

**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 2012**

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, any of its subsidiaries, whether incorporated or unincorporated, and any businesses or business names under which it does business (the “Receivership Defendant”), submits this Quarterly Status Report (the “Report”) in accordance with the Order of this Court entered on August 17, 2012, and for the purpose of providing a status report on the Receiver’s, his counsel, agents’, consultants’, and advisors’ (the “Receiver Team’s”) work and findings to date (the “Investigation”). The facts presented in this Report may be supplemented, amended and/or corrected as the Investigation continues.

**I. INTRODUCTION**

The Receivership Defendant is a group of interrelated entities and websites, all of which were either controlled or owned directly or indirectly by Defendants Rex Venture Group, LLC

(“RVG”) and Paul Burks (“Burks” and with the Receivership Defendant, the “Defendants”). RVG and Burks operated a penny auction website, [www.zeekler.com](http://www.zeekler.com) (“Zeekler”), and a self-described “private, invitation-only, affiliate advertising division” for Zeekler at [www.zeekrewards.com](http://www.zeekrewards.com) (“ZeekRewards” or the “ZeekRewards Program”). The ZeekRewards Program had its physical operations in Lexington, North Carolina and had internet-based affiliates and contacts throughout the United States and internationally. The Zeekler participants were required to pay a non-refundable fee to purchase and place each incremental bid (typically one cent) on merchandise sold via auction. Bidders could acquire those bids by purchasing them directly on Zeekler.com, but ZeekRewards and its affiliates purchased the vast majority of the bids that they sold or gave away for free to be used in the penny auctions.

On August 17, 2012, the Securities and Exchange Commission (“SEC”) commenced a civil enforcement action (the “Enforcement Action”) against Burks and the Receivership Defendant. *See* (Doc. No. 2, Complaint filed Aug. 17, 2012) (the “SEC Complaint”). The SEC Complaint alleges that the Defendants engaged in (1) the unregistered offer and sale of securities in violation of Sections 5(a) and 5(c) of the Securities Act; (2) fraud in the offer or sale of securities in violation of Section 17(a) of the Securities Act; and (3) fraud in connection with the purchase or sale of securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. According to the SEC Complaint, Burks and RVG engaged in the fraudulent unregistered offer and sale of securities in unregistered investment contracts constituting securities in a combined Ponzi and pyramid scheme (the “Scheme”) involving hundreds of millions of dollars of money supplied by domestic and foreign investors. *Id.* at ¶¶ 1 and 3. The SEC sought equitable relief, including injunctions against future violations of the securities laws, disgorgement, prejudgment interest, and civil monetary penalties.

Simultaneous with the filing of the SEC Complaint, the SEC, the Receivership Defendant and Burks agreed to an order granting emergency relief, including a preliminary injunction, in the form of an order freezing the assets of the Receivership Defendant and appointing a Temporary Receiver over the estate of the Receivership Defendant. *See* (Doc. No. 4, Agreed Order Appointing Temporary Receiver And Freezing Assets of Defendant Rex Venture Group, LLC, filed Aug. 17, 2012), (“Initial Receiver Order”).<sup>1</sup> An Amended Order Appointing Temporary Receiver was entered on August 30, 2012, expanding the definition of the Receivership Estate. *See* (Doc. No. 21, Order Granting in part and Denying in part Motion to Amend/Correct Order) (“Amended Receiver Order”) (collectively with the Initial Receiver Order the “Receiver Orders”).

There are approximately 2.2 million unique users (“Affiliates” or “usernames”) in ZeekRewards. The number of Affiliates does not reflect the number of unique individuals who participated in ZeekRewards, as it is likely that some individuals had more than one username. Approximately 1 million Affiliates paid money into the ZeekRewards Program (“Affiliate-Investors”).

