

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 SECOND QUARTER OF 2019

I. INTRODUCTION

Matthew E. Orso, Esq., the Court-appointed Temporary Successor Receiver (the "Receiver") for and over the estate of Rex Venture Group, LLC d/b/a ZeekRewards.com, submits this Quarterly Status 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 APRIL 1, 2019 AND JUNE 30, 2019

A. Operations of the Receiver

1. Marshaling and Preserving Receivership Assets

a. Accounts for Holding Receivership Assets

During the second quarter of 2019, 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 deposited \$11,763.87 in income from settlements with net winners into these accounts during the second quarter.

As of June 30, 2019, the Receivership Estate held approximately \$28.2 million in the Affiliate Payments Account and approximately \$1.7 million in the Holdback Account.

b. Foreign Accounts

The Receiver continues to engage in litigation in connection with the February 11, 2016 Motion seeking to recover \$13,174,015.48 in outstanding Receivership Assets from Payza, PaymentWorld, and Victoriabank, and their affiliates, or and/or to hold these entities in contempt for violating the Court’s Freeze Order (“Contempt Motion”). During the second quarter, the Receiver’s counsel worked with a Moldovan lawyer Roman Zadoinov to prepare a declaration responding to certain arguments made by Victoriabank in response to the Receiver’s Contempt Motion. Mr. Zadoinov’s declaration was filed on June 26, 2019.

2. Analyzing the Operations of the Receivership Entity

a. Investigating the Receivership Defendant’s Operations

During the second quarter, the Receiver’s investigation and analysis of RVG’s operations was limited to analysis of RVG and payment-processor database transactions in support of the Receiver’s litigation efforts, as well as providing

support for inquiries from claimants and net winners.¹ Both FTI and Epiq (formerly Garden City Group) assisted with inquiries from claimants regarding distributions and check reissuances, and they fielded additional requests from the Receiver Team regarding updated judgment collection data and information needed for assessment of the sale of net winner judgements.

3. Communicating with Affiliates and Creditors

The Receiver Team has continued to respond to the various inquiries regarding the allowance of claims by and distributions from the Receivership Estate. The Receiver Team continued to communicate with such claimants most often by email and also by phone. The Receiver also posted an update to the Receivership Website regarding his appointment upon the confirmation of Judge Kenneth D. Bell to the United States District Court for the Western District of North Carolina.

4. Litigation in the SEC Enforcement Action²

The Receiver Team continued its litigation with Payza, PaymentWorld, and Victoriabank, as discussed above. This litigation originated as a contempt motion by the Receiver in the civil lawsuit that was filed in the SEC Enforcement Action.

¹ FTI's role in forensic analysis and consulting has diminished over time because of its completion of the reconstruction of RVG's books and records and the winding down of many of the Receiver's clawback lawsuits for which it provided support.

² The Receiver's efforts related to the recovery of fraudulently transferred funds and other damages incurred by RVG are discussed later in this Report.

5. Tax-Related Work

During the second quarter, the Receiver Team did not engage in meaningful tax-related work.

B. The Receiver's Fund Accounting

The Standardized Fund Accounting Report ("SFAR") is attached as Exhibit A.

C. The Receiver's Receipts and Disbursements

The Receiver's Schedule of Receipts and Disbursements ("Schedule") from April 1, 2019 through June 30, 2019, is attached hereto as Exhibit B. The Schedule sets forth the following receipts and disbursements:

1. Received funds of \$11,763.87 from third-party litigation settlements;³
2. Received income from other sources, such as interest income, totaling \$17,713.41;
3. Disbursed funds from the Receiver's accounts of \$126,778.96 to affiliate-investors; and,
4. Disbursed funds from the Receiver's accounts of \$401,792.28 for bank fees related to management of the Receiver's accounts; legal services; forensic accounting services; and distribution plan implementation expenses. Specific dollar amounts pertaining to each disbursement are

³ Since the inception of the Receivership and as of the end of the second quarter 2019, the Receiver has agreed to approximately \$18.1 million in settlements with net winner affiliates. Additionally, the Receiver has collected a total of \$35.3 million in litigation-related settlements with affiliates, vendors and insiders.

set forth in Exhibit B and include payments of \$258,933.93 to McGuireWoods and \$97,073.60 to FTI.

