CNC retains responsibility for payment of future premiums until two years past the life expectancy of the insured. Death benefits on these policies are payable by the insurer directly to the investor(s) registered as beneficiary.

The Receiver is currently negotiating with a viatical industry management firm to estimate the value of the portfolio owned by CNC and ultimately to take over the management and marketing of the portfolio.

b. Subprime Loan Assets. AMC has a portfolio of subprime automobile loans with a face value of approximately $2.5 million. The Receiver believes that the portfolio has significant market value and can be sold to other subprime lenders in order to generate cash to continue to maintain the life settlement policies. Funding for the subprime loans is obtained by AMC via intercompany loans from CNC.

c. Other Assets. The Companies have other assets consisting of a small amount of operating cash and office and computer equipment. The Receiver does not have an estimate of the value of these assets, but will attempt to sell all of these assets once the life settlement policies are moved to a management company.

3. Liabilities

a. Premiums – The Companies' largest liability is the obligation to pay premiums on life settlement policies, both those owned by CNC and those sold to investors. The projected aggregate annual premium on policies wholly or partially owned by CNC is approximately $3.1 million. The projected aggregate annual premium on policies wholly sold to investors is $1.05 million. In addition, policies held by River Green and NVT (see below) are currently serviced by CNC and premiums are advanced by CNC. These premiums currently total approximately $300,000 per year.

b. Promissory Notes – CNC is liable to outside investors for promissory notes (the "Promissory Notes") in the aggregate principal amount of $45,130,272.80, plus accrued interest. See discussion below under "Investors."

c. Operating Costs – The Companies have continuing operating expenses for rent, salaries, office supplies and the like. These will diminish as portions of the portfolio are sold and servicing requirements diminish and/or are outsourced.

4. Capital – The Companies have traditionally raised capital from outside investors in two ways: the sale of Promissory Notes and the sale of life settlement interests.

a. Promissory Notes – Since 2010, CNC has raised over $45,000,000 in capital by issuing Promissory Notes, typically with a term of 3 or 5 years, with interest at nine percent (9.0%), though the interest rate sometimes varies. These Promissory Notes are secured by all assets of CNC.

b. Life Settlement Policies – CNC uses its operating funds to make advances to AMC for subprime loans and to purchase life settlement policies. As described in the "Assets" section above, some of the life settlement policies are then resold, in whole or in fractional interests, to third party investors, with the proceeds of such sales being retained by CNC for operating purposes and for further investment in life settlement policies. Either the investors or CNC are named as beneficiary on these policies. CNC does not escrow any portion of the proceeds of sales of life settlement policies for use in the payment of future premiums.

5. Cash Position - Since November 18, 2015, when the Companies entered into a consent order with the SEC preventing the Companies from, among other things, issuing additional Promissory Notes, the Companies have been selling assets in order to fund operations and make principal and interest payments on Promissory Notes. The Companies now face a severe cash shortage resulting from the combination of the limited revenue stream from subprime loans (which has decreased as the portfolio has been sold) and the ever-present obligation to pay life settlement premiums, both on policies owned by CNC and on policies previously sold by CNC. Expected monthly revenue from the subprime loans is approximately $70,000. Monthly life settlement premiums are currently approximately $370,000, while continuing overhead costs,

including payroll, rent, and fees of the Receiver and other receivership servicers are expected to exceed $100,000 per month. Maturities of life settlement policies will supplement the Companies' cash position, but those benefits, while ultimately certain, will be received on a timetable not within the Companies' control. The monthly cash shortfall must be addressed in a manner that yields predictable cash flows or the Companies will risk being unable to pay premiums as they come due and may, therefore, lose the value of the life settlement policies in which it has invested. Finally, due to this severe cash shortage, the Receiver has suspended all payments of principal and interest on the Promissory Notes until further notice.

Conclusions and Recommendations

1. Based upon the above-described review, it is apparent to the Receiver that the Companies have not generated sufficient earnings to service the debt evidenced by the Promissory Notes (i.e. the Companies have been earning less than their cost of capital). The Companies have serviced their obligations under the Promissory Notes through a combination of selling additional Promissory Notes and selling investment assets.

Without the customary stream of revenue from business profits, the injunction issued by the Court preventing the Companies from raising additional capital effectively ends the Companies' ability to service the Promissory Notes.

2. As there is no viable means of increasing revenues, the Receiver intends to recommend to the Court the following actions:

   a. Conduct an orderly sale of the subprime loan portfolio.
   b. Use the proceeds of such sale to pay near-term premiums on life settlement policies.
   c. Issue a Court order requiring transfer of all life settlement policies into the name of CNC, both as owner and as beneficiary;
   d. Transfer the life settlement policies to an independent servicer;
   e. Shut down all operations of the Companies once the previous actions are complete;
   f. Liquidate the Companies' physical assets; and
   g. Conduct an orderly sale of the life settlement portfolio in a manner that maximizes assets available to the creditors of the Companies.

3. In connection with the foregoing recommendations, the Receiver has asked the Court to rule that CNC is the proper owner of death benefits

under life settlement policies for which the beneficiary is either Mr. Torchia (or another individual affiliated with CNC) and/or for which the Companies have paid premiums.

4. The Receiver is also aware that entities known as River Green and National Viatical Trust ("NVT") own interests in life settlement policies for which funding has previously been advanced by CNC and which have historically been serviced by CNC employees. While River Green and NVT are not subject to the Order, excluding these entities from this receivership will result in the loss of value of their life settlement policies due to non-payment of premiums. To prevent this, the Receiver urges the Court to order that CNC will advance funds to pay such premiums until the Receiver can develop further plans for those entities.

5. The Receiver intends to continue to search for additional assets and avenues of recovery for the receivership, the creditors, and investors in the Companies. The Receiver will also continue to work with counsel and with the Court to develop an appropriate plan of distribution as the liquidation of the Companies progresses.

6. The Receiver will file additional interim reports as circumstances dictate.

Respectfully submitted, this 9th day of May, 2016.

/s/ Amy K. Weber

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CERTIFICATE OF SERVICE

I hereby certify that I have this day electronically filed the foregoing *Initial Report of Receiver* with the Clerk of the Court using the CM/ECF system which will automatically send e-mail notification of such filing to all attorneys of record.

This 9[h] day of May, 2016.

/s/ Amy K. Weber
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