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8
9 SUPERIOR COURT OF THE STATE OF CALIFORNIA
10 COUNTY OF SHASTA
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13
14 **THE PEOPLE OF THE STATE OF**
15 **CALIFORNIA,**

16 Plaintiff,

17 **GARY T. ARMITAGE;**
18 **JEFFERY A. GUIDI;**
19 **JAMES STANLEY KOENIG,**

20 Defendant.

**DECLARATION IN SUPPORT OF
FELONY COMPLAINT AND ARREST
WARRANT**

21 Declaration in Support of Felony Complaint and Arrest Warrant.

22 I, Robert Morgester, declare that I am a Deputy Attorney General of the State of California
23 assigned to the Special Crimes Unit. This declaration is the product of an investigation begun by
24 California Attorney General's Office in November of 2007 for Securities Fraud in violation of
25 Corporations Code section 25401.

26 This declaration is also based upon the review of evidence seized from Asset Real Estate &
27 Investment (AREI) pursuant to a search warrant, AREI and related entities bank records produced
28 pursuant to search warrants, Department of Justice investigation, conversations with the lead

1 investigating officer, conversations and written communications with the listed victims, and the
2 attached criminal complaint.

3 SUMMARY

4 James Stanley Koenig (Koenig), Gary T. Armitage (Armitage), and Jeffery A. Guidi
5 (Guidi) created a number of companies and affiliates for the purpose of obtaining, financing,
6 leasing, managing, and disposing of property. During the sale of securities to the public to fund
7 these companies there was a failure to disclose a number of material facts to the investors
8 including Koenig's previous federal felony conviction and the previous financial failures of
9 affiliated companies. The purpose of the non-disclosure was to lull the concerns of previous
10 investors and attract new investors to generate the necessary funds to attempt to pay off the old
11 investors. New investors continued to be brought into the companies even when it became
12 apparent that the previous investors could not be paid. Investors report a loss of over
13 \$198,000,000.

14 NARRATIVE

15 A "security" includes any note; stock; membership in an incorporated or unincorporated
16 association; evidence of indebtedness; certificate of interest or participation in any profit-sharing
17 agreement; pre-organization certificate or subscription; investment contract; interest in a limited
18 liability company and any class or series of those interests (including any fractional or other
19 interest in that interest). (See Corp. Code § 25019.)

20 Under the Corporate Securities Law, it is unlawful for any person to offer or sell, or buy or
21 offer to buy, a security in this state by means of a written or oral communication that includes an
22 untrue statement of a material fact or omits to state a material fact necessary in order to make the
23 statements made, in the light of the circumstances under which they were made, not misleading.
(Corp. Code § 25401.)

24 The test of materiality is an omission in a registration statement or prospectus in connection
25 with a sale of securities is not actionable unless there is a material fact omitted and that fact
26 adversely affects the reliability of other statements; a fact is material if there is a substantial
27 likelihood that, under all the circumstances, a reasonable investor would consider it important in
28

1 reaching an investment decision. (*Insurance Underwriters Clearing House, Inc. v. Natomas Co.*
2 (1986) 184 Cal. App. 3d 1520.)

3 Starting in 1997, Koenig, Armitage, and Guidi created a number of companies and affiliates
4 for the purpose of obtaining, financing, leasing, managing, and disposing of property. They also
5 created *ePlanning Securities, Inc.*, a broker dealer that was used to sell the securities that were
6 necessary to obtain the properties.

7 In their early activities Koenig, Armitage, and Guidi would package fractional interest in
8 promissory notes and related deeds of trust¹ as investment opportunities. The investment return
9 was limited to the stated interest due on the purchased notes. The interest offered on these notes
10 often would equal or exceed 12%.

11 Later Koenig, Armitage, and Guidi specialized in obtaining residential care facilities and
12 selling undivided tenant in common interest in the property.² The investment return was limited
13 to the stated interest due on the offering. The interest offered on these offerings often would
14 equal or exceed 12%.

15 Investors either purchased or had their existing interests transferred into Koenig, Armitage,
16 and Guidi controlled companies from 1997 through 2008. Koenig, Armitage, and Guidi would
17 earn fees for structuring the offering, selling the offering, managing the offering, and disposing of
18 the offering. A review of the offering documents shows that affiliated companies owned by
19 Koenig, Armitage, or Guidi controlled all aspects of the financial transactions associated with the
20 offering.

21 The majority of investors have reported that they were not provided with any written
22 disclosures at the time of sale; rather they were assured that their investments were safe. A
23 review of the offering documents that were subsequently provided to the investors for purposes of
24

25 ¹ Fractional interest in promissory note and related deed of trust constituted nonexempt
26 “security,” transactions which could subject promoters to criminal sanctions for violating statutes
27 proscribing unlawful sale of qualified security and making false statement in security transaction.
(*People v. Schock* (1984) 152 Cal.App.3d 379.)

28 ² The offering documents for these properties state that “[A]ll of these properties were
sold as securities through broker-dealers and their registered representatives.”

1 the sale of related securities reveals a number of material omissions were made that a reasonable
2 investor would consider important in reaching an investment decision. These omissions include:

- 3
- 4 (1) Koenig's 1986 federal conviction for mail fraud;
- 5 (2) Koenig's restitution order for an amount up to \$5,000,000;
- 6 (3) Koenig's 1990 probation revocation;
- 7 (4) Koenig's 1993 probation revocation action for failure to repay restitution and
8 subsequent agreement to pay \$81,187;
- 9 (5) The failure to repay the May 1, 2002, Sunset Bay note or that Sunset Bay, Mona, Utah,
10 LLC continued to pay interest on the outstanding principal at 11% annum;
- 11 (6) The failure to repay the February 28, 2003, Mountain House note or that Mountain
12 House, LLC continued to pay interest on the outstanding principal at 13% annum;
- 13 (7) The failure to repay the March 1, 2003, Quail Hollow note or that Quail Hollow, LLC
14 continued to pay interest on the outstanding principal at 13% annum;
- 15 (8) The failure to repay the April 26, 2003, Valdry Court note or that Valdry Court, LLC
16 continued to pay interest on the outstanding principal at 13% annum;
- 17 (9) The failure to repay the September 1, 2003, Fox Run note. That the proceeds of the
18 sale were insufficient to repay the entire Fox Run note and that approximately \$2,516,000
19 in principal remained outstanding under the Fox Run note. There were also no disclosures
20 that Fox Run continued to pay interest on the outstanding principal at 13% per annum;
- 21 (10) The failure to repay the June 25, 2004, Redcliff note or that Redcliff, LLC continued to
22 pay interest on the outstanding principal at 11% annum;
- 23 (11) Facts pertaining to the Mountain House Golf Course May 23, 2007, letter where AREI
24 wrote to the investors stating that the May payment had not been made due to a February
25 cash shortfall due to an "unusually high down payment for workers' compensation
26 renewal." AREI noted that it continued to "experience a ripple effect of having depleted
27 cash reserves."
- 28

1 (12) Facts pertaining to the July 18, 2007, Supplement to Virginia Beach Capital Resource,
2 LLC which disclosed that the Wood River offering was “inadvertently oversubscribed . . .
3 by approximately \$1 million”;

4 (13) Payments to investors from AREI ceased in April 2007;

5 (14) Failure to apply funds that were withheld from the investors to pay taxes and other fees
6 on properties that AREI or its affiliates managed;

7 (15) Facts pertaining to the joint ownership of AREI related entities by Koenig, Armitage,
8 and Guidi.

9 A review of the various companies’ financial histories reveals that the early failures of a
10 number of companies were covered by related entities to continue investor confidence in the
11 continuing offered investment products. The debt load from these past failures and the
12 overvaluation of offered properties created a situation where new investors were needed to fund
13 established investors. To create new funding the companies started purchasing their own
14 property back from original investors and resold it to new investors at substantially increased
15 values. They also moved investors from investments that were secured by property into
16 unsecured AREI corporate notes.

17 Starting in April 2007, the scheme unraveled and AREI ceased to be able to meet its
18 obligation to make investor payments. Even with AREI’s inability to meet its investor payment
19 obligations Armitage continued to sell AREI related investments. Starting in May 2007,
20 Armitage sold to at least 91 individuals \$23,000,000 in investments that either were AREI related
21 or that Armitage or Koenig had control of without adequately disclosing the dire financial
22 problems of AREI. In June of 2008, AREI closed its doors causing investor loss of
23 approximately \$200,000,000.

24 **FELONY CONVICTION**

25 On March 14, 1986, Koenig was convicted of two counts of mail fraud in federal court. He
26 was sentenced to two years, six months in prison and ordered to make complete restitution in an
27 amount not to exceed \$5,000,000. During the plea Koenig admitted to mailing investor
28

1 statements that were “inaccurate and false” in order to keep his victims invested in the underlying
2 scheme.

3 On July 6, 1990, Koenig was convicted of a probation violation as to the above case and
4 sentenced to 120 days in a community treatment center.

5 On May 11, 1993, a petition for action was filed on the above case alleging that Koenig
6 failed to pay \$5,000,000 in restitution. On January 21, 1993, Koenig signed a promissory note to
7 the United States Attorney’s Office acknowledging his indebtedness in the amount of \$81,187
8 and agreeing to make regular monthly payments in the amount of \$600.

9 On June 31, 2008, during the service of a search warrant at AREI, a disclosure letter dated
10 July 26, 2005, and signed by Koenig was discovered. This letter states that while Koenig was the
11 director of Camilito Management Company the “Board of Directors decided to continue to pay
12 investors a 6% return even though the company did not earn a profit.” Koenig further notes that
13 he “was the only dissenting vote on the board” as to this decision. Koenig further disclosed that
14 he was sentenced to 30 month confinement, placed on five years probation and ordered to pay
15 \$5,000,000 in restitution.

16 AREI documents indicate that the company sought legal advice regarding the issues
17 surrounding the disclosure of Koenig’s conviction. A May 1, 2006, letter from William Tate to
18 AREI stated “[O]ur understanding that Mr. Koenig has little if any role in daily operations of
19 AREI and its affiliates supports the position that disclosure of Mr. Koenig’s conviction is not
20 required.³ We note, however, that alternate interpretations of Rule 401 could result in a different
21 conclusion.”

22 AREI was further informed that it may wish to “consider the advantages of disclosure” in
23 order to “counter a potential plaintiff’s allegation that the failure to disclose constitutes a material
24 omission.” The letter concludes with the observation that AREI had recently agreed “to include
25 information regarding Koenig’s history despite that such disclosure might not be required.”

26
27 ³ The legal advice provided is only as good as the facts that were provided to counsel.
28 The facts suggest that Koenig significantly under reported his role in the company and did not
disclose all aspects of his federal conviction.