Between April 1, 2019 and June 30, 2019, the Receivership Estate deposited \$29,477.28 and disbursed \$528,571.24. The Receiver has marshaled total assets of approximately \$375.6 million during the period between August 17, 2012 and June 30, 2019, while disbursing approximately \$346.7 million during the same period.

D. Description of All Known Non-Cash Receivership Property

The Receiver is not currently in possession of any non-cash Receivership property that holds any meaningful resale value.

E. Description of Claims Held by the Receivership Estate

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

a. Status of Net Winner Settlements

The Receiver did not enter into any new settlements with net winners during the second quarter. Through the second quarter of 2019, the Receiver has settled with 2,514 net winners for a total amount of \$18,099,308.87, which amounts to 44.2% of their collective net winnings of \$40,979,259.09. As of the end of the second quarter, payments from these settlements totaled \$14,435,072.70, with \$3,664,236.17 remaining to collect. The Receiver Team also continued to address issues and correspond with net winners relating to previously finalized settlements. The Receiver has obtained a total of \$169,360,047.35 in judgments against net winners who have not settled.

On April 25, 2019, the Fourth Circuit issued an opinion in which it affirmed the Court's certification of the Defendant Net Winner Class and the prior appointment of class counsel. Based on this decision, as previously reported, the Receiver has engaged in negotiations concerning the potential sale of the unsettled judgments at a significant discount and reached an agreement for the sale of the judgments. The Receiver filed a motion to approve the sale of judgments allowing an opportunity for third parties to make additional offers before the sale is finalized.

Further, there is an additional approximately \$13,858,239.14 in potential judgments involving claims to be asserted against net winners who have disputed the amount owed and against whom we had not yet moved for summary judgment as of the end of the second quarter.

b. The Net Winner Class Action

On April 25, 2019, the Fourth Circuit Court of Appeals issued an opinion in which it affirmed the Court's certification of the Defendant Net Winner Class and other related orders. As discussed above, this allowed the Receiver to move for approval of the sale of all U.S. Net Winner judgments that have not already been settled and are not subject to further dispute as to the amount owed.

c. Claims Against Foreign Net Winners

The Receiver Team continued limited work with foreign counsel to pursue fraudulently transferred assets from foreign net winners against whom the Receiver has already obtained judgments.

d. Remaining Litigation

The Receiver's primary areas of continued litigation are in the Net Winner Class Action and the action against Victoriabank and Payment World.

In light of the Fourth Circuit's recent decision affirming the Court's judgments in the Net Winner Class Action, the Receiver will next proceed to litigate judgment amounts with approximately 100 remaining net winners who have disputed the amounts they owe to the Receivership. These net winners will be pursued through a motion for summary judgment with the U.S. District Court, and in some cases potentially through a hearing process with the Special Master, should issues of fact survive the summary judgment motion.

In the action against Victoriabank and Payment World, the extent of ongoing litigation will depend on the Court's rulings, but it could involve written discovery, additional motions practice, one or more hearings, and potentially another appeal before the action reaches resolution.

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

The Receiver has announced since December 2017 on the Receivership Website and in Quarterly Status Reports that no additional interim distributions are planned before the Receivership Estate makes a final distribution to affiliate-investors

holding allowed claims. While the expense associated with making an interim distribution counsels against taking this action, the Receiver periodically evaluates the benefit of an additional interim distribution against the cost of doing so. The Receiver expects to make a final distribution at the end of the Receivership. The Receiver will continue with periodic check reissuances or wire transfers related to prior distributions consistent with the Receivership's policies.

III. CONCLUSION

There are limited substantial tasks of the Receivership that remain. These include (1) completing the receipt and processing of payments from net winner settlements; (2) completing the sale or collection of unsettled judgments against net winners; (3) pursuing claims against Victoria Bank and Payment World worth approximately \$13.5 million; (4) pursuit of final judgments against net winner class members who have disputed the amount they owe; and (5) a final distribution to claimants with recognized claims.⁴

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; and

⁴ The Receiver anticipates a total return of between 80%–85% of each recognized claim.

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

Dated: July 30, 2019

By: /s/ Matthew E. Orso
Matthew E. Orso, Esq., Receiver

and

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have electronically filed the foregoing RECEIVER'S STATUS REPORT FOR THE SECOND QUARTER OF 2019 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: July 30, 2019

/s/ Matthew E. Orso
Matthew E. Orso, Esq., Receiver