

**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 THIRD QUARTER OF 2016

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 JULY 1, 2016 AND SEPTEMBER 30, 2016

A. Operations of the Receiver

1. Marshaling and Preserving Receivership Assets

a. Accounts for Holding Receivership Assets

During the third quarter of 2016, 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 third quarter of 2016:

- \$284,236.29 into the Affiliate Payments Account from settlements with various third parties either who were holding Receivership Assets or against whom the Receiver had asserted claims.
- \$109,830.00 into the Affiliate Payments Account representing the initial payment from the liquidation of real property located in the Turks and Caicos Islands that was forfeited by Preferred Merchants CEO Jaymes Meyer.

As of September 30, 2016, the Receivership Estate held approximately \$91 million in the Affiliate Payments Account as a reserve against distributions to claimants who have yet to provide the required Release and OFAC Statement, and approximately \$1.6 million in the Holdback Account.

b. Cashier’s Checks

In the third quarter, the Receiver’s conflicts counsel, Erwin, Bishop, Capitano & Moss, P.A. (“EBCM”) completed substantive work on claims arising from dishonored cashier’s checks, teller’s checks, official checks, and bank money orders. During the quarter, the Receiver obtained a settlement payment of \$14,500 resolving the Receiver’s last remaining dishonored instruments claim, and the Receiver’s last remaining motion for turnover of assets was dismissed. EBCM also continued administrative assistance to the Receiver with respect to claims, began preparation of a summary report for the Receiver, and corresponded with affiliates and banks who contacted EBCM directly regarding dishonored instrument claims or issues.

c. Funds Held by E-Wallets

As discussed below in the Foreign Accounts section, the Receiver continues to pursue funds held or transferred by foreign and domestic e-wallet companies.

d. Additional Asset Recovery

During the third quarter, the Receivership collected a payment of \$110,000 from the \$485,000 sale of the Turks and Caicos Islands property obtained from a settlement with Jaymes Meyer. The balance of \$375,000 from this sale will be received in 2017. In addition, the Receiver Team worked with real estate professionals regarding the sale of a house in Napa, California purchased by Meyer with Receivership Assets. The Receiver has entered into a contingent contract for the Napa property, which is expected to net the Receivership \$500,000 in the fourth quarter of 2016.

Aside from the above activity, the Receiver Team's additional asset recovery efforts focused on the recovery of the outstanding assets from the Payza/PaymentWorld processing relationship as described below.

e. 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 third quarter, the Receiver subpoenaed and received additional data and documents from PaymentWorld and PaymentWorld CEO Roman Balanko, much of which had not been produced in response to the Receiver's prior subpoenas and requests for information. The Receiver also deposed Roman Balanko, obtaining information relevant to the processing relationship and transfer of funds after the Court's Freeze Order. With information produced by

PaymentWorld and Mr. Balanko, including Mr. Balanko's deposition testimony, the Receiver filed a supplemental brief in support of his Contempt Motion. PaymentWorld also filed a response to the Receiver's supplemental brief. Payza requested and was granted leave to file a supplemental brief to respond to the Receiver's and PaymentWorld's recent filings in the fourth quarter.

The Receiver has also issued subpoenas to BNY Mellon, which holds VictoriaBank's correspondent bank account, and Deutsche Bank Trust Company, which was involved in certain wire transfers as part of the Payza/PaymentWorld processing relationship. The Receiver Team is working with these entities to obtain the requested information in the most efficient and cost-effective manner. Upon completion of this additional discovery, the Receiver will work with VictoriaBank to set a briefing schedule on supplemental briefing for VictoriaBank's Motion to Dismiss and a hearing date on VictoriaBank's Motion to Dismiss and to address future proceedings in connection with the Receiver's Contempt Motion. In the meantime, \$13,174,015.48 from VictoriaBank's correspondent bank account in the United States remains frozen.

In addition, as explained in the previous status report, the Receiver continues to monitor Payza's lawsuit against PaymentWorld, PaymentWorld CEO Roman Balanko, and related affiliates (collectively "PaymentWorld Defendants"), currently pending in the Superior Court of the State of California, County of Los Angeles. During the third quarter, the Court granted the Receiver's motion to intervene in the California lawsuit to ensure the Receiver is able to protect the Receivership Estate's interest in the outstanding Receivership Assets at issue in that suit. The Court also granted Roman Balanko's Motion to Compel Arbitration, staying the Receiver's claims to the outstanding Receivership Assets pending arbitration, and holding that, if Payza

obtains an award against the PaymentWorld Defendants, the Court would then conduct further proceedings on the Receiver's claims and allocate the award between Payza and the Receiver.