1 Bill Webster represented AREI and related entities, serving as general corporate counsel
2 and securities counsel. Starting in 1999, Webster directly advised Koenig that the disclosure of
3 Koenig's conviction was not required due to its remoteness in time. At the time that he made that
4 recommendation Webster was unaware of the restitution order or of the probation violations.
5 After reviewing the complete record of Koenig's conviction Webster related that it contained
6 material information that should have been disclosed.

7 Only five investors have reported being made aware of Koenig's conviction at the time of
8 the purchase of the AREI related product. Only one investor, Allan Morgan, stated that he knew
9 Koenig and was aware of his conviction.⁴ Three other investors stated that they were told that it
10 was a "non issue" because Koenig was being bought out or was retiring or had been fired. The
11 remaining investor was aware of the disclosure but did not relate it to Koenig until later.

12 OWNERSHIP OF COMPANIES

13 Koenig, Armitage, and Guidi had extensive ownership interest in a number of intertwined
14 companies. The private placement memorandums (PPM) or other offering documents for the sale
15 of securities that were provided to investors outline these interests:

- 16 ■ *Asset Real Estate & Investment Senior Housing Properties* (AREI) is owned by
17 Koenig and wife (Pamela Koenig).
- 18 ■ *AMI Senior Living, Inc.* (AMISL) is owned by AMI as its sole shareholder. Koenig is
19 the sole shareholder of AMI.
- 20 ■ *Oakdale Heights Management Company* is owned by Koenig.
- 21 ■ *Asset Properties, L.P.* is 99% owned by Koenig and 1% owned by Richard A.
22 Nelson.
- 23 ■ Armitage and Guidi are general partners of *Investment Management Services* (IMS), a
24 California general partnership. The *October 2006, Puntam PPM* continues to list
25

26
27 ⁴ Morgan stated that he has been a close friend of Armitage for over 25 years. He learned
28 of Koenig's conviction during a fishing trip with Armitage and Koenig around 2003-2004. In
2006 Armitage sold Morgan an interest in the AREI Corporate note.

1 Armitage and Guidi as partners in IMS-GA. The *February 2007, Providence*
2 *Capital Resource PPM* list Armitage as the sole member of IMS-GA LLC.

- 3 ■ *Capitol Resource Fund* was jointly owned by *Asset Properties, L.P.* and IMS LCC.
- 4 ■ *Creekside* is owned 75% by James Koenig and 25% by IMS. AREI master document
5 notes that this fund is owned 33.3% by IMS and 66.7% Koenig.
- 6 ■ Armitage and Guidi are shareholders and directors of the parent company of
7 *ePlanning*. Koenig is shareholder of the parent company of *ePlanning*. Armitage
8 and Guidi are registered principals of *ePlanning Securities, Inc.*
- 9 ■ *Bass Note Servicing* is a company formed to service debt offerings conducted by
10 AREI and its affiliates. *Bass Note Servicing* administers the collection of payments
11 from debtors. *Bass Note Servicing* is owned by the *Sundial Trust*.
- 12 ■ *Sundial Trust* is an irrevocable trust formed for the benefit of Koenig and his wife.

13 AREI was physically located in the County of Shasta. Business relating to AREI and its
14 affiliates was conducted in the County of Shasta.

15 KOENIG'S STATEMENT

16 Koenig made a voluntary statement to Department of Justice investigators. Koenig stated
17 that everybody, including investors, knew of his conviction. He stated that he told every person
18 before he did business with them about his conviction. Koenig stated he never dealt with the
19 investors but he did deal with *ePlanning* who was the broker dealer who raised most of the funds.
20 He stated that it was the Board of Directors of *ePlanning*, *ePlanning* attorneys, and AREI's
21 attorneys that made the decisions regarding what should be disclosed in the offering
22 memorandums.

23 Koenig stated that as to Armitage and Guidi, that "we put the PPM's together." Koenig
24 noted that as to Armitage and Guidi that they do everything as a team.

25 Koenig claimed to have sold his majority ownership to Armitage, Guidi, and other
26 employees of Oakdale Heights (OH) and AREI in January 2006. Koenig stated that he kept a
27 security interest in the stock with a buyout of \$5,000,000 that was to be executed in 2011. When
28

1 the company began to slow down Koenig returned in November 2007 and “unwound the
2 agreement” retaining control of the company under *Sundial Trust*.

3 **KOENIG’S PERSONAL PLANNER**

4 Koenig’s ten year personal planner was discovered during the service of the search warrant.
5 Entries started in January 1, 2000 and ends in February 13, 2004.

6 As early as April 22, 2000, Koenig related a meeting with Armitage about investment
7 dollars writing “[he] said he would move investors that need to be moved (within 3 weeks of us
8 telling him/who) and he would raise the necessary \$.”

9 August 1, 2002 entry stated, “Very much on a brink of a heavy depression. I need this
10 trouble to go away – oh alright I need to know what to do to protect my investors and to keep me
11 out of trouble. I don’t want to look at this in 2003 and not have a resolution. I am really
12 worried.”

13 August 29, 2002, entry notes, “I am miserable – tho I shouldn’t be. I made \$2.8 million this
14 month and I feel terrible that I have to use it to pay down notes. I must remember that I have
15 lived a long time on this money and now it is repayment time.”

16 January 17, 2003, entry stated that, “[f]or the first time I fear that Gary [Armitage] will not
17 be able to fill our financial need. I am very concerned about the Mtn. House offering and the
18 Carolina offerings.”

19 February 3, 2004 entry stated, “[b]eing forced out by the public markets because of my past
20 felony conviction. I guess it is time to move aside.”

21 **INSIDE OF AREI**

22 Michael Ringer was hired by Koenig to work for AREI in November 2006 and in June
23 2007, became Chief Financial Officer of AREI. Ringer noted that AREI was run as a single
24 entity as opposed to each company handling their own expenses. For example, he saw that funds
25 were taken from properties that were operating at a profit and “used wherever it was immediately
26 needed to be used.” So funds from profitable companies were diverted prior to basic expenses
27 (mortgages) being paid. These problems were brought to Koenig’s attention.
28

1 Ringer noted that in early 2006 GE Credit Corporation (GE) was in the process of
2 providing loans on three properties and was unaware of Koenig's background. When GE
3 inadvertently discovered, from a third party, Koenig's criminal history they attempted to back out
4 of the loans. With Koenig threatening legal action, GE agreed to provide funding on the
5 condition that Koenig surrender his majority ownership in AREI and OH. Koenig planned to sell
6 the majority interest on paper, but still retain control, to avoid disclosure requirements. Although
7 some of the written offerings allude to this transfer this was never finalized and Koenig
8 maintained ownership. Koenig then used *Sundial Trust* in an attempt to hide his ownership
9 interest.

10 Ringer stated that there are investors that did not know of Koenig's criminal history and if
11 he was in their position he would not have invested.

12 INVESTOR SUMMARY

13 The following summary is organized by the company name associated with the offerings.
14 Where possible the original offering document was summarized. A number of subsequent
15 offerings contained relevant information pertaining to earlier offerings. This information was
16 also included.

17 A significant number of investors responded by questionnaire or by telephone contact
18 relating to their investments with companies that were affiliated with Koenig, Armitage, and
19 Guidi. Information relating to these investors was placed in a spread sheet and can be found in
20 "Exhibit A" which is attached and incorporated by reference. "Exhibit A" includes the investors
21 name, name on investment, date of purchase, if the sale occurred at the investor's residence, the
22 broker's name that sold the investment, age of the investor at time of the sale, and the loss to the
23 investor. Some of this investor information is expanded on in the following overview of
24 offerings.

Company Name ⁵	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Quail Hollow Company	4/24/97 LLC	199711410008	100% AREI	100% AREI

Between July 11, 1997, and January 3, 2001, Armitage sold participation interests in the Quail Hollow Note. The Note was to finance the development of a residential subdivision in Susanville, California. The Note was secured by an undeveloped parcel of land in Susanville, California and earned an interest rate of 13%.

At the time of the sale of this Note, Armitage failed to disclose Koenig's prior conviction. Subsequently, for many of the investors, Armitage would recommend "rolling over" this investment into other AREI offerings. Many investors went from, a note secured by real property, to a note with no security interest. For example, D.S. Gregg's \$365,000 investment in Fox Run Professional Center was redistributed equally into the Fox Run Subdivision and Quail Hollow. On November 19, 2000, this was again redistributed into an unsecured AREI Corporate note.

This project was unsuccessful as reported by the *December 20, 2004, AREI \$13,500,000 Exchange Offer*. This offer noted that "[a]s of this date, no development has taken place. The land parcel is currently under contract to sell at a price of \$300,000. The Quail Hollow Note matured on March 1, 2003, but Quail Hollow, LLC, has not repaid the outstanding principal, and approximately \$1,000,000 remains outstanding under the Note. Quail Hollow, LLC has continued to pay interest on the outstanding principal at 13% per annum."⁶

⁵ Master Entity List dated 1/8/08 (ccr) was recovered during the search warrant of AREI. The company name, date of incorporation, corporate number, ownership interest, and voting interest are derived from this document.

⁶ This exchange offer is where Koenig's conviction is partially disclosed. The disclosure reads that "[a] owner of the company was subject to a criminal indictment and pled guilty to felony mail fraud seventeen years ago. Since that time, the owner has been active in the financial services business community, and the Company does not believe the owner's current abilities of integrity are affected by these matters."

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Lake College (Corporate book w/Lake College)	Sierra West:1998 NCIT:LLC 4/7/00 CA:LLC 4/23/01	200009810105	50% Koenig 50% IMS	(see Ownership)

Between January 2, 2002, and April 9, 2008, Armitage sold participation interests in Career Academy/Lake College.⁷ The Note was for program expansion, facility acquisition, and debt repayment for the college.

The *October 2003 Subscription Booklet to Career Academy, LLC* list Koenig, IMS, and Michael Reynolds as members of the company. It contains no disclosures relating to Koenig's felony conviction. Nor does it contain disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; or Fox Run note.⁸

Stephen and Ann Booth stated they were referred to AREI investments by their retirement investment advisor, Armitage in 2000. Armitage's emphasis was on prudent conservative investments. Armitage represented that he was very close to Koenig and his operation and that AREI investments were very safe. Their investments included Lake College/Career Academy, LLC.

Booths' noted that they met with Armitage quarterly to review their investments. "[H]e virtually never indicated that any of the investments were anything other than sound and that the underlying operations were prosperous." Stephen Booth stated that there were no disclosures made regarding Koenig's felony conviction, the failure to pay notes, or the over subscription of properties. Had any of this been disclosed they would not have invested.

