

In re: Pride of Austin High Yield Fund I, LLC

Receiver's Fourth Status Report

January 29, 2025
Austin, Texas

Holland & Knight

Summary of Presentation

- This status update will focus on:
 - Receiver's efforts to collect against active borrowers;
 - Receiver's efforts to monetize REO properties;
 - Receivership administration matters, including claims process.

Milan Sai Joint Venture, LLC

Milan Sai Joint Venture, LLC

- Milan Sai owns and operates a Super 8 Motel in Stanton, Texas, which serves as collateral for the Fund.
- Milan Sai's outstanding debt to the Fund, including interest and fees, exceeds \$3.8 million.
- Prior to a scheduled foreclosure sale, Milan Sai filed for Chapter 11 bankruptcy in the Northern District of Texas.



Milan Sai's Bankruptcy Proceeding

- Milan Sai elected to proceed under Subchapter V of Chapter 11, designed for small businesses.
 - In this circumstance, under Subchapter V, Milan Sai would be able to dramatically reduce the debt owed to the Fund over the Receiver's objection and retain control over the motel. Something it could not do in a traditional chapter 11.
- The Receiver objected to the Subchapter V election, arguing that Sai's debt exceeds the statutory cap of \$3,024,725.
- The Receiver filed a Motion to Lift the Automatic Stay to allow foreclosure to proceed.
- The Receiver moved to sever Milan Sai from the Travis County lawsuit, enabling pursuit of claims against the guarantors.
- The Receiver believes at least one guarantor may have financial wherewithal and can be a source of recovery.

Milan Sai's Bankruptcy Proceeding

- The Bankruptcy Court scheduled hearings for January 7, 2025, on the Receiver's Motion to Lift the Automatic Stay and Objection to Debtor's Subchapter V Designation.
- The Receiver secured the following relief:
 - Debtor must pay outstanding property taxes by January 31, 2025;
 - Debtor will proceed under a traditional Chapter 11, not Subchapter V;
 - Debtor must have a Chapter 11 plan confirmed by April 30, 2025, or the automatic stay will lift;
 - Debtor is required to pay the Receiver \$15,287.67 per month through case conclusion.

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CLERK, U.S. BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS

ENTERED

THE DATE OF ENTRY IS ON
THE COURT'S DOCKET

following constitutes the ruling of the court and has the force and effect therein described.

dated January 15, 2025

A handwritten signature in cursive script, reading "Michelle V. Larson".

United States Bankruptcy Judge

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

IN RE:	§	
	§	CASE NO. 24-33560-MVL
MILAN SAI JOINT VENTURE, LLC,	§	
	§	Chapter 11
DEBTOR.	§	
	§	(Subchapter V)

**AGREED ORDER GRANTING MOTION OF GREGORY S. MILLIGAN,
RECEIVER FOR PRIDE OF AUSTIN HIGH YIELD FUND I, LLC,
FOR RELIEF FROM THE AUTOMATIC STAY**

Come on for hearing before this Court the *Motion of Gregory S. Milligan, Receiver for Pride of Austin High Yield Fund I, LLC, for Relief from the Automatic Stay* (the "**Motion**").¹ Based upon the record before the Court, the Court find that the Motion should be **GRANTED** as set forth herein.

Next Steps with Milan Sai

- **Bankruptcy:** Continue active participation in the bankruptcy case. With the case now a traditional Chapter 11, the Receiver has significant control, including a veto over any unacceptable plan.
- **State Court Action:** Pursue legal action against the guarantors for the deficiency balance. Pursue global mediation between the Receiver, Milan Sai, and the Guarantors.
- **Mediation:** While proposed by the Receiver and discussed with the Bankruptcy Court, mediation has yet to be scheduled.

