

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

SECURITIES AND EXCHANGE COMMISSION,	)	
	)	
Plaintiff,	)	
	)	
vs.	)	
	)	No. 3:12-CV-519
REX VENTURE GROUP, LLC	)	
d/b/a ZEEKREWARDS.COM, and	)	
PAUL BURKS,	)	
	)	
Defendants.	)	
	)	

**RECEIVER’S STATUS REPORT FOR THE FOURTH QUARTER OF 2015**

**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, for the purpose of providing 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 OCTOBER 1, 2015 AND DECEMBER 31, 2015**

**A. Operations of the Receiver**

**1. Investigating the Receivership Defendant’s Financial Information**

During the third quarter, the Receiver Team continued to work with FTI and various government agencies to collect and analyze documents and information to support its recovery of

Receivership Assets. Recent efforts have focused in particular on those matters and related discovery pending in federal court. The Receiver Team continues to assist government agencies in their own investigations concerning the Receivership Defendant, principals, affiliates, and the entities and financial institutions that provided services to or transacted with them.

## **2. Marshaling and Preserving Receivership Assets**

### **a. Accounts for Holding Receivership Assets**

The Receiver currently maintains five<sup>1</sup> bank accounts on behalf of the Receivership Estate for holding Receivership Assets: the “Affiliate Payments Account,” the “Seized Asset Account,” the “Pre-Filing Account,” the “Settlement Account,” and the “Holdback Account.”

Excluding earned interest and transfers between accounts, the Receiver made the following deposits into these accounts during the fourth quarter of 2015:

- \$2.5 million into the Settlement Account from NxSystems, Inc., which amount was paid in partial payment of a settlement approved by the Court on December 16, 2015.
- \$161,446.77<sup>2</sup> into the Affiliate Payments Account from payments from various financial institutions relating to previously dishonored cashier’s checks, teller’s checks, official checks, and bank money orders.
- \$131,159.47 into the Settlement Account from settlements with various third parties who were holding Receivership Assets or against whom the Receiver asserted claims.

As of December 31, 2015, the Receivership Estate held approximately \$74.1 million in the Affiliate Payments Account, approximately \$404,000 in the Seized Asset Account,

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<sup>1</sup> During the fourth quarter, the Receiver maintained a sixth account for the escrow of approximately \$1 million provided by NxSystems, Inc. pursuant to the Court’s June 1, 2015 Order. The escrowed funds were subsequently transferred to the Settlement Account at the beginning of the first quarter of 2016 pursuant to a Settlement Agreement approved by the Court on December 16, 2015, and this sixth account was subsequently closed.

<sup>2</sup> Of this amount, \$96,496.77 was received by the Receiver on the final day of the third quarter of 2015, and deposited at the beginning of the fourth quarter of 2015. This amount was noted in the previous quarterly status report for the third quarter of 2015 but was not included in the account balances reported.

approximately \$288,000 in the Pre-Filing Account, approximately \$11.4 million in the Settlement Account, and approximately \$1.3 million in the Holdback Account.

**b. Cashier's Checks**

In the quarter ending December 31, 2015, the Receiver's conflicts counsel, Erwin, Bishop, Capitano & Moss, P.A., continued work to resolve claims arising from dishonored cashier's checks, teller's checks, official checks, and bank money orders ("dishonored instruments"). During the quarter, ten dishonored instrument claims were resolved resulting in payments of \$66,950.00 to the Receivership Estate (\$64,950.00 was transferred to the Receiver during the quarter and \$2,000 was on hand at EBCM's office as of December 31, 2015). Two additional claims were resolved subject to receipt of payment and completion of documentation that should result in a recovery of an additional \$20,396.00 during the first quarter of 2016. As of December 31, 2015, EBCM was pursuing three remaining dishonored instrument claims that are the subject of previously filed motions for asset turnover pending before the Court.

**c. Funds Held by E-Wallets**

The Receiver settled the dispute with NxSystems, Inc. during the fourth quarter, resulting in a \$3.5 million payment to the Receivership Estate. As discussed below in the Foreign Accounts section, the Receiver continues to pursue funds held or transferred by foreign e-wallet companies.

**d. Additional Asset Recovery**

The Receiver Team continues to litigate the matter involving the recovery of assets from Preferred Merchants and its affiliates.

**e. Foreign Accounts**

The Receiver Team continues its efforts to investigate and pursue outstanding funds from the processing relationship and flow of funds between Payza, Payment World, and Victoria Bank

in Moldova. The Team is working with government officials in both the United States and Moldova and with members of McGuireWoods Consulting to locate and recover the funds. The Receiver Team has also begun efforts to file a motion against these entities seeking the return of receivership assets and for a finding of contempt. The Receiver Team continues to investigate and pursue outstanding funds from Solid Trust Pay and Cyberprofit and is working with various government agencies in pursuit of these assets.