Investors report that as of April 2009 Lake College has ceased doing business.

⁷ Notes were also sold by *ePlanning Securities Corporation*.

⁸ Information relating to the various business failures can be found in the summary for that specific offering.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Fox Run (Subdivision)	4/15/98 LLC	199810510027	80% AREI 20% Donald Snyder	(see Ownership)

Between April 20, 1999, and March 12, 2001, Armitage and Guidi sold participation interests in the Fox Run Note. The Note was to finance the development of a residential subdivision located in Fresno County, California. The Note was secured by the property and earned an interest rate of 13%.

The *August 31, 2000, PPM*, provides Koenig's biography but omits disclosures relating to Koenig's felony conviction.

At the time of the sale of this note, Armitage and Guidi failed to disclose Koenig's prior conviction. Subsequently, for many of the investors, they would recommend "rolling over" this investment into other AREI offerings. For example, Gregg's \$365,000 investment in Fox Run Professional Center was redistributed equally into the Fox Run Subdivision and Quail Hollow. On November 19, 2000, this was again redistributed into an unsecured AREI Corporate note.

The project was unsuccessful as reported by the *December 20, 2004, AREI \$13,500,000 Exchange Offer*. This noted that the "Fox Run note matured on September 1, 2003. The residential lots were sold by Fox Run, LLC, however, the proceeds of the sales were insufficient to repay the entire Fox Run note, and approximately \$2,516,000 in principal remains outstanding under the Fox Run note. Fox Run has been paying interest on the outstanding principal at 13% per annum. The Fox Run note is currently unsecured."

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Asset Real Estate & Investment Co.	9/8/98 (C Corp- California)	C2119509	100% Howard L Schweitzer Trustee of the Sundial Trust	(See Ownership)
Asset Real Estate & Investment	3/20/03 LLC	3638852 Delaware	100% Koenig	100% Koenig
AREI Senior Housing Properties, LLC	3/20/03 LLC	3638856 Delaware	81.82%-JS/PR Koenig 18.18%-AREI Mgmt. Interests	100% Majority. Consent
AREI Management Interest Inc. (Original Corp book Burned in fire at WS&S 4/19/07-Rcv'd replacement From WS&S 12/11/07	4/04/03 (S-Corp) (Nevada Corp)	C-7954-03	39.37% Cherry Valley Holdings 32.68% Chromehead 12.99% Telemark Holdings 9.84% Gary Armitage 5.12% Jeff Gudi	(see ownership)

Between November 19, 2000, and August 8, 2008, Armitage and Guidi sold participation interests in promissory notes and sold participation interests in unsecured debt backed by AREI. These interests are generally referred to as the AREI Corporate note.

The *December 9, 2002, AREI Subscription Booklet* offers up to \$720,000 of participation interest in a promissory note made by CRF. The note is guaranteed by Koenig and IMS. This note provides funding for the Charlotte, Greensboro, and Mt. Pleasant property purchase. This Subscription does not disclose Koenig's felony conviction. Nor does it contain disclosures of Koenig's other business failures; Sunset Bay, Mona Utah, LLC.

The *October 24, 2003, Amended 2003 Combined Note Participation Interest Offering No. 1* offers participation interests up to \$21,210,000 for Oakdale Heights (OH) Pinehurst I, OH Winston-Salem I, OH Wilmington I, OH Virginia Beach, and OH Mt. Pleasant II. AREI is the holder of the notes and AREI / IMS are the maker of the note. There is no disclosure of Koenig's felony conviction. Nor does it contain disclosures of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; or Fox Run note.⁹

⁹ The offering does disclose that AREI and an affiliate of AREI have been involved in prior offerings of Participation Interests in "promissory notes that were structurally similar to the (continued...)

1 Other offerings include *November 1, 2004, Amended and Restated Indenture, December 20,*
2 *2004, AREI \$13,500,000 Exchange Offer (Exchange Offer) and June 5, 2007 PPM (June 5, 2007*
3 *PPM).*

4 The *Exchange Offer* was designed for investors in the Fox Run, Redcliff, Sunset Bay Mona
5 Utah, Valdry Court, Mt. House Golf Course, and Quail Hollow to exchange their notes. It
6 provided detailed disclosures as to the financial problems that lead to this note exchange for the
7 listed properties and Koenig's conviction is partially disclosed.¹⁰

8 The *June 5, 2007, PPM* offered \$15,000,000 in unsecured debt to be repaid at 12% interest
9 due within five years. There is no disclosure of Koenig's felony conviction. Nor does it contain
10 disclosures of Koenig's other business failures; Sunset Bay Mona Utah, LLC; Mt. House, LLC;
11 Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff note. Additionally, there are
12 no disclosures that starting in April 2007 interest payments had stopped on the AREI Corporate
13 note and Mountain House.¹¹

14 Stephen and Ann Booth stated that as to their AREI investments, that a March 2007 payout
15 of \$150,000 was rolled into the AREI Corporate Note at the suggestion of Armitage. They noted
16 that there were no disclosures made regarding Koenig's felony conviction, the failure to pay
17 notes, or the over subscription of properties. Had any of this been disclosed they would not have
18 invested.

19 After May of 2007 Armitage sold Jeanine Jacobs the AREI Corporate Note. When she
20 invested \$333,500 Armitage never disclosed that the AREI Corporate Note had ceased making

21 _____
(...continued)

22 offering of Participation Interests." Some of these offerings were materially oversubscribed and
23 the proceeds from those Prior Offerings may have been used for purposes that may not have been
adequately disclosed in relevant offering documents. The affiliates of AREI have paid down past
oversubscriptions and have taken steps to protect against recurrence."

24 ¹⁰ This exchange offer discloses that "[a] owner of the company was subject to a criminal
25 indictment and pled guilty to felony mail fraud seventeen years ago. Since that time, the owner
has been active in the financial services business community, and the Company does not believe
the owner's current abilities of integrity are affected by these matters."

26 ¹¹ On September 20, 2007, Armitage confirming that AREI "has not been able to catch up
27 all past due payments as soon as projected" and that it is taking longer to "free up the cash flow
and make all payments that are currently due." On March 31, 2008, Koenig requested from
28 investors a interest rate reduction from 12% to 6%.

1 payments. Later Armitage wrote out a personal guarantee for Jacobs's outstanding principal on
2 the AREI Corporate Note. In 2008 Armitage arranged for a partial payment of \$183,000 to be
3 made on Jacobs' note. Armitage stated that he had loaned Koenig the funds to repay her. The
4 last payment to Jacobs was in May 2008 and Armitage related that he had no more money to give.
5 Jacob lost \$313,000.

6 During June 2006, November 2006, and July 2007 John Gardner invested a total of
7 \$303,099 in the AREI Corporate Note based on Armitage's recommendation. Armitage knew
8 that the last payment for the note was made in March of 2007. He assured Gardner that "they
9 would catch up." Gardner has lost his entire investment.

10 Company Name	11 Date of INC/LLC	12 Corporate Number (St)	13 Ownership %	14 Voting %
Valdry Court	12/3/98	LLC199833710025	60% AREI 40% Creekside Fund	(see Ownership)

15 Between January 3, 2001, and June 1, 2002, Armitage and Guidi sold participation interests
16 in the Valdry Court note. The Note was to finance the development of a light industrial
17 distribution center located in Brentwood, California, at an interest rate of 13%.

18 At the time of the sale of this Note, there was a failure to disclose Koenig's prior
19 conviction. Subsequently, for many of the investors, Armitage would recommend "rolling over"
20 this investment into other AREI offerings. Many investors went from a note secured by real
21 property to a note with no security interest.

22 For example, Robert and Mary Fosse stated, that Armitage sold them a series of
23 investments starting with Valdry Court in August of 2001. They were also invested in Quail
24 Hollow, Mountain House Golf Course, Lakeside Mortgage Fund, and IMS-GA. They received a
25 portion of their Valdry Court investment back and the remainder was distributed between
26 Oakdale Heights Bakersfield and Alterra Bridge Loans. They also participated in the 2003
27 Combined Note Participation Offering No.1.

28 The Fosses' report that Armitage promised safe investments and hurried them to sign new
offerings. Armitage would mail the prospectus after the documents had been signed. They were

never informed of Koenig's felony conviction. They redeemed the majority of their investments early and lost only \$52,152 that was in the IMS-GA fund.

This project was unsuccessful as reported by the *December 20, 2004, AREI \$13,500,000 Exchange Offer*. This offer noted only one of the three contemplated facilities has been constructed and that the Note matured on April 26, 2003, and is in default with \$3,839,000 in principal remains outstanding. Valdry Court, LLC continued to make interest payments on the outstanding principal balance at the rate of 13% per annum.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Sunset Bay Mona Utah, LLC	7/7/99 LLC	NV 4972-1999	100% AREI	100% AREI

Between October 11, 1999, and March 4, 2003, Armitage sold a fractional undivided participation interest in the note secured by property in Utah. The *June 1, 2002 Subscription Booklet* and the *September 16, 2002 "First Supplement"*¹² do not disclose Koenig's conviction.

Charles and Eleanor Smith stated that Armitage sold them a series of AREI related investments including Sunset Bay. The Smiths' were assured by Armitage that these were all safe investments and he never informed them of Koenig's conviction.

This project was unsuccessful as reported by the *December 20, 2004, AREI \$13,500,000 Exchange Offer*. This offer noted that the proceeds from the Sunset Bay Note were used to purchase the land, however, to date, no additional financing has been obtained, and no development has taken place. The remaining outstanding balance is approximately \$6,500,000 and note is in default.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Fox Run Professional Center, LLC	8/24/99 LLC	CA 199923610052	80% Creekside Fund (see Ownership)	20% AREI

¹² *September 16, 2002 "First Supplement"* discloses that "[a]t least three Prior Offerings were materially oversubscribed and proceeds from those Prior Offerings may have been used for purposes that may not have been adequately disclosed in relevant offering documents." It does not name the offerings.

Between August 26, 1995, and April 13, 2000, Armitage sold interest in the Fox Run Professional Center. Armitage did not disclose Koenig's conviction.

D.S. Gregg stated in August and September 1995, he invested \$365,000 in Fox Run Professional Center. On July 11, 1997, this investment was redistributed equally into the Fox Run Subdivision and Quail Hollow. On November 19, 2000, this was redistributed into AREI Corporate note.¹³ As to his AREI related investments, he reports that his loss will be \$671,960 if there is no return of capital.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Mountain House Golf Course, LLC	3/8/2000 LLC	200006810060 California	36.5625% Danville Land Development Co. LLC 29.0625% Creekside Fund 9.375% Golf Management 25% Subscribing Members	(see Ownership)

Between June 1, 1999, and April 1, 2007, Armitage and Guidi sold promissory notes secured by property for the purpose of developing a golf course.