Guestwiser Venture 1, LLC

Guestwiser's Resistance to the Receiver

- The Receiver has been attempting to foreclose on Guestwiser's assets since August, which include:
 - Real Property in Dallas, Texas; and
 - Modular housing units
- Guestwiser has filed a state court lawsuit and a bankruptcy proceeding, both of which have been dismissed, to halt the Receiver's efforts.
- The Receiver had Guestwiser's real estate posted for sale in December, which led to Guestwiser agreeing to a deal the Receiver viewed as in the best interest of the Receivership Estate.

Settlement with Guestwiser

Initial Settlement

- Guestwiser executes deed in lieu of foreclosure for real estate.
- Payment of \$500,000 to Receiver due by January 2, 2025.
- Payment of \$200,000 to Receiver due on or before June 2, 2025.
- Receiver takes ownership of modular units for monetization.
- Upon full satisfaction of conditions, Receiver will release liens on real estate.

Revised Settlement

- Guestwiser executes deed in lieu of foreclosure for real estate (already in Receiver's possession).
- Guestwiser paid \$45,000 to Receiver on or before January 2, 2025 (completed).
- Guestwiser to pay \$655,000 to Receiver by February 3, 2025.
- Receiver takes ownership of modular units for monetization.
- Upon satisfying all conditions, Receiver will release liens on real estate.
- Default allows Receiver to file deed in lieu of foreclosure.

The Valor Club Partners, LLC

The Valor Club Partners, LLC

- Principal loan balance: \$4,725,000.00
- Collateral: Appx. 50 acres of raw land across four (4) non-contiguous tracts in San Antonio.
- Indications of Value
 - Bexar County Appraisal District values land at \$2,764,620.00;
 - Brokers Opinion of Value procured by Borrower showing a \$4.4 million valuation

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Date: March 2, 2018

Borrower: **The Valor Club Partners, LLC**, a Texas limited liability company

Borrowers' Mailing Address: 9401 Wilshire Boulevard, Suite 1250, Beverly Hills, CA 90212

Lender: **Pride of Austin High Yield Fund I, LLC**, a Texas limited liability company

Place for Payment: 3600 N. Capital of Texas Highway, Building B, Suite 120, Austin, Travis County, Texas 78746

Guarantors (whether one or more): Irwin J. Deutch

Guarantors' Mailing Address: c/o The Valor Club Partners, LLC, 9401 Wilshire Boulevard, Suite 1250, Beverly Hills, California 90212

Principal Amount: The maximum amount of Four Million Seven Hundred Twenty-Five Thousand and No/100 Dollars (\$4,725,000.00) ("Maximum Principal Amount"), which amount advanced shall be made pursuant and subject to the terms and conditions provided in the Loan Agreement (as hereinafter defined).

Annual Interest Rate: Twelve Percent (12%)

Maturity Date: March 2, 2019. Subject to the terms hereof, the Maturity Date may be extended, at the option of the Borrower, until September 2, 2019 (the "First Extension Date"). In order to exercise that first option, the Borrower must give the Lender written notice of the Borrower's intent to exercise the option on or before February 2, 2019, and must pay to the Lender, (a) on or before February 2, 2019, an amount equal to three percent (3.0%) of the Principal Amount of the Note outstanding on the date of that payment and (b) on or before March 2, 2019, all accrued and unpaid interest due and owing as of such date. The fee in subpart (a) above will be deemed to be a fee that is used to defray the Lender's expenses in extending the loan and the Note, and shall not be credited toward principal or interest due under the Note. If the Maturity Date has been extended until the First Extension Date as provided herein, the Maturity Date may be extended a second time subject to the terms hereof, at the option of the Borrower, until March 2, 2020 (the "Second Extension Date"). In order to exercise that second option, the Borrower must give the Lender written notice of the Borrower's intent to exercise the second option on or before August 2, 2019, and must pay to the Lender, (a) on or before August 2, 2019, an amount equal to three percent (3.0%) of the Principal Amount of the Note outstanding on the date of that payment and (b) on the First Extension Date all accrued and unpaid interest due and owing on the Note. The payment in part (a) immediately above will be deemed to be a fee that is used to defray the Lender's expenses in extending the Loan and the Note, and shall not be credited toward principal or interest due under the Note. Notwithstanding any of the foregoing, the Borrower may not exercise the option to extend the Maturity Date if the Borrower is in default under the terms of this Note, the Loan

Settlement with Valor

- Receiver and Valor entered into settlement agreement on October 31, 2024, requiring Valor to:
 - Pay \$150,000 to Receiver by November 1, 2024.
 - Pay \$4,050,000 to Receiver by January 31, 2025.
- Valor has two 30-day extension options.
- Defaults trigger Receiver's right to record deed in lieu of foreclosure.