### **3. Analyzing the Operations of the Receivership Entity**

#### **a. Investigating and Validating the Receivership Defendant's Electronic and Financial Data**

The Receiver did not obtain additional financial information from outside sources during the fourth quarter. Therefore, the Receiver Team did not perform work specific to validating the RVG's electronic and financial data.

#### **b. Investigating the Receivership Defendant's Operations**

During the fourth quarter, the Receiver's investigation of RVG's operations included the continued analysis of correspondence and transactions among RVG and certain vendors and third-party advisors. This analysis was performed for various purposes, including the pursuit of Receivership Assets from financial institutions, support for the Receiver's ongoing fraudulent transfer lawsuits, and analysis of claims against third parties.

### **4. Communicating with Affiliates and Creditors**

The Receiver Team continued its frequent communications with Affiliates in the fourth quarter of 2015. These communications generally addressed inquires about asserted claims, distributions on claims, and the allowance of claims. There were no Affiliate-wide communications issued in the fourth quarter.

## **5. Issues Concerning Federal Taxes**

During the fourth quarter, the IRS sent a notice of penalty letter to the Receiver Team that was addressed to “Rex Venture Group, c/o Paul Burks.” The Receiver Team sent correspondence to the IRS regarding the reason for the penalty and who is liable for it. The Receiver Team is awaiting a response from the IRS.

During the fourth quarter, FTI tracked and reviewed 1099-related correspondence from affiliates. This work included responding to various affiliate questions and comments and reviewing transaction data for each affiliate who inquired about a 1099 received from the Receiver. Additional work included performing any necessary analyses and research to respond to various requests from the Receiver and claimants and in some cases working with National Law Forms to generate amended 1099s.

## **6. Litigation in the SEC Enforcement Action<sup>3</sup>**

The Receiver Team litigated the following matters in the SEC Action:

- The Receiver continued to litigate and eventually settled the claims against NxSystems, Inc.
- The Receiver litigated multiple claims for the return of Receivership assets from financial institutions. This litigation involves wrongfully dishonored negotiable instruments and is detailed above in Section II.A.2.b.
- The Receiver litigated a contempt motion against Darryle Douglas resulting in the Court’s finding Mr. Douglas in civil contempt.

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<sup>3</sup> The Receiver’s efforts related to the recovery of fraudulently transferred funds and other damages incurred by RVG are 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.

**C. The Receiver's Receipts and Disbursements**

The Receiver's Schedule of Receipts and Disbursements ("Schedule") from October 1, 2015 through December 31, 2015, is attached hereto as Exhibit B. The Schedule sets forth the following receipts and disbursements:

1. The Receivership received funds in the amount of \$161,446.77 from the deposit of Affiliate-Investor financial instruments;<sup>4</sup>
2. Received funds of \$131,159.47 from third-party litigation settlements;<sup>5</sup>
3. Received funds of \$3,498,669.07 from NXPay;
4. Received interest income of \$17,729.64; and
5. Disbursed funds from the Receiver's accounts of \$8,375,791.85 to affiliate-investors;
6. Disbursed additional funds from the Receiver's accounts of \$1,391,596.02. These disbursements include: bank fees related to management of the Receiver's accounts; claims process expenses and disbursements to investors; RVG website and database hosting; the fees previously approved for payment of FTI and

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<sup>4</sup> These funds are the result of financial institutions paying the Receiver for affiliates' cashier's checks upon which those financial institutions had previously wrongfully stopped payment.

<sup>5</sup> As of the end of the third quarter, the Receiver has agreed to approximately \$3 million in settlements with net winner affiliates. The Receiver has collected over \$12.2 million in total litigation-related settlements since the inception of the Receivership.

McGuireWoods; other legal services; utilities; personal asset expenses; and other professional services.<sup>6</sup>

Between October 1, 2015 and December 31, 2015, the Receivership Estate deposited \$2,810,335.88 and disbursed \$9,767,387.87 (\$8,375,791.85 of which was distributed to victims of the scheme). The Receiver has marshaled total assets of approximately \$351.1 million during the period between August 17, 2012 and December 31, 2015, while disbursing approximately \$263.4 million during the same period.

**D. Description of All Known Non-Cash Receivership Property**

In the third quarter, the Receiver team worked to prepare for sale a residential home in Clarksville, Arkansas, that was surrendered to the Receiver as part of a settlement with Defendant Dawn Wright-Oliveras.