The *March 1, 2002, PPM* was for the purpose of offering participation interest in a note in the amount of \$5,100,000 that was secured by property. There are no disclosures relating to Koenig's felony conviction.

The *December 12, 2002, Subscription Booklet* was for the purpose of offering membership interest in order to raise capital to repay indebtedness secured by property in the amount of \$5,200,000. Koenig's conviction is partially disclosed.¹⁴

¹³ On October 16, 1999, D.S. Gregg also invested \$200,000 in Oakdale Heights. On August 1, 2000, this was redistributed into AREI West, AREI Sierra Oaks, AREI Bakersfield, and AREI Fresno. He was also invested in AREI 11% Corporate note (\$29,225) and Lakeside Mortgage Fund, LLC (\$77,000).

¹⁴ This subscription does disclose that "[a] member of the management of the Partnership plead guilty to mail fraud indictment in a criminal proceeding over 16 years ago. The Partnership does not believe that these events call into question the current ability or integrity of such a person." It also does disclose that AREI, an affiliate of the manager was involved in offerings of participation interests in promissory notes that were materially oversubscribed and in which proceeds were used for purposes that may not have been adequately disclosed. It further warns that there may be substantial contingent liabilities [\$7,000,000] arising from such oversubscribed offering that would have a material adverse effect on the company and its members.

1 The *December 22, 2003, Offering Memorandum* offered a maximum of \$8,970,000
2 participation interest in a promissory note made by Mountain House Golf Course, LLC. Koenig's
3 conviction is partially disclosed.¹⁵ There is no direct disclosure of Koenig's other business
4 failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court,
5 LLC; or Fox Run note.¹⁶

6 The project was unsuccessful as first reported by the *December 20, 2004, AREI*
7 *\$13,500,000 Exchange Offer*. It noted that the golf course is approximately 50% complete and is
8 18 months behind schedule in its construction. The Mt. House note matured on February 28,
9 2003, and it is in default with \$4,523,000 in principal remaining outstanding. By April 2007,
10 Mountain House ceased making payments to investors. During a November 1, 2007, conference
11 call investors were informed that the course's current value was \$7,500,000 and had
12 encumbrances of \$16,285,000.

13 Stephen and Ann Booth, were referred to AREI investments by their retirement investment
14 advisor, Gary Armitage, in 2000. Armitage's emphasis was on prudent conservative investments.
15 Armitage represented that he was very close to Koenig and his operation and that AREI
16 investments were very safe. One of their investments was Mountain House Golf Course. Booths'
17 report that they met with Armitage quarterly to review their investments. "He virtually never
18 indicated that any of the investments were anything other than sound and that the underlying
19 operations were prosperous." Stephen Booth stated, that there were no disclosures made
20 regarding Koenig's felony conviction, the failure to pay notes or the over subscription of
21 properties. Had any of this been disclosed they would not have invested.

23 ¹⁵ This subscription also discloses that "[a] member of the management of the Partnership
24 plead guilty to mail fraud indictment in a criminal proceeding over 16 years ago. The Partnership
25 does not believe that these events call into question the current ability or integrity of such a
26 person."

27 ¹⁶ This offer discloses that AREI and affiliate of AREI, have been involved in prior
28 offerings of Participation interests in "promissory notes that were structurally similar to the
offering of Participation Interests." Some of these offerings were materially oversubscribed and
the proceeds from those Prior Offerings may have been used for purposes that may not have been
adequately disclosed in relevant offering documents. The affiliates of AREI have paid down past
oversubscriptions and have taken steps to protect against recurrence."

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Sierra Oaks (fka Oakdale Heights Senior Living, LLC)	3/16/00 LLC	200007610042	30% Barrus 70% Creekside Fund	(see Ownership)

Between October 16, 1999, and May 15, 2007, Armitage sold participation interests in AREI.

The *October 15, 2000, PPM* offers up to \$2,530,000 in note participation interest. AREI is the holder of the note made and the PPM discloses that Koenig is the sole director, secretary and CFO of AREI and the sole shareholder of AMI. Koenig is also the principal of Creekside Fund, LLC and directs and oversees all operations of AMI and Creekside and assists in the operations of AREI and AMISL. PPM discloses Koenig's biography but does not disclose his felony conviction.

The *March 8, 2001, Subscription Agreement* offered interest in promissory notes (\$1,800,000) held by AREI which were made by Oakdale Heights Senior Living. It discloses that investors will rely on AREI to administer the note but there is no information relating to Koenig that is disclosed.

Gregg stated when he invested \$200,000 in Oakdale Heights he was never informed of Koenig's conviction. On August 1, 2000, this investment was redistributed into AREI West, AREI Sierra Oaks, AREI Bakersfield, and AREI Fresno.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Oakdale Heights West, LP	6/20/01 LP ¹⁷	200117100005 California	90% Capital Res. Fund 10% LTD. Partners	(see Ownership)

Between July 9, 2001, and August 20, 2004, Armitage sold partnership interest interests in an assisted living facility in Redding, California.

The *June 20, 2001, PPM* stated it was a \$1,720,000 offering for 43 units of limited partnership interest. The PPM disclosed that Koenig is the sole director of AREI and is the sole

¹⁷ Certificate of Limited Partnership filed with the State of California list Capitol Resource Fund as general partner and Koenig as the manager of the fund.

shareholder of Asset Marketing, Inc. (AMI). It also disclosed Koenig's biography with the exception of his prior felony conviction.

The property was acquired in 2001 and AREI sold approximately 45% of the property to tenant-in-common investors in July 2004.¹⁸ The tenants-in-common refinanced this property with a \$5,200,000 first mortgage loan in November 2005 and by 2007, AREI was reporting that the property was being acquired by an Affiliate of the Company and resold to a new group of tenant in common owners for approximately \$12,400,000.

Gregg stated his \$200,000 investment in Oakdale Heights was redistributed into AREI West, AREI Sierra Oaks, AREI Bakersfield, and AREI Fresno. When Gregg asked for a return of funds Armitage stated that they could not be returned directly but had to be rolled into a Corporate Note or a REIT. Armitage stated that the investments were the same as the original investments in terms of quality and security. Gregg was never told of Koenig's felony conviction. He reports that his loss will be \$671,960 if there is no return of capital.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Capital Resources Fund, LLC West Coast TIC)	6/20/01 LLC	200117110075	50% Asset Properties,LP 50% IMS	(see Ownship

Between June 29, 2005, and February 23, 2007, subscriptions in promissory notes made by CRF to AREI were sold.

The *December 9, 2002, Subscription and the June 2, 2004, PMM* disclosed Koenig's biography but not his prior felony conviction. There is no disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC, Valdry Court, LLC; Fox Run note; or Redcliff, LLC.

Frank Aragona invested in Capital Resource Fund in February 2006. Paul White, a financial advisor in New York, sold him this fund after he determined that the investment was suitable. When the documents for this investment arrived via mail Mr. White stated, "just sign

¹⁸ The tenant-in-common investors acquired 45% of this property for \$1,250,000 in equity and the assumption of \$2,520,000 in debt.

1 them and return them.” Frank Aragona was not made aware of Koenig’s felony conviction and
2 reports a loss of \$270,000.

3 Company Name	Date of	Corporate	Ownership %	Voting %
4 INC/LLC	Number (St)			
5 Oakdale Heights Fresno	10/3/01 LP	200127600023 California	80% Capital Res. Fund (see Ownership) 20% LTD. Partners	
6 Fresno Senior Housing, LLC (dba Oakdale 7 dba Oakdale Heights of Fresno, Memory Care)	6/15/04 LLC	DE 3815981	100% AREI Sr. Hsg. Properties, LLC (see Ownership)	

8 Between December 17, 2001, and April 27, 2006, partnership interest in an assisted living
9 facility in Fresno County were sold by Armitage and Guidi. The property was acquired in 2001
10 and 45% of the property was sold to tenant-in-common investors by July 2004. The tenant-in-
11 common investors acquired 45% of this property for \$2,800,000 in equity and the assumption of
12 \$3,679,000 in debt. In 2007 AREI reported that the property was being sold to a new group of
13 tenant-in-common owners for approximately \$20,450,000.

14 The *November 15, 2001, PPM* discloses that Koenig is the manager and a member (with a
15 50% interest) of CRF and that Koenig also directs and oversees the operations of CRF and AREI.
16 The PPM gives an extensive biography for Koenig omitting the felony conviction.

17 The *August 15, 2002, Amendment No. 2 to PPM* notes that the partnership is managed by
18 Koenig and owned by Koenig and IMS (Armitage/Guidi). It also discloses that other properties
19 were materially oversubscribed. It also disclosed that AMI has been merged into AREI.
20 Koenig’s felony conviction is still omitted. There are no direct disclosures as to the failure of
21 Sunset Bay Mona Utah, LLC.

22 The project was unsuccessful and the *May 2006 PPM to Northridge Senior Housing, LLC*
23 disclosed that the cash flow performance for the full year of 2005 was negative \$376,353 and was
24 funded by established reserves and from a \$200,000 contribution from the parent company.

25 James Collart stated that on April 1, 2003, he invested over \$135,433 in this property. The
26 investment was sold by Armitage and that the sale took place in Collart’s residence. Armitage
27 did not disclose Koenig’s felony conviction. Armitage also did not disclose the problems with
28

the Sunset Bay note, the Mountain House note, the Quail Hollow note, or the pending nonpayment of the Valdry Court note. Had any of this been disclosed Collart would not have invested.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Koco, LLC	11/6/01 LLC	200131010089	51% Capital Resources Fund, LLC 49% William Costanzo	(see Ownership)

Koco, LLC was created to purchase environmental set aside property for the benefit of Mountain House Golf Course. William Costanzo was an original investor owner in Mountain House Golf and was involved in the investigation for the obtaining the environmental set aside. As payment Costanzo received an interest in Koco. Subsequently Costanzo learned that Koenig diluted his equity position in Mountain House due to the over sale of investment shares. Koenig offered and transferred a 49% interest in Koco and one lot free and clear in compensation of the dilution. Subsequently, Costanzo learned that Koenig borrowed money against the property and used the property as collateral for loans without his consent. Although the “free and clear” property was placed in Costanzo’s name, the encumbrances were never removed. Costanzo estimates his losses at over \$1,000,000. Costanzo first learned of Koenig’s conviction in June of 2008.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Oakdale Heights Bakersfield I	11/14/01 LP ¹⁹	200131800019 California	80% Bakersfield Capital Resources 20% LTD Partners	(see Ownership)
Bakersfield Capital Resources	2/14/02 LLC	200205010101 California	50% Koenig 50% IMS	50% Koenig 50% IMS
Bakersfield Senior Housing(dba Oakdale Heights of Bakersfield, And dba Oakdale Heights of Bakersfield, Memory Care)	6/15/04 LLC	DE 3815982	100% AREI SR. HSG. Properties,LLC	(see Ownership)

¹⁹ Certificate of Limited Partnership filed with the State of California list Capitol Resource Fund as general partner and Koenig as the manager of the fund.

