

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF NORTH CAROLINA
CHARLOTTE DIVISION**

**SECURITIES AND EXCHANGE
COMMISSION,**

Plaintiff,

vs.

**REX VENTURE GROUP, LLC
d/b/a ZEEKREWARDS.COM, and
PAUL BURKS,**

Defendants.

No. 3:12-CV-519

RECEIVER'S STATUS REPORT FOR THE FIRST QUARTER OF 2017

I. INTRODUCTION

Kenneth D. Bell, Esq., the Court-appointed Temporary Receiver (the "Receiver") for and over the estate of Rex Venture Group, LLC d/b/a ZeekRewards.com, submits this Quarterly Status Report (the "Report") in accordance with the Order of this Court entered on August 17, 2012, to provide a status report on the work and findings to date (the "Investigation") of the Receiver, his counsel, agents, consultants, and advisors (the "Receiver Team").

II. SUMMARY OF ACTIVITIES OF THE RECEIVER BETWEEN JANUARY 1, 2017 AND MARCH 31, 2017

A. Operations of the Receiver

1. Marshaling and Preserving Receivership Assets

a. Accounts for Holding Receivership Assets

During the first quarter of 2017, the Receiver maintained two bank accounts on behalf

of the Receivership Estate for holding Receivership Assets: the “Affiliate Payments Account” and the “Holdback Account.”

Excluding earned interest and transfers between accounts, the Receiver made the following deposits into these accounts during the first quarter of 2017:

- \$289,736.40 into the Affiliate Payments Account from settlements with various third parties who were holding Receivership Assets or against whom the Receiver asserted claims.

As of March 31, 2017, the Receivership Estate held approximately \$42 million in the Affiliate Payments Account and approximately \$1.5 million in the Holdback Account.

b. Foreign Accounts

The Receiver continues to engage in litigation and additional discovery in connection with his February 11, 2016 Motion seeking to recover \$13,174,015.48 in outstanding Receivership Assets from Payza, PaymentWorld, and Victoriabank, and their affiliates, or alternatively to hold these entities in contempt for violating the Court’s Freeze Order (“Contempt Motion”). During the fourth quarter of 2016, the Receiver had obtained additional data regarding the flow of funds among Payza, PaymentWorld, and Victoriabank.

During the first quarter of 2017, the Receiver team analyzed the records obtained via subpoenas to third-party financial institutions. In addition, the Receiver obtained an explanatory affidavit from BNY Mellon authenticating and describing the relevant transactions for use in the Receiver’s Response in Opposition to Victoriabank’s Motion to Dismiss. The Receiver’s counsel prepared and filed the Response brief on March 24, 2017, and a hearing on the motion is set for May 3, 2017.

2. Analyzing the Operations of the Receivership Entity

a. Investigating the Receivership Defendant's Operations

During the first quarter, the Receiver's investigation and analysis of RVG's operations was limited to analyzing correspondence and transactions between RVG and its third-party payment processors. This analysis was performed for: (1) the pursuit of Receivership Assets from financial institutions including Victoriabank, Payza, and Payment World; and (2) support for the Receiver's fraudulent transfer lawsuits and settlements.

3. Communicating with Affiliates and Creditors

The Receiver communicated to Affiliates through the Receivership Website on four occasions in the first quarter of 2017. Two of these postings related to the sentencing of Paul Burks for the crimes of which he was convicted for his role in the ZeekRewards Ponzi Scheme. One posting related to and was directed at the Net Winner Class members against whom the Receiver has obtained partial summary judgment as to liability, and for whom the amount of net winnings is being determined through a separate Court-ordered process. The posting alerted those individuals to how they might settle their liabilities to the Receivership. Additionally, the Receiver posted a message to Affiliates who hold allowed claims to announce that the Receivership would be making a third partial interim distribution to all Affiliates who hold Allowed Claims. This distribution brought the total victim compensation to 75% of losses for Affiliates with Allowed Claims.

The Receiver Team also continued its individual communications with Affiliates via email and telephone in the first quarter of 2017. These communications addressed inquiries about asserted claims, amended claims, distributions on claims (including wire transfers), and

the allowance of claims. Additionally, the Receiver had numerous discussions with net winners who wished to settle their liabilities to the Receivership. Further, the Receiver Team has had numerous communications with Affiliates regarding distribution payment issues.