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AMENDED FORBEARANCE AND SETTLEMENT AGREEMENT

This Amended Forbearance and Settlement Agreement (the "Agreement") is made and entered into as of October 1, 2024 (the "Effective Date"), by and among Gregory S. Milligan, as the court appointed receiver (the "Receiver") over Pride of Austin High Yield Fund I, LLC (the "Fund"), and The Valor Club Partners, LLC ("Valor"), and Irwin J. Deutch ("Deutch") (collectively, the "Parties").

Recitals

WHEREAS, Valor is indebted to the Fund pursuant to that certain Loan Agreement, dated as of March 2, 2018 (as amended, supplemented, or otherwise modified from time to time, the "Loan Agreement")¹, by and among the Fund and Valor.

WHEREAS, in connection with the execution of the Loan Agreement, Valor issued a promissory note dated March 2, 2018, in the principal amount of \$4,725,000 (the "Note"). The Note was secured by that certain Deed of Trust dated March 2, 2018 executed by Valor for the benefit of the Fund, and recorded as Document No. 20180042083 in the Official Records of Bexar County, Texas (the "Deed of Trust")². The property secured by the Deed of Trust is referred to herein as the "Property". The loan secured by the Deed of Trust is herein referred to as the "Loan".

WHEREAS, in connection with the execution of the Note, Deutch executed a Limited Recourse Guaranty (the "Guaranty").

WHEREAS, Valor is in default under the Loan Agreement due to, among other things, Valor's failure to pay the amounts outstanding to the Fund upon maturity of the Note;

WHEREAS, there may be other defaults which constitute an Event of Default under the Loan Agreement and failure to reference them herein shall not be construed as a waiver by the Fund or the Receiver in that regard;

WHEREAS, Valor hereby acknowledges and agrees that the Loan Agreement is in default, and the defaults have not been waived by the Fund or the Receiver;

WHEREAS, on May 2, 2024 and again on July 11, 2024, Valor and Receiver executed a forbearance agreements, which have expired.

WHEREAS, the Receiver posted the Property for an November 5, 2024 foreclosure (the "Foreclosure").

WHEREAS, on September 26, 2024, Valor filed a lawsuit in Bexar County District Court against the Receivership Estate (the "Lawsuit").

WHEREAS, Valor and the Receiver have agreed that the Receiver will extend the forbearance period until January 31, 2025 and therefore forbear from exercising his rights and

¹ Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Loan Agreement.

² The liens granted by Valor under the Deed of Trust, both on real and personal property, are collectively referred to herein as the "Liens".

Trinity Consulting and Construction, LLC

Trinity Consulting and Construction

- Trinity is a single-family home builder based in Lago Vista, Texas.
- Trinity has six outstanding loans with Pride of Austin, secured by lots and improvements.
- Two lots have partially constructed homes, including 3405 Congress (pictured).
- Total outstanding principal owed by Trinity is approximately \$2.4 million.



Trinity Consulting and Construction, LLC

- Receiver posted both partially constructed homes for foreclosure in December 2024.
- Foreclosure postings led to discussions with Trinity.
- Receiver agreed to delay foreclosures under the following conditions:
 - 3405 Congress to be completed and ready for sale by January 27, 2025.
 - One of Trinity's principals, a licensed real estate agent, to market and sell the property at zero commission.
 - Trinity to submit a proposal by December 31, 2024, outlining how it plans to pay off its remaining loan balance to POA.
- No satisfactory proposal has been received from Trinity, and Receiver is meeting with Trinity in the coming days to evaluate next steps.