This property was acquired in 2002. The tenant-in-common investors acquired 45% of this property for \$1,400,000 in equity and the assumption of \$1,863,000 in debt. The tenants-in-common refinanced this property with a \$1,700,000 first mortgage loan in November 2005. In 2007, AREI reported that the property was being sold to a new group of tenant-in-common owners for approximately \$10,850,000.

Both the *August 1, 2002 Offering Memorandum* and the *November 7, 2002 Offering Memorandum* note that Koenig is a manager of the general partner and partially discloses Koenig's conviction by stating "[a] member of the management of the Partnership plead guilty to mail fraud indictment in a criminal proceeding over 16 years ago. The Partnership does not believe that these events call into question the current ability or integrity of such a person." It also discloses that other properties were materially oversubscribed without providing details. There are no disclosures relating to the failure to repay the May 1, 2002, Sunset Bay note or that Sunset Bay, Mona, Utah, LLC continued to pay interest on the outstanding principal at 11% annum.

The project was unsuccessful and the *May 2006 PPM to Northridge Senior Housing, LLC* disclosed that the cash flow performance for the full year of 2005 was negative \$293,514 and was funded by established reserves.

James Collart stated that on July 1, 2004, he invested approximately \$39,716 in this property. The investment was sold by Armitage and the sale took place in Collart's residence. Armitage did not disclose Koenig's felony conviction. Collart never received the offering for this property. Armitage also did not disclose the problems with the Sunset Bay note, the Mountain House note, the Quail Hollow note, Valdrey Court note, Fox Run note, or the Redcliff note. Had any of this been disclosed Collart would not have invested.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Redcliff, LLC (corp Book to Brian Unlir 8/21/07)	4/2/02 LLC	CA 200209510121	90% AREI 5% Koenig 5% IMS	(see Ownership)

On July 26, 2001, AREI loaned \$2,500,000 to Redcliff, LLC in exchange for a promissory note in the same amount (the "Redcliff Note") and earning interest at 11% per annum. The

1 purpose of the loan was to finance the acquisition and renovation of a two story office building
2 located in Redding, California. The Redcliff note is secured by a first deed of trust on the office
3 building. AREI holds the original Redcliff Note, and sold participation interests (the "Redcliff
4 Participation Interests") in the Redcliff note pursuant to a private placement.

5 The Redcliff note matured on June 25, 2004, and was not repaid. Redcliff, LLC continued
6 to pay interest on the outstanding principal balance at 11% per annum and moved to convert the
7 note holder's investment into membership interests. An *Undated PPM* that addresses this
8 conversion lists Koenig as the manager of the company and partially discloses Koenig's
9 conviction.²⁰ There is no direct disclosure of Koenig's other business failures; Sunset Bay,
10 Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; or Fox Run note.

11 Tom Hobbs stated that Armitage sold him a series of investments. These investments
12 included Redcliff Building, Sunset Bay, Valdry Court Business Park, AREI Corp. note, Mountain
13 House Golf Course, OH Fresno, OH Bakersfield, OH Newhall, Lakeside Mortgage Fund, and
14 IMS-GA.

15 Hobbs stated that Armitage informed him that the investments would mature in two or three
16 years and that he could either receive the original investment and a percentage of the growth in
17 value or invest the money into other investments. Armitage never informed Hobbs that Armitage
18 was a part owner in AREI or that he was a founder of ePlanning.

19 Hobbs recalled reading a prospectus presented by Armitage that contained a statement that
20 an officer of AREI had a previous mail fraud conviction. Hobbs asked Armitage if it was the
21 President of AREI, James Koenig. Armitage assured Hobbs that it was not Koenig. Hobbs would
22 not have continued investing in AREI had he known that the conviction related to Koenig. Hobbs
23 reports his losses on these investments at \$1,071,465.92 plus interest and distributions that are
24 delinquent.

25
26
27 ²⁰ The offering notes that "[a] member of the management of the Partnership pleads guilty
28 to mail fraud indictment in a criminal proceeding over 17 years ago. The Partnership does not
believe that these events call into question the current ability or integrity of such a person."

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Lakeside Financial Group, Inc.(Corp book Held at Lakeside)	8/23/02 S	2463981	49% Koenig 24.5% Armitage 24.5 Guidi 2% Webster	(see Ownership)
Lakeside Mortgage Fund (Corp book held at Lakeside)	12/4/02 LLC	200234010016	100% Investors	100% Investors

The *February 24, 2003 Offering Circular* for investors states that this was organized for the purpose of making or investing in loans secured by deeds of trust encumbering California real estate. Koenig is listed as the chairman of Lakeside and there are no disclosures relating to Koenig's felony conviction. There are also no disclosures of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note; or Redcliff.

Documents filed with the California Secretary of State dated July 17, 2007, list the directors of Lakeside Financial Group, Inc., as William Webster, James Koenig, Gary Armitage, and Jeff Guidi.

Stephen and Ann Booth were referred to AREI's investments by their retirement investment advisor, Gary Armitage, in 2000. Armitage's emphasis was on prudent conservative investments. Armitage represented that he was very close to Koenig and his operation and that AREI investments were very safe.

As of January 2008, the Booths' were invested in Lake College/Career Academy, LLC (\$47,500), AREI Corporate note (\$488,648), Mountain House Golf Course (\$320,360), Lakeside Mortgage Fund (\$227,952), IMS-GA (\$47,500), and ePlanning (\$51,500) A March 2007 payout of \$150,000 was rolled into the AREI Corporate note at the suggestion of Armitage.

Booths' report that they had met with Armitage quarterly to review their investments. "He virtually never indicated that any of the investments were anything other than sound and that the underlying operations were prosperous." Stephen Booth stated, that there were no disclosures made regarding Koenig's felony conviction, the failure to pay notes or the over subscription of properties. Had any of this been disclosed they would not have invested.

Ronald Johnson reported that he invested in this company through Armitage and was unaware of Koenig's conviction. After his first year membership he became aware of the conviction from reading the *December 20, 2004 AREI \$13,500,000 Exchange Offer*. When Johnson discussed this with Armitage, Armitage related a "very convincing story that Jim was a scapegoat and that Jim served time for the illegal actions of his partners."

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Oakdale Heights Charleston I	11/26/02 LLC	3595930 Delaware	55% AREI Sr. Hsg. Prop., LLC 45% IMS	(see Ownership)
Charleston Senior Housing	9/9/04 LLC	DE 3852364	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)

AREI offered participation interest in the acquisition and operation an Alzheimer's facility in the city of Mt. Pleasant, South Carolina.

January 8, 2003, Memorandum discloses that AREI and some of its affiliates have been involved in at least three prior offerings that were materially oversubscribed and that the proceeds may have been used for purposes that were not adequately disclosed. The PPM lists Koenig as the manager of the general partner and partially discloses Koenig's conviction.²¹ There is no direct disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Oakdale Heights Charlotte I	11/26/02 LLC	3595937 Delaware	55% AREI Sr.Hsg Prop., LLC 45% IMS	(see Ownership)

Between March 31, 2003, and December 4, 2006, Armitage and Guidi sold participation interests in assisted living facilities located in North Carolina.

The *January 17, 2003 , PPM* discloses that AREI and some of its affiliates have been involved in at least three prior offerings that were materially oversubscribed and that the proceeds may have been used for purposes that were not adequately disclosed. The PPM lists Koenig as

²¹ The offering notes that "[a] member of the management of the Partnership plead guilty to mail fraud indictment in a criminal proceeding over 16 years ago. The Partnership does not believe that these events call into question the current ability or integrity of such a person."

the manager of the general partner and partially discloses Koenig's conviction.²² There is no direct disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

Mary Beeson reported that Armitage informed her that all of the investments offered were low risk and never disclosed Koenig's felony conviction. In all, Beeson was invested in eight different offerings including Charlotte.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Oakdale Heights Greensboro I	11/26/02 LLC	3595932 Delaware	55% AREI Sr. Hsg. (see Ownership) Prop., LLC 45% IMS	
Greensboro Senior Housing, LLC	9/9/04 LLC	DE 3852368	100% AREI Sr. Hsg. (see Ownership)	

Between August 28, 2002, and January 11, 2007, Armitage sold participation interests in a promissory note for an assisted living facility in Guilford, North Carolina.

The *January 15, 2003, PPM* discloses that Koenig is the manager and 50% owner of the company. It also partially discloses Koenig's conviction.²³ It further discloses that AREI and some of its affiliates have been involved in at least three prior offerings that were materially oversubscribed and that the proceeds may have been used for purposes that were not adequately disclosed. There is no direct disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; or Fox Run note.

Charles and Eleanor Smith stated that Armitage sold them a series of investments starting with Fox Run in July of 2001. They were also invested in Sunset Bay, Oakdale Heights (OH) Greensboro, OH Fresno, OH Bakersfield, Mountain House Golf Course, AREI Corporate Term note, and Lakeside Mortgage Fund. Their loss exceeds \$500,000.

²² The offering notes that "[a] member of the management of the Partnership plead guilty to mail fraud indictment in a criminal proceeding over 16 years ago. The Partnership does not believe that these events call into question the current ability or integrity of such a person."

²³ The offering notes that "[a] member of the management of the Partnership plead guilty to mail fraud indictment in a criminal proceeding over 16 years ago. The Partnership does not believe that these events call into question the current ability or integrity of such a person."

The Smiths' were assured by Armitage that these were all safe investments and he never informed them of Koenig's conviction. Armitage transferred their funds from OH Bakersfield and OH Greensboro to Lakeside Mortgage, AREI Corp. note, and Equestron.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Oakdale Heights	1/15/03 LLC	3614674 Delaware	55% AREI Sr Hsg Prop,LLC	(see Ownership)
Virginia Beach I			45% IMS	
Virginia Beach Senior Housing, LLC dba Oakdale Heights of Virginia Beach	8/31/04 LLC	DE 3848796	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)
Virginia Beach Capital Resources, LLC	12/27/05 LLC	DE 4084289	100% Capital Resources Fund, LLC	(see Ownership)

The Company acquired a senior housing community located in Virginia Beach, Virginia in a foreclosure sale on October 24, 2003, for \$4,900,000.