## **II. SUMMARY OF ACTIVITIES OF THE RECEIVER BETWEEN OCTOBER 1, 2012 AND DECEMBER 31, 2012**

Pursuant to Paragraphs 55 and 56 of the Initial Receiver Order, the Receiver makes the following report “reflecting (to the best of the Receiver’s knowledge as of the period covered by the report), the existence, value, and location of all Receivership Property, and of the extent of liabilities, both those claimed to exist by others and those the Receiver believes to be legal obligations of the Receivership Estate.” Initial Receiver Order ¶ 55.

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<sup>1</sup> Capitalized terms used but not defined herein shall have the meanings ascribed them in the Initial Receiver Order.

**A. Operations of the Receiver**

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

The Receiver Team continues to investigate the financial information of the Receivership Defendant and to marshal, identify, and secure potential assets of the Receivership Estate. On October 4, 2012, the Receiver distributed to over 7,000 financial institutions a Notice of Commencement of Receivership and Freeze of Assets and Instructions Regarding Cashier's Checks (the "Notice"), which, in part, requested a statement of all accounts and their balances held in the name of or for the benefit of the Receivership Defendant and requested that financial institutions provide the Receiver's forensic accountant and litigation consultant, FTI Consulting ("FTI"), all requested information and access to any accounts related to the Receivership Defendant. Numerous institutions responded to this Notice to identify accounts or cashier's checks subject to the Freeze Order or, alternatively, confirm that they had no relationship with the Receivership Defendant.

In addition, the Receiver sent document requests for records associated with accounts held in the name of or for the benefit of the Receivership Defendant to 15 institutions known to be associated with the Receivership Defendant (institutions from which assets were seized or which were discovered to be associated with the Receivership Defendant through a response to the Notice). The Receiver Team continues to work with these institutions to obtain the information necessary for the analysis and reconstruction of the Receivership Defendant's records. The Receiver issued a subpoena requesting the document production to institutions who did not respond to the Receiver's request.

The Receiver also worked with numerous financial institutions for the presentation and payment of cashier's checks that were deemed Receivership Assets subject to the Freeze Order.

As part of this process, the Receiver worked to coordinate payment on checks that were improperly returned pursuant to stop payment requests. The Receiver is also working with banks that inadvertently paid cashier's checks twice to develop a process for the banks to make a claim for the second payment.

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

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

The Receiver continues to maintain three bank accounts on behalf of the Receivership Estate. One account has been used to deposit Affiliate-Investor payments (the "Affiliate Account"). Another account is reserved for the funds seized from financial institutions and payment processors by the United States Secret Service ("USSS") on behalf of the Receivership Estate (the "Seized Asset Account"). A third account is used as an operating account with funds primarily held or controlled by the Receivership Defendant pre-Initial Receiver Order (the "Pre-Filing Account"). All three accounts are interest-bearing accounts.

As of December 31, 2012, the Receivership Estate held approximately \$85.3 million in the Affiliate Account, \$0<sup>2</sup> in the Seized Asset Account, and approximately \$4.0 million in the Pre-Filing Account.

The Receiver continued to work with the USSS to seize and collect Receivership Assets from various entities and financial institutions. As of December 31, 2012, the USSS had seized approximately \$221.0 million and continues to pursue at least one additional source of Receivership Assets. In December 2012, with the assistance of the USSS, the Receiver requested that the Treasury Department transfer the seized amounts to the Receiver's Seized Asset Account. This transfer was completed on January 15, 2013.

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<sup>2</sup> As of January 15, 2013, approximately \$221.0 million seized by the USSS on behalf of the Receivership Estate was transferred from the U.S. Treasury Department to the Receiver's Seized Asset Account.

**b. Cashier's Checks**

As indicated in the Preliminary Liquidation Plan, the Receiver Team located and collected all known unpresented checks and other financial instruments from the Affiliate-Investors that were made payable to the Receivership Defendant. The instruments mostly consisted of cashier's checks, but also included certified checks, personal checks, bank money orders, and personal money orders. These instruments were collected primarily from three sources: (1) the Receivership Defendant's facilities in Lexington, North Carolina; (2) continuing mail and carrier deliveries directed to the Receivership Defendant; and (3) third party payment processing vendors.