4. Issues Concerning Federal Taxes

During the first quarter, FTI and the Receiver Team tracked and reviewed correspondence related to IRS Form 1099-MISC (“1099”) from affiliates. This work included responding to various affiliate questions and comments, and reviewing transaction data for each affiliate who inquired about a 1099 from the Receiver. In addition, the Receiver Team responded to questions concerning tax returns and information reports.

5. Litigation in the SEC Enforcement Action¹

The Receiver Team engaged in extensive litigation-related activity in the dispute with Payza, PaymentWorld, and Victoriabank, as discussed above. This litigation was filed as a contempt motion in the SEC Action and is therefore referenced in this section. The Receiver’s other main litigation activity occurred in pursuing claims against net winners, which is discussed later in this report.

B. The Receiver’s Fund Accounting

The Receiver’s Standardized Fund Accounting Report (“SFAR”) is attached hereto as Exhibit A.

¹ The Receiver’s efforts related to the recovery of fraudulently transferred funds and other damages incurred by RVG are discussed later in this Report.

C. The Receiver's Receipts and Disbursements

The Receiver's Schedule of Receipts and Disbursements ("Schedule") from January 1, 2017 through March 31, 2017, is attached hereto as Exhibit B. The Schedule sets forth the following receipts and disbursements:

1. Received funds of \$289,736.40 from third-party litigation settlements;²
2. Received income from other sources, such as interest income and return of pre-paid funds, totaling \$18,242.32;
3. Disbursed funds from the Receiver's accounts of \$47,267,984.94 to affiliate-investors; and,
4. Disbursed funds from the Receiver's accounts of \$236,172.26. These funds were disbursed for: bank fees related to management of the Receiver's accounts; RVG website and database hosting; legal services; utilities; and distribution plan implementation expenses.³

Between January 1, 2017 and March 31, 2017, the Receivership Estate deposited \$307,978.72 and disbursed \$47,504,157.20, with \$47,267,984.94 of this sum being paid to affiliate-investors. The Receiver has marshaled total assets of approximately \$363 million during the period between August 17, 2012 and March 31, 2017, while disbursing approximately \$320.3 million during the same period.

² Since the inception of the Receivership and as of the end of the first quarter 2017, the Receiver has agreed to approximately \$7.8 million in settlements with net winner affiliates. Additionally, the Receiver has collected a total of \$23.83 million in litigation-related settlements with affiliates, vendors and insiders.

³ See attached Exhibit B for further detail regarding disbursements and receipts.

D. Description of All Known Non-Cash Receivership Property

In the first quarter, the Receiver team worked to maintain a residential home in Clarksville, Arkansas through the engagement of local contractors. This property was surrendered to the Receiver as part of a settlement with Defendant Dawn Wright-Oliveras. The Receiver's local counsel in Arkansas continues work to remove a lien from the property's title that was filed by a general contractor who had worked on the home. In the interim, the Receiver has worked to prepare the property for sale.

E. Description of Claims Held by the Receivership Estate

1. Identifying and Pursuing Fraudulently Transferred Funds Held by Net-Winner Affiliate-Investors

a. U.S. Net Winner Lawsuit

In the U.S. net winner lawsuit, the Receiver sought and obtained final judgments from the court against the named defendants, who are some of the largest net winners of the ZeekRewards scheme. In addition, the Receiver prepared and submitted a Motion to Enter Proposed Order on Process for Determining the Amount of Final Judgments against Net Winner Class Members. The Court issued a subsequent Order on January 27, 2017, setting forth the process for determining the amount of final judgments against the Net Winner Class members. The Receiver provided notice to the Net Winner Class members in accordance with the Order and has been processing responses received from Net Winner Class members via the online portal. There are approximately 9,000 Net Winner Class members subject to the judgment. As of the end of the first quarter, 226 Net Winner Class members had completed a response in the online portal agreeing with the Receiver's calculated amount (of which 186

requested a settlement negotiation), and 152 had completed a response indicating disagreement with the Receiver's calculation.⁴

In addition to the Net Winner Class aspects of the litigation, the Receiver Team also continued collection efforts against the named net winners against whom the Receiver had previously obtained default judgment. Further, the Receiver's counsel engaged in discussions with third parties regarding the collection and/or sale of potential future judgments against U.S. net winners, including the Net Winner class.

b. Claims Against Foreign Net Winners

The Receiver continued litigation in the U.S. lawsuits against foreign-based net winners. The Receiver prepared and filed motions for summary judgment against the remaining defendants based in Canada, British Virgin Islands, France, Israel, and Sweden. As of the end of the first quarter, the Court had granted the Receiver summary judgment in three of the five actions, with the motions in the Canadian and Swedish defendant lawsuits still pending resolution.