The *February 2006 PPM* notes that the property will be acquired for \$9,250,000 from a related entity and that \$4,520,000 will be paid to AREI, LLC in connection with the acquisition of the property by the company and other tenants in common in satisfaction of the mortgage.²⁴

Capitol Resource Funds (CRF) is listed as the manager of the company with James Koenig as the sole shareholder and director of AREI. Gary Armitage is listed as owning an indirect 50% interest in Capitol Resource Funds. Peary Woods is listed as the President and Chief Executive Officer of AREI.

This PPM notes that since June of 2004 affiliates of the company have sold \$56 million in tenant in common interests in eight senior housing facilities and to date all required payments have been made and none of the properties is in default.

There are no disclosures relating to Koenig's felony conviction. There is no disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

²⁴ AREI began purchasing property back from the original investors in order to remarket it at a higher price to new investors.

The project was unsuccessful and the *August 23, 2007, PPM to Oakdale Heights Senior Living* disclosed that the cash flow performance for the trailing 12 months ending March 2007, was negative \$135,772 and was funded by contributions from an affiliate.

Jim Weiss was one of the five investors that noted the conviction prior to making the investment. Armitage informed him that Koenig was no longer part of the company and had been fired.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Oakdale Heights Wilmington I	1/15/03 LLC	3614678 Delaware	55% AREI Sr Hsg Prop., LLC 45% IMS	(see Ownership)

Between December 12, 2005, and April 1, 2007, Armitage sold participation interests in a promissory note for an assisted living facility in Wilmington, North Carolina. The property was acquired in December 2003, and sold to a syndicated group of tenants-in-common in December 2005.

Starting in July 2005, Dana Meyer purchased a number of AREI related investments from Armitage. They included Wilmington, Mountain House Golf Course, OH Fresno, Lakeside, and the AREI Corporate note. Starting in 2007, Armitage constantly informed her not to worry about her investments and that "Jim Koenig was working hard on all the investments" and that they would not lose anything. Meyer's anticipates that her loses will exceed \$633,000. She was not informed of Koenig's conviction at the time of sale.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Sierra Senior Housing, LLC dba Sierra Oaks of Redding and dba Sierra Oaks of Redding, Memory Care	6/15/04 LLC	DE 3815980	100% AREI Sr Hsg. Properties, LLC	(see Ownership)

Sierra Oaks Senior Living is a senior living community located in Redding, California. The property was acquired in 2001 and 45% of the property was sold to tenant-in-common investors in July 2004. The new tenant-in-common investors acquired 45% of this property for \$1,600,000 in equity and the assumption of \$1,485,000 in debt. The tenants-in-common refinanced this

property with a \$4,000,000 first mortgage loan in November 2005. Subsequently in April 2007, the property was sold to a new group of tenant in common investors for \$10,205,000.

James Collart stated that on April 1, 2006, he invested \$85,461 in this property. The investment was sold by Armitage and the sale took place in Collart's residence. Armitage did not disclose Koenig's felony conviction. Armitage also did not disclose the problems with the Sunset Bay note, the Mountain House note, the Quail Hollow note, Valdry Court note, Fox Run note, or the Redcliff note. Had any of this been disclosed Collart would not have invested.

Collart learned in March 2008, that the property had been sold on April 2007. He has not been paid and Koenig has been unable to offer any explanation as to why he was not paid at the time of the sale.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Modesto Capital Resources, LLC	6/23/04 LLC	DE 3820147	100% Capital Resources Fund, LLC	(see Ownership)
Modesto Senior Ownership)Housing, LLC dba Modesto and Oakdale Heights Community	6/23/04 LLC	DE 3820130	100% AREI Sr. Hsg. Properties, LLC	(see)

The *August 15, 2004, PPM* discloses that the company was formed for purposes of acquiring the Seasons at Modesto Senior Housing Facility. There were no disclosures as to Koenig's felony conviction. There were also no disclosures of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

The project was unsuccessful. In May 2006, it was disclosed that the cash flow performance for the full year of 2005 was negative \$415,666 and was funded by contributions from the parent company. The cash flow performance for the trailing 12 months ending March 2007, was negative \$143,300 and was funded by contributions from an affiliate.²⁵

²⁵ Funds from profitable companies were being used to support unprofitable companies.

Elaine Mein was sold a number of AREI related investments from Armitage including OH Modesto. All of the sales took place in her home “with him running in last minute” and asking for signatures on documents and promising to explain details later. She was never informed about Koenig’s conviction.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Colonnade Capital Resources, LLC	6/23/04 LLC	DE 3820153	100% Capital Resources Fund, LLC	(see Ownership)
Colonnade Senior Housing, LLC dba The Colonnade an Oakdale Heights Community	6/23/04 LLC	DE 3820141	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)
Colonnade Capital Resources II, LLC	3/30/07 LLC	4327443 Delaware	100% Capital Resources Fund, LLC	(see Ownership)

The company was formed to acquire a senior housing facility located in Schwenksville, Pennsylvania for a purchase price of \$3,900,000. The *November 14, 2004, PPM* has no disclosures relating to Koenig’s felony conviction. There is no disclosure of Koenig’s other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

The project was unsuccessful. The cash flow performance for the full year of 2005 was negative \$111,453 and was funded by established reserves. Investors also reported that the property was oversold. An examination of the fractional interest recorded in the Deed Book totals 110.59%. The June 5, 2007, PPM to AREI (Corporate Note) disclosed the property is being sold to a new group of tenant-in-common owners for approximately \$12,235,000.

Marilyn Meyers stated that Guidi sold her \$1,453,808.08 in various AREI investments from 2005 to 2007. She purchased Wood River, San Leandro, Santa Clara, and Colonnade. Guidi assured her that they were almost risk free. There were no disclosures as to the previous failures to repay notes or relating to the over subscription of properties.

Later, when Meyers learned of Koenig’s conviction, she confronted Guidi regarding his non-disclosure. Guidi replied that he was not required to tell her because of the passage of time.

Meyers reported that the existence of a felony conviction that deals with misrepresentations to investors would have been material to her decision making.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Wood River Capital Resources, LLC	6/23/04 LLC	DE 3820151	100% Capital Resources Fund, LLC	(see Ownership)
Wood River Senior Housing, LLC dba Wood River Village an Oakdale Heights Community	6/23/04 LLC	DE 3820136	100% AREI Sr Hsg Properties, LLC	(see Ownership)

The company was formed to obtain a senior housing facility in Bensalem, Pennsylvania. The *November 1, 2004 PPM* has no disclosures relating to Koenig's felony conviction. There is no disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.²⁶

The project was unsuccessful and AREI subsequently disclosed that the issuer inadvertently oversubscribed the Investor Units by approximately \$1 million.²⁷ The cash flow performance for the trailing 12 months ending April 2007 was negative \$2,148,473 and was funded by contributions from the parent company.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Peoria Capital Resources, LLC (aka Summerfield Capital Resources) (Sun Gove)	6/23/04 LLC	DE 3820144	100% Capital Resources Fund, LLC	(see Ownership)
Peoria Senior Housing, LLC dba Sun Grove Properties, LLC Resort Village, an Oakdale Heights Community (aka Summerfield Senior Housing)	6/23/04 LLC	DE 3820132	100% AREI Sr Hsg.	(see Ownership)

²⁶ *January 2005 Addendum* adds under risk factors the warning that "no person should purchase Investor Units unless that person is willing to entrust all aspects of the Company to the Manager. . ." It further warns that the potential purchaser must carefully evaluate the personal experience and business performance of the manager.

²⁷ *June 5, 2007, PPM to AREI (Corporate Note)*

The company was formed to acquire a senior living facility located in Peoria, Arizona. The *May 2006 PPM* has no disclosures relating to Koenig's felony conviction. There is no disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

Linda Jones invested \$251,273.56 into Peoria. This investment was sold by Guidi. Once the property ceased making payments she learned about Koenig's conviction and Armitage's relationship with Capital Resources. Either the felony or the conflict of interest was information that would have caused her not to invest in this property. Currently Jones has lost \$74,255.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Santa Clara Capital Resources, LLC	6/23/04 LLC	DE 3820145	100% Capital Resources Fund, LLC	
Santa Clara Senior Housing, LLC dba Sierra Oaks of Santa Clara, an Oakdale Heights Senior Living Community	6/23/04 LLC	DE 3820135	100% AREI Sr Hsg Properties, LLC	(see Ownership)

The company was formed to acquire a senior housing facility located in Eugene, Oregon. The *April 2005 PPM* has no disclosures relating to Koenig's felony conviction. There is no disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

The project was unsuccessful. The cash flow performance for the full year of 2005 was negative \$338,601 and was funded by established reserves. This negative cash flow continued as the cash flow performance for the trailing 12 months ending April 2007, was negative \$774,300 and was funded by contributions from the parent company. Within one month the cash flow performance for the trailing 12 months ending March 2007, increased to negative \$809,315 and continued to be funded by contributions from an affiliate.

Gary Plato related that the investors were told by Koenig, Armitage, and Peary Wood that no one had ever lost money nor would they ever lose their money investing with Koenig. He also stated that Armitage failed to disclose Koenig's felony conviction at the time of sale. He

noted that the felony conviction turned out to be a significant issue in subsequent attempts to get financing for properties. In the end the investors were required to pay a premium to obtain loans.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Roseville Capital Resources, LLC	3/14/05 LLC	DE 3939314	100% Capital Resource Fund, LLC	(see Ownership)
Roseville Senior Housing, LLC dba Oakdale Heights of Roseville	3/14/05 LLC	DE 3939310	100 % AREI Sr Hsg Properties, LLC	(see Ownership)

The company was formed to acquire a senior housing facility located in Roseville, California. The *August 1, 2005, PPM* has no disclosures relating to Koenig's felony conviction. There is no disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

The project was unsuccessful. The cash flow performance for the trailing 12 months ending, April 2007, was negative \$2,677,0455 and that only \$608,000 was paid from established reserves. Within one month the cash flow performance for the trailing 12 months ending March 2007, increased to negative \$2,863,707 and was funded by established reserves of \$608,000 and from contributions from an affiliate.