As of December 31, 2012, the Receiver presented over 140,000 financial instruments for deposit. Many of these items were returned and not paid for various reasons. The Receiver Team is working with financial institutions to re-present instruments that were returned in error, and it is working to identify all instruments that were improperly returned. Many financial instruments were accepted and paid, and approximately \$85 million has been deposited into the Affiliate Account from the proceeds of these instruments.<sup>3</sup>

The Receiver Team encountered several substantial difficulties in the process of locating and presenting outstanding checks and financial instruments. One such difficulty arose when the Receiver Team retrieved approximately 85,000 cashier's checks and other financial instruments from Preferred Merchant Services ("PM"), a processor used by the Receivership Defendant for processing payments from Affiliate-Investors. PM informed the Receiver Team that although most of these instruments had been processed, a significant number of these instruments had not been processed or presented for payment. After reviewing these instruments, reviewing the

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<sup>3</sup> At the request of the Receiver, an in-depth analysis of the categories of returned checks and the reason for their return is currently being performed by the Receiver's bank.

records of the Receivership Defendant, communicating with PM, and working with a forensic accounting vendor, the Receiver Team was unable to definitively ascertain which instruments had already been processed and presented for payment by PM. In order to maximize recovery to the Receivership Estate, the Receiver Team elected to present all of these instruments for payment. Approximately 34,000 of these instruments worth approximately \$15 million were accepted and paid. Approximately 50,000 of these PM instruments were returned, which resulted in returned check fees of approximately \$450,000. The Receiver Team negotiated a 25% reduction in these returned check fees, which saved approximately \$150,000. In the end, the deposit of the PM checks resulted in a net gain of approximately \$14.5 million to the Receivership Estate.

The Receiver has been receiving numerous communications from financial institutions and Affiliate-Investors regarding cashier's checks that have never been presented for payment. The Receiver has presented and attempted to deposit all cashier's checks in his possession, and does not expect to receive additional cashier's checks in the mail. Additionally, the Receiver is unaware of any additional locations where cashier's checks payable to the Receivership Defendant might be stored. The Receiver determined that he does not have rights under the Uniform Commercial Code or the Receiver Orders to claim an interest in cashier's checks that were never received by the Receiver or the Receivership Defendant. Therefore, the Receiver has taken the position that although any cashier's check that is subsequently received by the Receiver is a Receivership Asset and will be deposited, financial institutions should consider any cashier's check that has not been presented by the Receiver or the Receivership Defendant as having been lost, and may refund the remitters of such cashier's checks without fear of liability to the Receiver. The Receiver believes that his communication of this position will resolve substantial

lingering questions among financial institutions and allow the immediate return of funds to many Affiliate-Investors.

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

NxPay has informed the Receiver that it has approximately \$4.0 million to \$6.0 million in funds which it believes are Receivership Assets, and it is prepared to send those funds to the Receiver once a pending motion related to e-wallet funds is resolved. *See* (Doc. No. 80, Mot. For Order Requiring Release of Frozen Third-Party Assets, filed Dec. 11, 2012). In addition, NxPay's payment processor is holding approximately \$1.3 million dollars which have been requested but have not been sent to NxPay, and NxPay believes that the majority of those funds are Receivership Assets.

**d. Foreign Accounts**

One foreign account that holds or held approximately \$12 million has been located by the Receiver in an eastern European country. This account is owned and was used by a payment processor outside the United States to provide funds to a foreign e-wallet that processed payments for ZeekRewards. The Receiver previously caused the Freeze Order to be sent to the foreign financial institution which holds this account and demanded that the funds held in that account be turned over to the Receivership Estate. The foreign payment processor who owns this account was also sent the Freeze Order and a demand notice for the turnover of the funds in this account. However, neither the financial institution nor the foreign payment processor responded to the demands sent by the Receiver. Additionally, the Receiver has worked with the foreign e-wallet to seek to have these funds returned. While cooperative, the foreign e-wallet was unable to cause their customer to provide the funds held in this account to the Receiver.