2. Analyzing the Operations of the Receivership Entity

During the third 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 Team continued its frequent communications with individual Affiliates in the third quarter. These communications addressed inquiries about asserted claims, distributions on claims, and the allowance of claims. A small number of these communications addressed untimely objections to claim determination and/or requests for claim allowances after the bar date for asserting a claim. Additionally, the Receiver Team addressed questions regarding potential subsequent distributions by the Receivership. A significant portion of these communications were related to requests from foreign claimants who wished to receive payments via a wire transfer. Despite the Receiver Team's effort to provide a form that directly requests the required wire information, many eligible foreign claimants who have sought to receive payment by wire transfer have provided incomplete or invalid wire information for the financial institution the eligible claimant has designated to receive the wire. The Receivership Team has attempted to correct this information, when possible, prior to contacting the requesting claimant. However, in many instances where the wire information is incomplete or invalid, the Receiver Team has been required to initiate contact with the eligible foreign claimant to obtain, among other things, proper account names, numbers, and SWIFT codes. The Receiver Team

continues to communicate with these claimants in an effort to obtain proper wire information so that we can pay these eligible claimants the amounts they are owed. We have also made modifications to the claim portal to more clearly define the requested wire information.

Additionally, the Receiver communicated to Affiliates via the Receivership website on four separate occasions regarding the trials and sentencing of four individuals that operated or aided and abetted the operation of the ZeekRewards scheme. Further, the Receiver personally asked victims to provide information regarding the hardship their involvement in ZeekRewards caused them. The Receivership Team collected statements and information regarding these hardships from numerous victims of the ZeekRewards scheme. The Receiver used these statements and information to appear as Special Master and represent the victims of the ZeekRewards scheme at the sentencing hearings of Dawn Wright-Olivares and Dan Olivares. The sentencing hearings took place on September 13, 2016. Ms. Wright-Olivares received a sentence of 90 months in prison, and Mr. Olivares received a sentence of 24 months in prison. The Receiver intends to use statements and information provided by the victims of the ZeekRewards scheme at Paul Burks' sentencing hearing as well. Mr. Burks' sentencing date has not been scheduled.

4. Issues Concerning Federal Taxes

Last quarter, the Receiver Team received a letter from the IRS regarding civil penalties that was addressed to "Rex Venture Group, c/o Paul Burks." The IRS letter came in response to correspondence from the Receiver Team regarding the reason for penalties and who was liable for them. During the third quarter, the Receiver Team received an updated letter from the IRS notifying the Receiver of the removal of such penalties and liabilities.

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 and RVG's third-party advisors, which 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 July 1, 2016 through September 30, 2016, is attached hereto as Exhibit B. The Schedule sets forth the following receipts and disbursements:

1. The Receivership received funds of \$284,236.29 from third-party litigation settlements;²
2. Received funds totaling \$109,830.00 from personal asset liquidation
3. Received income from other sources, such as interest income and return of pre-paid funds, totaling \$18,491.61;
4. Disbursed funds from the Receiver's accounts of \$958,319.82 to affiliate-investors; and,

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.

² Since the inception of the Receivership and as of the end of the third quarter 2016, the Receiver has agreed to approximately \$3.55 million in settlements with net winner affiliates. Additionally, the Receiver has collected a total of \$25.3 million in total litigation-related settlements since the inception of the Receivership.

5. Disbursed additional funds from the Receiver's accounts of \$737,870.69, which includes bank fees related to management of the Receiver's accounts; RVG website and database hosting; legal services including the fees previously approved for payment of FTI and MW; utilities; distribution plan implementation expenses; personal asset expenses; and other professional services.³

Between July 1, 2016 and September 30, 2016, the Receivership Estate deposited \$412,557.90 and disbursed \$1,696,190.51.⁴ The Receiver has marshaled total assets of approximately \$361.8 million during the period between August 17, 2012 and September 30, 2016, while disbursing approximately \$269.8 million during the same period.