Hidden Oaks at Berry Creek, LLC

Hidden Oaks at Berry Creek

- Hidden Oaks at Berry Creek is a housing development located in Williamson County.
- The borrower has been materially unresponsive to communications.
- The Fund's collateral consists of three unsold lots in the development.
- The Receiver is evaluating the option to foreclose on the lots and market them independently.
- The borrower's principal has executed a guaranty, and the Receiver is exploring avenues to address the substantial deficiency claim.

Receivership Estate's REO Properties

Summary of POA's REO Properties

Assets Owned	Status
17389 IH 20, Canton, Texas 75103	<ul style="list-style-type: none">• Sold for \$850,000• Net proceeds (after taxes and closing costs) of \$708,753.15
1610 Hether Street, Austin, Texas 78704	<ul style="list-style-type: none">• Sold for \$1,720,000• Net proceeds (after taxes and closing costs) of \$1,413,126.01
3204 Overcup Oak Drive, Austin, Texas 78704	<ul style="list-style-type: none">• Receiver has hired a contractor to finish construction and will sell upon completion.• Anticipated completion in Q1 2025
8043-8045 FM 359, Fulshear, Texas 77441	<ul style="list-style-type: none">• Receiver has retained broker to market and sell• Listing will go live in the coming days with a list price of \$3.2 million.

Canton Property

Court Order: On November 7, 2024, the Court approved the Receiver's motion to sell certain real property and related improvements in Canton, Texas.

Closing: The Receiver completed the sale of the Canton Property shortly thereafter.

Net Proceeds: The net proceeds from the sale, after taxes and closing costs, totaled \$708,753.15.

Segregated Account: The net proceeds were deposited into a segregated account, per the Canton Sale Order, and will not be accessed without further Court approval.

Hether Street Property

Receiver's Efforts to Cleanse Title

- **Previous Ownership:** The property, owned by CCG Development, was Mr. Buchanan's primary residence.
- **Deed-in-Lieu:** The Receiver obtained a deed-in-lieu of foreclosure from CCG Development but retained its lien to extinguish a junior IRS tax lien.
- **IRS Lien Extinguishment:** The Receiver followed the Internal Revenue Code process to extinguish the IRS lien.
 - After foreclosing on its lien, the Receiver eliminated the IRS lien of \$452,008.71, directly benefiting the Receivership Estate.

Sale of the Hether Street Property

- **Motion to Sell:** On November 8, 2024, the Receiver filed a Motion to Sell the Hether Street Property for \$1,720,000.
- **Court Approval:** The Court approved the motion on November 25, 2024.
- **Closing:** The Receiver closed the sale of the Hether Property shortly thereafter.
- **Net Proceeds:** The net proceeds, after property taxes and closing costs, amounted to \$1,413,126.01.
- **Segregated Account:** The net proceeds were deposited into a segregated account, per the Hether Sale Order, and will not be used without further Court approval.

Overcup Property

- **Property Overview:** The Overcup Property, located in South Austin, is a single-family home with an ADU under construction by CCG Development, LLC at the start of the receivership.
- **Contractor Termination:** The Receiver terminated CCG Development as the general contractor.
- **Project Delays:** Initially unable to proceed due to lack of capital, the Receiver monetized other assets and hired DWM Construction to complete the build and resolve \$143,000 in vendor liens that were clouding the title.
- **Completion Timeline:** Construction is expected to be completed by Q1 2025.
- **Broker Retention:** The same real estate broker who recently assisted with the sale of 1610 Hether Street will handle the sale of the Overcup Property.

Fulshear Property

- **Property Overview:** The Fulshear Property consists of two commercial office buildings—one fully occupied and the other a shell, incomplete due to unfinished construction.
- **Broker Engagement:** The Receiver has engaged a broker to market the property, with the listing set to go live in the coming days.
- **Pricing:** The initial asking price for the Fulshear Property will be **\$3.2 million**.