At the same time that the Receiver was requesting these funds from the foreign financial institution, the foreign payment processor, and the e-wallet, the Receiver Team enlisted the help of the USSS, SEC, and United States Attorney's Office to aid them in seeking an alternative route to recover these funds. Each of these parties, including the Receiver Team, continues to seek to recover these funds, but no recovery of these funds has been made at this time. These funds represent one of the largest remaining unrealized Receivership Assets. While the location of the funds and the lack of response from the entities which control these funds have made recovery difficult, the Receiver Team is still actively working to recover these funds.

The Receiver Team is still investigating whether other institutions outside of the United States hold Receivership Assets in their accounts. No other foreign accounts have been located at this time. The Receiver Team has not completed the reconciliation of all of the Receivership Defendant's account records with the amount of funds that has been recovered from foreign accounts. As such, the Receiver continues to reserve all of his rights in that regard.

**e. District Courts in Locations Where Receivership Estate Property Is or May be Located**

On December 4, 2012, the Court entered an order reappointing Kenneth D. Bell as Temporary Receiver. Within ten days thereafter, in order to obtain jurisdiction and control over Receivership Assets pursuant to 28 U.S.C. §§ 754, 959, 1962, the Receiver filed a Notice of Filing Complaint and Order Appointing Receiver, the SEC Complaint, and the Receiver Orders in each of the 93 other federal judicial districts where the Receiver believes Receivership Assets may be located (in the 50 United States, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and the Northern Mariana Islands).

There are approximately 80,000 net-winner usernames, and a similarly large number of net-winner Affiliate-Investors (many Affiliate-Investors used more than one username). Based

on this large number of net-winners, the Receiver determined that it was necessary to file notices in all federal districts so that he would have every opportunity to seize all Receivership Assets and maximize the return of funds to all creditors of the Receivership Defendant.

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

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

The Receiver identified numerous financial accounts in which the Receivership Defendant held an interest and has successfully marshaled and secured many of those assets. The Receiver Team also continues to reconstruct and analyze financial records of the Receivership Defendant, requiring the creation of books and records that were unavailable. This time-consuming process is necessary as the Receiver continues to identify additional assets, analyze millions of transactions, trace the proceeds of any fraudulent conduct, evaluate claims of creditors and investors, and identify potential claims against former employees, third parties (including Affiliate-Investors), and others that may have received assets of the Receivership Estate.

FTI's data analysis team has collected and staged electronic data from the Receivership Defendant and third-parties. Specifically, FTI has staged three of the RVG databases which include approximately 1.6 billion records across 406 material tables. The cataloguing, review, and understanding of the tables and their elements were critical in understanding how the ZeekRewards program worked, specifically as it related to Affiliate information, reward program transaction information, and bid history information.

After collecting and staging this data, FTI began analyzing it to identify and validate the transactions that involve the transfer of cash into or out of the accounts of the Receivership Defendant. This analysis has taken longer than initially anticipated due to several issues:

problematic transactions with questionable accuracy, the validity of database records, and the lack of available documentation (including look-up tables, database dictionaries, and source code documentation which are commonly used to understand the organization and function of a database's components). In the absence of these tools, FTI has been required to perform extensive testing of the data to validate the proposed calculations and to rely on disparate third-party sources, including Paul Burks, e-wallet vendors, financial institutions, and subpoena responses, for understanding the organization and function of the database components.

FTI is also in the process of investigating and reconstructing over 18 months of financial information. This process has been hindered by the state of certain financial records of the Receivership Defendant.