Milton Foreman invested \$800,000 in Roseville Capital Resources, Roseville Heights, and AREI Roseville 2. Their broker Lawrence Miller handled all the details and Foreman was not aware of any negative issues. Milton Foreman was approximately 81 years old at the time of the sale and has reported an \$800,000 loss plus the lost income of the investment.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Spencer Capital Resources, LLC	3/14/05 LLC	DE 3939313	100% Capital Resources Fund, LLC	(see Ownership)
Spencer Senior Housing, LLC dba Sierra Oaks of Las Vegas	3/14/05 LLC	DE 3939311	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)

The company was formed to acquire a senior housing facility in Las Vegas, Nevada. The

1 *August 2005 PPM* has no disclosures relating to Koenig's felony conviction. There are no
2 disclosure of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC;
3 Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

4 The project was unsuccessful and the *May 2006 PPM* to Northridge Senior Housing, LLC
5 disclosed that the cash flow performance for the full year of 2005 was negative \$110,908 and was
6 funded by established reserves. The *August 23, 2007 PPM* to Oakdale Heights Senior Living
7 disclosed that the cash flow performance for the trailing 12 months ending March 2007, was
8 negative \$716,615 and was funded by established reserves of \$20,000 and from contributions
9 from an affiliate.

10 Helena Cooney stated that during September 2008 she invested \$300,000 in Spencer
11 Capital Resources. After the sale she subsequently learned from other investors that AREI
12 considered the property unlikely to be profitable and that Koenig had a felony conviction. Cooney
13 also related that AREI failed to pay \$9,662 in property taxes that was withheld from the investors.
14 Presently she has lost \$32,695.75

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
San Leandro Capital Resources, LLC	5/26/05 LLC	DE 3977074	100% Capital Resources Fund, LLC	(see Ownership)
San Leandro Senior Housing, LLC dba Oakdale Heights of San Leandro	5/26/05 LLC	DE 3977066	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)

20 The company was formed to acquire a senior housing facility in San Leandro, California.
21 The *May 31, 2005 PPM* has no disclosures relating to Koenig's felony conviction. There are no
22 disclosures of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC;
23 Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

24 The project was unsuccessful. The cash flow performance for the full year of 2005 was
25 negative \$267,277 and was funded by established reserves. The cash flow performance for the
26 trailing 12 months ending April 2007, was negative \$194,700 and \$141,260 was paid from
27 established reserves and the remainder was funded by contributions from the parent company.
28 Within one month the cash flow performance for the trailing 12 months ending March 2007,

increased to negative \$244,025 and was funded by established reserves of \$141,260 and from contributions from an affiliate.

Around August 2005, Armitage informed Allen Ehle that this was a “safe and sound” investment and never disclosed Koenig’s conviction or Armitage’s relationship with AREI. Armitage also failed to disclose that the interest rate on the property loan that the investors were assuming was set at 16%, more than double the going rate. The property has subsequently been sold at a loss to the investors.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Newhall Capital Resources, LLC	6/30 05 LLC	DE 3994364	100% Capital Resources Fund, LLC	(see Ownership)
Newhall Senior Housing, LLC dba Oakdale Heights of Newhall(amended dba To Oakdale Heights of Santa Clarita), dba Oakdale Heights of Beverly Hills, dba Oakdale Heights of Beverly Hills, Memory Care	6/30/05 LLC	DE 3994368	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)

The company was formed to acquire three senior housing facilities in California located in Beverly Hills and Newhall. The *October 2005 PPM* has no disclosures relating to Koenig’s felony conviction. There are also no disclosure of Koenig’s other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

The project was unsuccessful and the *July 18, 2007, Supplement to Virginia Beach Capital Resource, LLC* disclosed that the Newhall Capitol resource LLC was currently in default under their senior mortgage loan. It was also disclosed that the cash flow performance for Oakdale Heights Beverly Hills for the trailing 12 months ending April 2007, was negative \$2,447,323 with \$692,000 paid from established reserves and the remainder funded by contributions from the parent company. It further disclosed that the cash flow performance for Santa Clarita was negative \$497,572 and \$490,000 was paid from established reserves and by contributions from the parent company.

David Hancock stated that he purchased an Oakdale Height investment that was rolled over into Newhall. Guidi handled the investment. Hancock was not made aware of Koenig's conviction. Hancock has lost \$100,521.93.

Jeannine Jacobs was sold AREI related investments by Armitage. Investments include \$152,300 in Newhall and \$333,500 in an AREI corporate note. Armitage encouraged investment in Newhall, stating in part that he was invested in it. He made no negative disclosures relating to AREI or Newhall.

Yort Jue invested \$769,584.98 in Newhall in April 2006. AGA Financial disclosed Koenig's conviction and assured him that that it was not a problem and that Koenig was retired.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
La Mesa Capital Resources, LLC	8/19/05 LLC	DE 4018164	100% Capital Resources Fund, LLC	(see Ownership)
La Mesa Senior Housing, LLC dba Oakdale Heights of La Mesa/dba Oakdale Heights of Woodland Hills/dba Oakdale Heights Of Laguna Beach	8/19/05 LLC	DE 4018159	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)

The company was formed to acquire three senior housing facilities in California. The *January 2006 PPM* has no disclosures relating to Koenig's felony conviction. There are no disclosures of Koenig's other business failures; Sunset Bay, Mona., Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

The project was unsuccessful. By 2007 the property was in default and on March 17, 2007, the lender filed notices of foreclosure on two of the properties.

Lloyd Withers stated that on June 2, 2006, Guidi sold him an interest in La Mesa for \$477,933. At the time of sale Guidi did not disclose Koenig's felony conviction. It was also not disclosed that AREI was also going to manage the property. Withers' also reported that taxes were being withheld by AREI from the paid rents and that the 2006 and 2007 taxes were not paid causing a loss to Withers' of \$2,335. Withers' reports his total loss to be \$331,375.

James Collart stated that on April 1, 2006, he invested \$100,000 in this property. The investment was sold by Armitage and the sale took place in Collart's residence. Armitage did not disclose Koenig's felony conviction. Armitage also did not disclose the problems with the Sunset Bay note, the Mountain House note, the Quail Hollow note, Valdry Court note, Fox Run note, or the Redcliff note. Had any of this been disclosed Collart would not have invested.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Wilmington Senior Housing, LLC	8/31/04 LLC	DE 3848799	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)
Wilmington Capital Resources, LLC	12/22/05 LLC	DE 4082776	100% Capital Resources Fund, LLC	(see Ownership)

The company was formed to acquire senior housing facility in Wilmington, North Carolina. The *September 2005 PPM* has no disclosures relating to Koenig's felony conviction. There are no disclosures of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

The project was unsuccessful. The cash flow performance for the trailing 12 months ending March 2007 was negative \$3,953 and was funded by established contributions from an affiliate.

Dana Meyer purchased a number of AREI related investments from Armitage. They included Wilmington, Mountain House Golf Course, OH Fresno, Lakeside, and AREI corporate note. Starting in 2007, Armitage constantly informed her not to worry about her investments and that "Jim Koenig was working hard on all the investments" and that they would not lose anything. Meyer's anticipates that her loses will exceed \$633,000. She was not informed of Koenig's conviction at the time of sale.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Northridge Capital Resources, LLC	2/21/06 LLC	DE 4113067	100% Capital Resources Fund, LLC	(see Ownership)
Northridge Senior Housing, LLC dba Seasons at Northridge (Graceville)	2/21/06 LLC	DE 4113073	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)

The company was formed to acquire senior housing facility in Northridge, California. The *May 2006 PPM* has no disclosures relating to Koenig's felony conviction. There are also no disclosures of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

The project had difficulties and the *June 5, 2007, PPM to AREI (Corporate Note)* disclosed that the mortgage loan is currently passed its final due date and the lender has delivered a notice of default.

Linda Jones invested \$251,273.56 into Northridge. This investment was sold by Guidi. Once the Peoria property ceased making payments she learned about Koenig's conviction and Armitage's relationship with Capital Resources. Either the felony or the conflict of interest was information that was withheld that would have caused her not to invest in this property. Currently Jones has lost \$7,500.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Putnam Capital Resources, LLC	6/16/06 LLC	DE 4176707	100% Capital Resources Fund, LLC	(see Ownership)
Putnam Senior Housing, LLC dba The Plaza at Clover Lake, An Oakdale Heights Senior Living Community	6/16/06 LLC	DE 4176717	100% AREI Sr Hsg. Properties, LLC	(see Ownership)

The company was formed to acquire senior housing facility in Carmel, New York. The *October 2006 PPM* does not list Koenig as part of management of CFR or AREI.²⁸ Perry Wood is listed as CEO and director of AREI. Armitage is also listed as a director. There are no disclosures relating to Koenig's felony conviction. There are no disclosure of Koenig's and

²⁸ PPM discloses that AREI, the Company, Master Lessee, the Property Manager and their Affiliates have signed a nonbinding intent to restructure the ownership and management of these entities. It is the intent that these entities will be owned by a group of senior officers (Wood, Peterson, Jensen, Slicta) along with certain employees of AREI and the Property Manager. Completion on reorganization is expected in November 2006 and a supplement to the PPM detailing changes will be distributed. This was never completed and Koenig retained control of AREI.

AREI's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

John Gardner stated that Armitage sold him a series of AREI investments. He was told that AREI had an excellent reputation and was earning excellent dividends. It was never disclosed that Koenig had a felony conviction. They also were not aware of Koenig's and Armitage's relationship that extended into a number of companies.

In November 2005, Gardner invested \$47,500 in Mountain House Golf Course. He provided another \$500 in June of 2008 that was requested by Koenig to keep the golf course open. Gardner lost \$48,000.

In December 2006, Gardner invested \$228,564.21 in Putnam. Currently his potential loss is \$221,000. Gardner noted that Koenig failed to pay property taxes and failed to make loan payments and that the investors were trying to take over the property.

On June 2006, November 2006, and July 2007, Gardner invested a total of \$303,099 in the AREI Corporate note. Armitage knew that the last payment for the note was made in March of 2007. He assured Gardner that "they would catch up." Gardner has lost his entire investment.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Vacaville Capital Resources, LLC	7/3/06 LLC	DE 4185159	100% Capital Resources Fund, LLC	(see Ownership)
Vacaville Senior Housing, LLC dba Oakdale Heights of Vacaville	7/3/06 LLC	DE 4185161	100% AREI Sr. Hsg. Properties, LLC	(see Ownership)

The company was formed to acquire senior housing facility in Vacaville, California. The *September 2006 PPM* does not list Koenig as part of management of CFR or AREI. Perry Wood is listed as CEO and director of AREI. Armitage is also listed as a director. There are no disclosures relating to Koenig's felony conviction. There are no disclosures of Koenig's other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

Charles Ward stated that on, October 4, 2006, Jeff Guidi sold him an investment in OH Vacaville. Ward invested \$575,063.58. Guidi assured Ward that the investment was secure, in part, because Armitage of AGA was sitting as a member of AREI board of directors. Part of the prospectus was missing and he was informed that “[i]t’s only legal paperwork.” Subsequently Ward learned that statements surrounding the investment were false. As of 2008, Ward had spent \$185,000 in an attempt to save the investment.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Providence Capital Resources, LLC	9/14/06 LLC	DE 4220097	100% Capital Resources Fund, LLC	(see Ownership)
Providence Senior Housing, LLC dba Victoria Court, An Oakdale Heights Senior Living Community	9/14/06 LLC	DE 4220099	100% AREI Sr. Hsg Properties, LLC	(see Ownership)

The company was formed to acquire senior housing facility in Cranston, Rhode Island. The *February 2007 PPM* has no disclosures relating to Koenig’s felony conviction. Gary Armitage is listed as the Director of AREI and as a director of ePlanning. AREI Senior Housing Properties is listed as owned by James S. Koenig and Pamela Koenig. There are no disclosures of Koenig’s other business failures; Sunset Bay, Mona, Utah, LLC; Mt. House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff. There is also no disclosure relating to the Mountain House Golf Course, May 23, 2007, letter where AREI writes to the investors stating that the May payment has not been made due to a February cash shortfall due to an “unusually high down payment for workers’ compensation renewal.” AREI noted that it continues to “experience a ripple effect of having depleted cash reserves.”