In addition, the Receiver Team continued to pursue fraudulently transferred assets from foreign net winners against whom the Receiver has already obtained judgments.

2. Investigating Claims against the Receivership Defendant's Third-Party Advisors and Others

a. *Bell v. Adlerman and S.T. Eagle, Inc.*

In the lawsuit against Sam Adlerman and his entity that received commissions on "leads" provided to RVG, the lawsuit was still in the discovery phase during the first quarter

⁴ Since the Response Portal was created, the Receiver has entered into approximately 400 settlement agreements with net winners, amounting to approximately \$3.7 million in settlement funds as of the filing of this Status Report.

of 2017. In addition to engaging in discovery, the Receiver Team evaluated the next steps in proceeding toward the close of discovery in the case.

b. *Bell v. Kaplan*

In the lawsuit against attorney Howard Kaplan, the Receiver engaged in discovery with the Defendant. The Court held a discovery hearing on February 21, 2017. In a subsequent Order dated February 23, 2017, the Court directed the parties to confer and devise more narrowly focused search terms than originally requested by Kaplan for searching the database of the Receiver. In addition, the Court ordered the parties to proceed to mediation within 60 days, by April 24, 2017.

c. *Bell v. USHBB et al.*

In the lawsuit against USHBB and its principals, the Receiver evaluated the next steps in proceeding toward the close of discovery.

F. Potential Creditors of the Receivership Estate

There are no non-Affiliate pre-Receivership creditors of the Receivership Estate with a reasonable likelihood of collecting on any claims they assert against the Estate.

G. Status of Creditor Claims Proceedings, After Such Proceedings Have Been Commenced

On January 18, 2017, the Receiver reissued checks to approximately 390 Affiliate claimants. These checks were reissued to claimants either who had requested reissuance of one of their prior distribution checks or for whom a prior check distribution had been returned to the Receivership with a forwarding address provided. On April 27, 2016, the Court had approved a motion to pay certain foreign Affiliates by wire transfer. As part of the January

18th reissuance, wire transfers were sent to 127 foreign Affiliates who had been unable to cash a previously issued check and had elected to receive their future distributions via wire.

On January 31, 2017, the Receiver issued checks to 5,009 Affiliate claimants. The aggregate amount of this distribution was \$7,416,511.46. This distribution was calculated using the rising tide method that was previously approved by the Court as 60% of the Affiliate's allowed claim amount. As part of the January 31st distribution, wire transfers were sent to 44 foreign Affiliates who were eligible to receive a distribution, provided the necessary information, and elected to receive their distributions via wire. The amount of these wire distributions was \$60,867.16.

On March 15, 2017, the Receiver issued checks to approximately 122,335 Affiliate claimants. The aggregate amount of this distribution was \$67,755,714.74. This distribution was calculated using the rising tide method that was previously approved by the Court and set the rising tide amount as 75% of the Affiliate's allowed claim amount. As part of the March 15th distribution, wire transfers were sent to 274 foreign Affiliates who were eligible to receive a distribution, provided the necessary information, and elected to receive their distribution via wire. The amount of these wire distribution was \$91,486.81.

III. CONCLUSION

At this time, the Receiver recommends the continuation of the Receivership for the following reasons:

1. To continue the Receiver's efforts to investigate and marshal assets of the Receivership Estate;

2. To continue the Receiver's efforts to implement the claims and distribution processes in order to distribute proceeds to injured claimants;

3. To continue the Receiver's efforts to liquidate various assets of the Receivership Estate; and

4. To carry out any other legal or appointed duties of the Receiver identified in the Receiver Orders or as the Court deems necessary.

Dated: May 1, 2017

By: /s/ Kenneth D. Bell
Kenneth D. Bell, Esq., Receiver

and

McGuireWoods LLP
201 North Tryon Street
Suite 3000
Charlotte, NC 28202
Telephone: 704-343-2000
Facsimile: 704-343-2300
Attorneys for the Receiver