The Receiver Team has begun a forensic investigation into the operations of the Receivership Defendant which, to date, includes a review of RVG bank and payment processor records, public records, documents produced by third parties, and the ZeekRewards.com website. Working with the Receivership Defendant's website hosting vendor, InternetDynamo, FTI gained access to the ZeekRewards.com website. FTI and McGuireWoods ("MW"), counsel to the Receiver, are reviewing the contents of the ZeekRewards.com guest site and certain of the ZeekRewards.com back offices to gain an understanding of the business operations and activities. As there were over two million Affiliates associated with the ZeekRewards Program at any given time, the review of the back office information is a time consuming process.

#### **b. Employee and Advisor Interviews**

The Receiver Team continues to communicate—through counsel when appropriate—with numerous individuals and entities believed to have information about Receivership Assets. The Receiver Team interviewed the Receivership Defendant's employees and officers who were

willing to be interviewed, as well as various third parties. These interviews have identified numerous individuals and entities with relevant information.

**c. Analysis and Preservation of Electronic and Hard Copy Documents and Records**

The Receiver Team collected, secured, and preserved all of RVG's electronic data, of which it is aware, including approximately 10.4 terabytes of data from dozens of computers and servers, the ZeekRewards.com website, and the Affiliates' "back office" internet portals. More than 115 boxes of hard copy documents were also collected from the RVG offices. Additionally, the Receiver Team sent numerous subpoenas and voluntary document requests to the Receivership Defendant's former employees, service providers, and other professional advisors. The Receiver Team has received responses from many of the recipients and are negotiating with others regarding their necessary productions.

All records obtained by the Receiver are being preserved in their original format and will be analyzed on an ongoing basis to the extent the Receiver believes they will aid him in completing his court-appointed assignment.

**d. Privilege Review Team**

The Receiver Team has begun a preliminary analysis of the RVG data. However, certain third parties have asserted various claims of attorney-client privilege and work product protection for communications and electronic documents in the Receiver's possession. The Receiver Team has expended considerable resources to establish an internal "taint team" of MW lawyers to fulfill its Court-ordered and ethical obligations to assess and evaluate third parties' assertion of privilege, notwithstanding the Receiver's waiver of RVG's attorney-client privilege and work product protection for RVG's pre-receivership records. In an effort to conserve costs by avoiding duplicative document review where possible, the Receiver Team hopes to be able to

delay a significant portion of its document review until after the privilege disputes have been resolved.

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

As previously reported, to facilitate communications with Affiliate-Investors, the Receiver Team established a website through which Affiliate-Investors and other claimants may access information relating to the Receivership ([www.zeekrewardsreceivership.com](http://www.zeekrewardsreceivership.com)). During the fourth quarter, the Receiver posted updated Letters from the Receiver three times on that website, and updated the Frequently Asked Questions tab. Additionally, on December 17, 2012, the Receiver held a one-hour online conference call for the Affiliates, during which the Receiver updated the Affiliates on the status of the Receivership and answered questions submitted to the Receiver Team prior to and during the call. The transcript of the call is available on the receivership website. The Receiver Team also expended significant resources to assist Affiliate-Investors and their financial institutions with regard to cashier's checks that were not presented as of December 24, 2012. It is the Receiver's position that if the items were not presented as of December 24, 2012, they were considered "lost" under the Uniform Commercial Code, and the financial institutions may refund the remitters of such cashier's checks without fear of liability to the Receiver.

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

During the fourth quarter, the Receiver Team worked to determine which federal tax filings needed to be made with respect to income taxes, payments made to service providers, and payments made to Affiliate-Investors. The efforts were focused on the latter two issues because of the earlier filing deadline (January 31, 2013). The Receiver Team, including FTI, had discussions with RVG's outside tax and accounting advisors to ascertain what had been filed for

2011 and earlier. After analyzing the issues, consulting with these various entities, and reviewing RVG's records, the Receiver Team determined that it would be necessary to file and issue 1099s to certain Affiliate-Investors and began the process of compiling the data necessary to issue the 1099s.