Tax Matters

Fair Market Valuations

- **Investor Inquiries:** Some investors' IRA custodians are requesting fair market value information regarding their interests in the Fund.
- **Valuation Update:** The Receiver's tax professionals, Weaver & Tidwell, have completed a Fair Market Valuation of the Fund.
- **Information Dissemination:** The Receiver will share relevant details from the valuation report with the Fund's members needing such information.

Delinquent Tax Returns

- **Missed Tax Filings:** The Fund failed to file tax returns for the past seven years.
- **Tax Return Preparation:** Weaver & Tidwell is currently preparing the overdue tax returns for submission.
- **Penalty Investigation:** The Receiver is examining potential late fees and penalties resulting from the missed filings and has been in touch with the IRS.
- **Mitigation Strategy:** The Receiver is consulting with legal and accounting tax experts to minimize any accrued penalties or fees.

Claims Process

Investor Claims Process

- **Reconciliation Notices:** On August 2, 2024, the Receiver sent notices to all current and former POA investors detailing:
 - Cash invested in the Fund
 - Cash paid to the investor
 - Amount of any reinvested dividends
- **Objection Deadline:** Investors had until August 23, 2024, to file objections, which were accepted via email.
- **Reconciliation Notices Sent:** 373 notices sent to investors.
- **Objections:** 32 objections were received.
- **Resolution:** All objections were successfully resolved by the Receiver.
 - All Investor transactions with the Fund have been determined as a result, which will inform the Receiver's proposed distribution method and amounts to Investors.

Other Claims Overview

- **Deadline for filing:** October 15, 2024 (per Claims Order)
- **Claims Filed:** 37 claims totaling \$10,069,184.72
- **Other Claims Report:** Filed on January 20, 2025, recommending allowability and priority of claims as per the Court's directive

Investor Claims and Priorities

- **Investor Claims**

- Investor Claims filed as “Other Claims” (proposed disallowance)

- Judgment Holders

- Membership Judgment Holders

- Subordinated to Investor Claims except for attorneys’ fees claims, which are allowed and have priority over Investor Claims.

- Record Judgment Holders

- Only monetary component is attorneys’ fees claims, which are allowed and have priority over Investor Claims.

	Receiver's Recommendation	
	Filed Claims	Allowed Claims
i. Secured Tax Claim of Van Zandt County	\$93,959.99	\$0.00
ii. General Unsecured Trade Claims	\$260,466.47	\$207,173.88
iii. Investor Claims filed as Other Claims	\$4,100,470.07	\$43,504.00
iv. Judgment Holders	\$5,614,288.19	\$179,302.08
GUC Class Priority	\$10,069,184.72	\$429,979.96
 iv. Judgment Holders [Subordinated Portion]		 \$5,426,243.34

Receiver's Rationale for Priority Proposal

- **Equitable Distribution:** The Receiver must propose a fair allocation of limited assets, prioritizing payment among claimant classes.
- **Judgment Holders vs. Investor Claimants:** Investors who hired counsel to convert membership interests into judgments should not receive full recovery before other Investor Claimants receive any distributions.
- **Impact on Distributable Cash:** Prioritizing judgment holders would dilute funds available to Investor Claimants by \$5.6 million.
- **Uniform Classification:** All POA investors should be classified in the same investor class and follow the same distribution scheme.
- **Attorney Fee Allowance:** Investors who hired legal counsel will not be penalized for doing so—attorneys' fees incurred to assert their rights will be fully recovered.

Objections to Other Claims Report

- Objection Process:
 - Objections to the Other Claims Report due by February 3, 2025
 - Deadline for Membership Judgment Holders can be extended until 21 days after Distribution Plan is filed by the Receiver
 - If unresolved, Court will adjudicate disputes

Continued Analysis of Fund Finances

- **Ongoing Financial Review:** Receiver continues analyzing the Fund's finances throughout its existence.
- **Report in Progress:** Detailed findings are being compiled into a comprehensive report.
- **Expected Release:** Report to be published in Q1 2025.