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Oakdale Heights Senior Living (Oakdale Heights Management)	9/22/06 LLC	4224597 Delaware		

1 This was an offering of \$15,000,000 investment in the debt of the Oakdale Heights
2 Management Corporation.²⁹ The *August 23, 2007, PPM* does not list Koenig as part of the
3 company management or disclose his felony conviction. The PPM references a chart that depicts
4 the organization and ownership of the company. The chart was not attached to the AREI's PPM.

5 The PPM discloses Adam Peterson's indictment.³⁰ It also discloses that owners of some of
6 the properties managed by the company have defaulted on debt secured by property. There are no
7 disclosures of Koenig's or AREI's other business failures; Sunset Bay, Mona, Utah, LLC; Mt.
8 House, LLC; Quail Hollow, LLC; Valdry Court, LLC; Fox Run note, or Redcliff.

9 There is also no disclosure relating to the Mountain House Golf Course, May 23, 2007,
10 letter where AREI writes to the investors stating that the May payment has not been made due to
11 a February cash shortfall due to an "unusually high down payment for workers' compensation
12 renewal." AREI noted that it continues to "experience a ripple effect of having depleted cash
13 reserves."

14 Additionally there are no disclosure relating to the *July 18, 2007, Supplement to Virginia*
15 *Beach Capital Resource, LLC* which disclosed that the Wood River offering was "inadvertently
16 oversubscribed . . . by approximately \$1 million.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Redstone Land Interest No. 1, LLC				

20 The Redstone offering book was intermingled with AREI related offerings at AREI
21 Corporate Headquarters located in Redding, California.

22 The *February 1, 2007 PPM* has a maximum offering of \$10,000,000 for the purpose of
23 acquiring 72 acres of land in East Point, Georgia for investment and appreciation. Management is
24 listed as James Jones (former CFO for AREI) and Brian Williams. Ownership interests include

25 _____
26 ²⁹ *Oakdale Heights Management Company* is owned by Koenig.

27 ³⁰ Peterson, formerly the CFO, resigned in November 2006 due to a federal indictment
28 stemming from activities with a company Peterson founded. The indictment alleges the Peterson
fraudulently induced payroll deposits to be made from his company's payroll service when the
company had insufficient funds to repay the payroll company.

Nuance Communities, Inc., a Nevada Corporation, which is 40% owned by Koenig and 20% owned by Armitage and Guidi. EPlanning was listed as the seller of membership units. There are no disclosures of Koenig's conviction or of Koenig's or AREI's other business failures.

Sally Weber stated she had that known Armitage for years. Beginning in October of 2006, Armitage invested her funds into AREI corporate note (\$100,000), IMS-GA (\$200,000), Redstone (\$100,000), Lake College (\$56,168.58), and other entities. Armitage guaranteed that he would back each investment personally so that there was no risk involved. They only recovered \$150,000 from the IMS-GA investment.

One of the investments involved the Weber Family Trust. Armitage agreed to place funds in a short term investment. Without the permission of the Webers, Armitage transferred the funds to AREI. AREI confirmed that there was no signed transfer agreement and both Armitage and Koenig entered into negotiations to guarantee the repayment of the funds. Armitage stated that Koenig was brought in because Koenig was responsible for managing AREI when the funds were accepted.

Another investor, Jim Weiss, reported that at the time of the sale in April 2008, Armitage assured him that Koenig was not involved in this company. Later that summer Armitage stated that Koenig was involved but was paid to get out of the deal in the spring.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
Equestron, LLC				

The Equestron offering material was discovered at AREI Corporate Headquarters located in Redding, California.

The *September 2006* offering was for \$3,500,000 in unsecured debt to be used for the Company. Company was formed to develop, manufacture, and distribute equipment relating to the diagnoses and treatment of horse lameness. Officers include Gary Armitage and James Jones (former CFO of AREI). Armitage is described as a partner at AGA Financial, and is a member of the board at e-Planning Securities, Inc. His background includes over 25 years in the financial planning industry.

1 The offering discloses that it has not been reviewed by ePlanning or any other broker
2 dealer.

3 Ownership interests include Nuance Communities, Inc., a Nevada Corporation, which is
4 40% owned by Koenig and 20% owned by Armitage and Guidi.

5 James and Teresa Derr stated that Armitage sold them a series of investments including
6 Mountain House Golf Corse, Forte Ventures, Redstone, and Equestron. Armitage represented
7 that the investments were safe and Koenig's conviction was never disclosed and they would have
8 declined to invest had it been disclosed.

9 At a meeting with Armitage in May 2008, Armitage related to the Derrs that he had made a
10 personal investment of \$20,000 in Mountain House to aid in the financial disaster that was
11 unraveling. They were informed that all of their other investments were solid and meeting or
12 exceeding expectations. Based on Armitage's recommendation they converted their note holder
13 status in Equestron to equity status.

14 In July 2008, the Derr's received a phone call from David Lichman, the President and CEO
15 of Equestron. Lichman stated that Equestron was in financial trouble and that he had not taken a
16 salary from the company in the last two years. They also learned that Koenig had ties to the
17 company. They would have declined to invest had they know about the true strength of the
18 company or had they been informed about Koenig's involvement.

19 The Derr's have made a redemption request for their investments with Armitage but have
20 not seen any money. Loss is anticipated at \$416,500.

21	Company Name	Date of	Corporate	Ownership %	Voting %
22		INC/LLC	Number (St)		
	ePlanning				

23 Stephen and Ann Booth were referred to AREI investments by their retirement investment
24 advisor, Armitage, in 2000. Armitage's emphasis was on prudent conservative investments.
25 Armitage represented that he was very close to Koenig and his operation and that AREI
26 investments were very safe.

As of January 2008, the Booths' were invested in Lake College/Career Academy LLC (\$47,500), AREI Corporate note (\$488,648), Mountain House Golf Course (\$320,360), Lakeside Mortgage Fund (\$227,952), IMS-GA (\$47,500), and e-Planning (\$51,500). A March 2007 payout of \$150,000 was rolled into the AREI Corporate note at the suggestion of Armitage.

The Booths' report that they met with Armitage each quarter to review their investments. "[H]e virtually never indicated that any of the investments were anything other than sound and that the underlying operations were prosperous." Stephen Booth stated, that there were no disclosures made regarding Koenig's felony conviction, the failure to pay notes or the over subscription of properties. Had any of this been disclosed they would not have invested.

Company Name	Date of INC/LLC	Corporate Number (St)	Ownership %	Voting %
IMS-GA				

IMS-GA is a private investment fund run by and for the benefit of Armitage. The fund owns real property and interests in Lakeside, Lake College, Nuance Communities, Equestron, e-Planning and other companies.

Robert and Mary Fosse stated that Armitage sold them a series of investments starting with Valdry Court in August of 2001. They were also invested in Quail Hollow, Mountain House Golf Course, Lakeside Mortgage Fund, and IMS-GA. They received a portion of their Valdry Court investment back and the remainder was distributed between the Oakdale Heights, Bakersfield and Alterra Bridge Loan. They also participated in the 2003 Combined Note Participation Offering No.1 (AREI Corporate Note).

Fosses report that Armitage promised safe investments and hurried them to sign new offerings. Armitage would mail the prospectus after the documents had been signed. They were never informed of Koenig's felony conviction. They redeemed the majority of their investments early and lost only \$52,152 that was in the IMS-GA fund.

CONCLUSION

The AREI *Wood River Senior Housing January 2005 Addendum* warns potential investors that "no person should purchase Investor Units unless that person is willing to entrust all aspects

1 of the Company to the Manager . . .” It further warns that that the potential purchaser must
2 carefully evaluate the personal experience and business performance of the manager.

3 None of the written material provides sufficient information to allow the evaluation of
4 either the *personal experience* or *business performance* of Koenig or AREI related entities. Even
5 in those few offerings where disclosures were made, they are written in such a way to remove all
6 material facts that a reasonable investor would consider important in reaching an investment
7 decision. Additionally, all of the oral communication outlined provided no information to allow
8 any meaningful review of the AREI related entities.

9 Based on information provided to me during the course of this investigation, probable cause
10 exists to conclude that Koenig, Armitage, and Guidi committed the crimes of Securities Fraud
11 (Corporations Code section 25401), and Grand Theft by Embezzlement (Penal Code sections 487
12 and 503) and Residential Burglary (Penal Code section 459). Your affiant is also aware that a
13 period of time has elapsed during the onset of investigation and this application for an arrest
14 warrant. The fraudulent activities relating to offerings as outlined were not discovered until April
15 1, 2007, and that no victim of said violations and no law enforcement agency chargeable with the
16 investigation and prosecution had actual or constructive knowledge of said violations prior to said
17 date. Furthermore, the above violations were continuous and the earliest completion date of any
18 act of the charged offenses was April 1, 2007. More specifically, it was not until AREI ceased
19 making payments on its debt obligation during April 2007 that investors first learned of the
20 material omissions that were being made during the sale of the securities. (See Pen. Code, §
21 801.5 [prosecution shall be commenced within four years after the completion of the offense].)

22 Therefore, I request that a warrant be issued pursuant to Penal Code section 813, ordering
23 the arrest of defendants Armitage, Guidi, and Koenig for the relevant felony violations charged in
24 the accompanying Felony Complaint.

1 I declare under penalty of perjury under the laws of the State of California that the
2 foregoing is true and correct.

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4 Dated: May ____, 2009

Respectfully Submitted,

5 EDMUND G. BROWN JR.
6 Attorney General of California

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9 ROBERT MORGESTER
10 Deputy Attorney General
11 *Attorneys for People*

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