## **6. Issues Concerning Employees**

The Receiver Team has continued to respond to former employee requests for information on the status of unpaid wage claims and claims filed by former employees to state agencies for unemployment. The Receiver Team has also worked with RVG's former payroll company to issue W-2s to all former employees. During this process, the Receiver Team gained access to evidence that caused the Receiver Team to believe some individuals who RVG classified as "independent contractors," to whom it had issued 1099s, were misclassified pursuant to IRS regulations. Accordingly, the Receiver Team has reclassified them as employees and is issuing them W-2s. The Receiver Team will begin the process of identifying, misclassified employees, paying back taxes, and determining whether the Receivership Estate should pay any back wages owed to such employee as a result of RVG's misclassification.

## **7. Litigation in the SEC Enforcement Action<sup>4</sup>**

The Receiver has had to respond to various related cases filed by victims of the Scheme, as well as motions filed by net-winners. First, two separate class actions have been filed against the Receivership Defendant. One action was filed in state court in North Carolina. The other action was filed in the United States District Court for the Eastern District of Louisiana ("EDLA class action"). The Receiver intervened in the EDLA class action and successfully moved for a transfer of that case to the Western District of North Carolina. Similarly, the Receiver has

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<sup>4</sup> This section discusses litigation in the SEC Enforcement Action. The Receiver's efforts related to the recovery of fraudulently transferred funds are discussed later in this Report.

transferred the North Carolina class action to the North Carolina Business Court and moved to stay the action pursuant to the Agreed Order appointing the Receiver. This motion remains pending.

In addition to these cases, the Receiver has filed responses to various motions filed in the SEC Enforcement Action by non-parties. These motions have served to delay the Receiver's efforts and increase the costs in marshaling the Receivership Assets for distribution to victims of the Scheme. First, some of the largest net-winners moved for the appointment of an "Examiner" to represent all Affiliate-Investors who may be affected by the SEC Action. The Receiver and the SEC filed responses in opposition to this motion, arguing that an Examiner would be duplicative and would unnecessarily deplete the funds of the Receivership Estate. This motion is currently pending. The same group of large net-winners filed a motion for the release of funds frozen and held by NxPay. *See* Section II.A.2.c., *supra*. This motion also remains pending.

In addition, two more large net-winners filed a Motion to Intervene and for an Order Dissolving the Appointment of a Temporary Receiver. These non-parties seek to challenge the Receiver Orders' validity and the Receiver's authority as an officer of the Court. The SEC and the Receiver believe the motion is without merit and have filed responses in opposition to this motion, which is pending before the Court. Finally, the Receiver has been engaged in a number of discovery disputes with various net-winner Affiliate-Investors. Again, these motions delay the Receiver and increase the costs to the Receivership Estate.

## **8. Work to Establish a Claims Process**

Since the outset of this case, the Receiver has understood that creating an efficient and accurate claims process, while keeping the administrative costs as low as possible, is imperative to providing the creditors of the Receivership Defendant with the greatest possible recovery on

their claims. Specifically, with more than two million unique usernames registered on ZeekRewards.com and approximately one million usernames investing funds in the Receivership Defendant, the claims process represents an immense undertaking that may comprise the largest single expense for the Receivership Estate. Because of the gravity of this expense and the need for the process to be done properly in the first instance, the Receiver has enlisted numerous members of the Receiver Team to formulate this process, including lawyers at MW and advisors at FTI and The Garden City Group (“GCG”), the claims agent recently retained by the Receiver.

During the fourth quarter, the Receiver Team worked to create a claims process and the necessary claim form. The Receiver anticipates filing a motion seeking approval of the Claims Submission Process by the conclusion of the first quarter of 2013. The Claims Motion will seek (i) approval of the claims submission process, (ii) to establish the date by which claims must be filed against the Receivership Defendant (the “Bar Date”), and (iii) approval of the noticing procedures to be used in providing notice of the Bar Date and the claims submission process. More detailed information about the proposed claims process is set out in the Final Liquidation Plan to be filed January 31, 2013.