**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**

During the fourth quarter, the Receiver team continued to coordinate with Berkeley Research Group (“BRG”) to provide it all requested information to allow for BRG’s review of records and preparation of Defendants’ expert report.

Regarding collection efforts in the U.S. net winner lawsuit, the Receiver pursued collection efforts with the aid of local counsel against judgment debtors Michael Van Leeuwen, Todd Disner, Trudy Gilmond, and David Sorrells.

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<sup>6</sup> See attached Exhibit B for further detail regarding disbursements and receipts.

**b. Claims Against Foreign Net Winners**

The Receiver Team continued its efforts in pursuing fraudulently transferred assets from net winners residing in foreign countries. These efforts involved extensive research into various countries' judgment enforcement standards and providing foreign counsel with evidence for use in actions to enforce the Receiver's U.S. judgments; drafting and filing of motions for entry of default and default judgment against defendants who failed to answer within the timeframe allowed by the Federal Rules; ongoing work to serve foreign defendants with legal process; and collection efforts regarding foreign defendants against whom the Receiver has obtained default judgments. The Receiver also worked to settle claims against foreign defendants in Canada, Norway, and Sweden.

**2. Investigating Claims against Receivership Defendant Insiders**

The Receiver has settled with each of the defendants named in the lawsuit against insiders of the ZeekRewards scheme other than Darryle Douglas, against whom the Receiver has obtained a default judgment. During the fourth quarter, the Receiver litigated a motion for contempt against Douglas for his failure to comply with the Court's Order that he return a Receivership database, provide financial records, and submit to a deposition by the Receiver. The Court held Mr. Douglas in civil contempt and ordered his arrest until he appears before the Court and complies with the Order.

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

**a. *Bell v. Gerald Nehra et. al***

During the fourth quarter, the Receiver settled the lawsuit against attorneys Gerald Nehra and Richard Waak and their respective legal entities under which they practice law. *See Bell v. Nehra et. al*, No. 3:15cv437 (W.D.N.C. filed Sept. 21, 2015). As the Settlement Agreement sets

forth: “[w]hile they contend they acted in good faith as legal counsel, Nehra and Waak acknowledge and agree that, based on their current knowledge, during the period they served as counsel RVG in fact operated an unlawful Ponzi and pyramid scheme involving an unregistered investment contract that caused hundreds of millions of dollars in losses to innocent victims of the scheme.” The Court approved the settlement on December 17, 2015, and the case was subsequently closed.

**b. *Bell v. Peak USA, LLC, et al.***

In the lawsuit against Gary Bessoni and the entities he used to provide “leads” to RVG and Affiliates, the Receiver submitted Rule 26 initial disclosures and engaged in early written discovery. *See Bell v. Peak USA, LLC, et al.*, No. 3:15cv233.

**c. Investigation of Claims against Financial Institution**

The Receiver’s conflicts counsel worked with the Receiver to review documents and analyze claims against a bank that provided services to Rex Venture Group. As of the end of the fourth quarter, discovery related to these potential claims was ongoing. The Receiver anticipates the matter will be resolved or that litigation will commence during the first quarter.

**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 should be paid by the Estate.

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

On October 30, 2015, the Receiver issued checks to approximately 1,300 Affiliate claimants. The aggregate amount of this distribution was \$2,670,000. This distribution was calculated using the rising tide method that was previously approved by the Court and set the rising tide amount as 60% of the Affiliate’s allowed claim amount.

Despite the issuance of approximately 175,000 claim determinations, approximately 42,000 Affiliates that hold an allowable claim have either failed to respond to their claim determination or failed to provide all necessary documentation to be eligible for a distribution. By Order of this Court, an Affiliate who does not provide the required Release and the OFAC Statement is not eligible to receive a distribution. These Affiliates will remain ineligible to receive a distribution until they have completed the claim determination process. However, the Receivership Team has maintained adequate reserves to pay all Affiliates whose claims are allowed in the amounts in which such Affiliate submitted a claim. The Receiver reserves the right to release these reserves.

Approximately 2,000 Affiliates have objected to the claim determination issued by the Receiver Team. The Receiver Team is continuing to address these objections in an effort to resolve such objections before intervention from the Special Master or the Court would be needed. The Receiver Team has been successful in resolving the vast majority of these objections to date.

### **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: February 1, 2016

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,  
Kenneth D. Bell, Esq.

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that I have electronically filed the foregoing **RECEIVER'S STATUS REPORT FOR THE FOURTH QUARTER OF 2015** with the Clerk of Court using the CM/ECF system, which will send electronic copies to counsel of record registered to receive electronic service.

Dated: February 1, 2016

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