D. Description of All Known Non-Cash Receivership Property

In the third 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

During the third quarter, the Receiver Team engaged in settlement negotiations with U.S. net winners who sought to settle the claims the Receiver had filed against them. The Receiver

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

⁴ Nearly \$1 million of these disbursements consist of payments to affiliate-investors who had not previously received payment of their claims up to the 60% rising tide calculation.

awaits the Court's ruling on his motion for summary judgment that was filed during the second quarter.

In addition, the Receiver Team worked with collections counsel to pursue collection efforts against net winners against whom the Receiver has already obtained 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.

a. Claims Against Foreign Net Winners

The Receiver continued litigation against the remaining defendants in the U.S. lawsuits against Canadian, Israeli, British Virgin Islands, Norwegian, French, and Swedish defendants. The majority of these actions have been stayed pending the Court's resolution of the Receiver's summary judgment motion in the U.S. net winner lawsuit. For those U.S. lawsuits against foreign net winners that are not currently stayed, the Receiver will seek a stay prior to the deadline for summary judgment in each of the respective lawsuits.

In addition, the Receiver Team continued to pursue fraudulently transferred assets from foreign net winners against whom the Receiver has already obtained judgments. These efforts included correspondence with foreign counsel and conducting analysis to determine the best and most efficient course of action based on a given country's legal framework. In a handful of countries, new actions had to be filed against large net winners, where the U.S. judgments against these defendants will be used as evidence of a debt to the Receiver. During the third quarter, the Receiver Team also prepared and coordinated the service of additional demand letters to foreign net winner judgment debtors. The Receiver Team also engaged in settlement negotiations with foreign defendants and finalized settlements with four foreign net winners during July and August 2016 for a total of approximately \$157,000.

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

a. *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 engaged in extended discussions and negotiations regarding settlement of the claims against defendant Bessoni and his entities. The lawsuit is still in the discovery phase, and the Receiver’s counsel communicated with counsel for defendant Sam Adlerman regarding the defendant’s failure to produce sufficient responses to the Receiver’s discovery requests. As alleged in the Complaint, Mr. Adlerman introduced RVG Insiders to Bessoni for the purpose of purchasing leads for use in the scheme’s “bid giveaway” system. As a result of this introduction and the resulting relationship, Adlerman received a “commission” on every lead Bessoni sold to RVG. Altogether, Adlerman received more than \$630,000 in RVG funds through this arrangement.

b. *Bell v. Kaplan*

In the lawsuit against attorney Howard Kaplan, the Receiver did not undertake significant work. The Court denied the Receiver’s motion for reconsideration of a prior order on motion to dismiss, and the parties are set to begin discovery in the fourth quarter of 2016.

c. *Bell v. USHBB et al.*

In the lawsuit against USHBB and its principals, the Receiver Team prepared and filed a response to defendant James Moore’s motion to set aside default judgment. The Receiver’s counsel also engaged in discussions regarding a potential settlement of the Receiver’s claims. The Court denied defendant Moore’s motion to set aside the default judgment against him. In addition, the Receiver filed a motion to extend the deadline for submission of dispositive

motions until after the U.S. net winner summary judgment motion is decided. The Court granted the Receiver's motion for extension.

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 July 29, 2016, the Receiver issued checks to 422 Affiliate claimants. The aggregate amount of this distribution was \$639,536. 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. On April 27, the Court approved a motion to pay certain foreign Affiliates by wire transfer. As part of the July 29 distribution, wire transfers were sent to 65 foreign Affiliates that were eligible to receive a distribution, provided the necessary information, and elected to receive their distribution via wire. The amount of the wire distribution was \$61,000.

Despite the issuance of approximately 175,000 claim determinations, approximately 41,000 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. As the Receiver announced in an October 5, 2016 update on the

Receivership Website, he anticipates filing a motion to obtain confirmation from the Court that, subject to certain limited exceptions, any claimant that has not electronically submitted its OFAC certification and release by December 31, 2016 will be deemed to forfeit his/her claim in the ZeekRewards Receivership. Once approved by the Court, the funds held in reserve for the forfeited claims will be released from the reserve for payments to claimants with allowed claims in this case. The Receiver has and will continue to contact all claimants that hold one of these more than 41,000 claims regarding the forfeiture of their claim.

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: October 31, 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 THIRD QUARTER OF 2016** 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: October 31, 2016

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