**B. The Receiver’s Fund Accounting**

The Receiver’s First 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 August 17, 2012 through December 31, 2012, is attached hereto as Exhibit B. The Schedule sets forth the following receipts and disbursements:



1. The Receivership received funds in the amount of \$85,965,303.42 from the deposit of Affiliate-Investor financial instruments;
2. Received funds of \$5,000,000.00 from the deposit of cashier's checks for the closing of RVG accounts (issued pre-Receivership);
3. Received funds of \$10,254.75 from the deposit of checks from various businesses in the possession of RVG on August 17, 2012;
4. Received income from other sources, such as interest income and return of pre-paid funds, totaling \$67,323.71; and,
5. Disbursed funds from the Receiver's accounts of \$1,703,379.38, which includes the fees previously approved for payment of FTI and MW. These funds were disbursed for: bank fees for the deposit of financial instruments<sup>5</sup>; RVG website and database hosting<sup>6</sup>; federal, state, and local taxes; security services; rent; utilities; internet and phone service; IT support; hosting and monitoring of the Receivership website; storage and moving services; and other professional services.<sup>7</sup>

Between August 17, 2012 and December 31, 2012, the Receivership Estate deposited \$91,042,881.88 and disbursed \$1,703,379.38. The Schedule does not include additional funds that were collected by the USSS on behalf of the Receivership Estate, totaling approximately

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<sup>5</sup> As of December 31, 2012, approximately \$620,000 had been disbursed by the Receiver for bank fees incurred in the recovery of approximately \$85 million in Receivership Assets. The Receiver Team negotiated a reduced rate for these bank fees and will receive an additional credit against the fees of approximately \$35,000 in January 2013. Additionally, the Receiver Team intends to seek recovery of certain returned check fees incurred as a result of improper stop payment orders honored by certain financial institutions.

<sup>6</sup> The Receivership Defendant maintained the majority of its electronic data at a third party data host in Miami, Florida, InternetDynamo. The USAO and the USSS required the Receiver to maintain these data sites to ensure complete imaging and extraction of all files stored by this data host, and the Receiver has made disbursement to the necessary vendors in order to continue storing that data. Additionally, the Receiver has contracted with InternetDynamo to host the RVG websites for a limited term because it was cost-prohibitive for the Receiver to rebuild the website.

<sup>7</sup> See attached Exhibit B for further detail regarding disbursements and receipts.

\$221.0 million. The Receiver requested the transfer of these funds to the Receivership Accounts during the fourth quarter, and the funds were transferred on January 15, 2013. Therefore the Receiver marshaled total assets of approximately \$312.1 million during the period between August 17, 2012 and December 31, 2012.

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

The Receiver has retained appraisers and auctioneers to value the real and personal property of the Receivership Estate in order to assist with the liquidation of those assets. The Receivership Defendant owns two buildings in Davidson County, North Carolina: the main office building from which the Scheme was operated (to which a functioning, leased laundromat is attached), and a warehouse. The Receivership Defendant was also a tenant under leases for an office building and two apartments in Davidson County, North Carolina and a lease for a virtual corporate office in Las Vegas, Nevada.

In order to recover data associated with the Scheme, it was necessary to maintain each of the owned and leased facilities in modified working order, including security, internet access, and certain utility services for certain facilities while continuing to pay for the third party server facilities in Florida, operated by InternetDynamo. The Receiver terminated the lease on the Davidson County office building in the fourth quarter. The corporate apartments in Davidson County were prepaid by the Receivership Defendant through April 2013 prior to the Receiver's appointment. The leases on these corporate apartments will not be renewed upon expiration of their lease terms. The Receiver is also continuing to maintain pre-existing leases for three climate-controlled storage units containing personal property until the property can be moved to a Receivership Defendant-owned property.

In the fourth quarter, the Receiver worked to obtain appraisals of the Receivership Defendant's real property: the main office and attached laundromat, located at 801 and 803 West Center Street, Lexington, NC, and a warehouse, located at 4095 Old Salisbury Rd, Lexington, NC. The Receiver is also in possession of personal property located in the main office, the warehouse, the leased apartments and climate-controlled storage units that is currently being appraised. Based upon its investigation to date, the Receiver has determined that this property belongs to the Receivership Estate. The Receiver anticipates that certain third parties will claim ownership interests in some portion of the personal property. Based upon evidence collected to date, the Receiver anticipates disputing many such claims by third parties. The Receiver will continue to work with the retained appraisers and auctioneers to liquidate the real and personal property at auction.

**E. Description of Claims Held by the Receivership Estate**

The Receiver Team has been evaluating options and strategies for pursuing funds fraudulently transferred by the Receivership Defendant. However, the likelihood of success in reducing the thousands of potential claims to judgment and collecting such judgments is too early to estimate. In addition, the Receiver is investigating potential claims against certain professionals, contractors, financial institutions, and vendors that may be liable to the Receivership Defendant.

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

Approximately 80,000 net-winner Affiliate-Investor "usernames" participated in ZeekRewards. Often, individual Affiliate-Investors used multiple usernames, and the Receiver is still determining through forensic investigation the actual number of individuals who withdrew more than they invested in ZeekRewards. To date, the Receiver estimates approximately \$295.5

million of Receivership Assets may have been fraudulently transferred to net-winners and potentially subject to fraudulent transfer claims (“clawback” claims).

The Receiver’s upcoming clawback litigation efforts will require significant forensic resources to calculate each Affiliate-Investor’s investment and the funds transferred to them. FTI is analyzing millions of transactions in order to trace the transfer of funds into or out of the accounts of the Receivership Defendant. In light of attendant issues with the RVG databases, FTI has had to perform extensive testing of the RVG data to validate the proposed calculations and to rely on third-party sources for understanding the organization and function of the database components and the transfers of funds. While this analysis is time-consuming, it is necessary in order to identify and evaluate potential claims against net-winner Affiliate-Investors.

The Receiver’s litigation team is still evaluating the most efficient and cost-effective method for pursuing fraudulent transfer claims. Ultimately, the Receiver’s clawback litigation is likely to be a combination of individual actions, group actions, defendant class actions, and possibly administrative damages hearings. Such proceedings will establish the key findings applicable to most, if not all, recipients of fraudulently transferred funds (findings such as the existence of a Ponzi and/or pyramid scheme). They will also separately provide a forum for the efficient determination of the proper amount of each net-winner’s repayment obligation.

The group of net-winners identified to date includes numerous individuals residing outside of the United States, with the largest foreign winners living mainly in countries with established legal systems which are signatories to the Hague Convention for international service of process. While the pursuit of “clawback” claims against these foreign net winners raises various service issues and other challenges, the Receiver intends to include these winners as parties to domestic litigation based on their contacts with the ZeekRewards Program in the

United States so long as doing so will not delay the litigation against domestic winners. The Receiver will also pursue cost-effective foreign litigation to establish the repayment obligation and/or to collect judgments where necessary and appropriate.

Further, the Receiver has been in discussions with multiple net-winners regarding possible settlement of the Receiver's claims against them. The Receiver will seek the Court's approval for proposed settlements if those negotiations are successfully concluded.

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

The Receiver is also considering potential claims against Receivership Defendant insiders including employees, contractors, or other RVG agents who played an active role in furthering the Scheme. The forensic resources needed for these claims will be similar to those needed for fraudulent transfer claims. Potential claims against insiders include fraudulent transfer, breach of fiduciary duty, fraud, conversion, negligence, and other common law claims. The approximate value of these claims is unknown at this time. The anticipated methods of enforcing these claims are through an action or actions against these insiders, either collectively or as individuals.

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

The Receiver is also considering potential claims against third-party advisors of the Receivership Defendant, and vendors or other service providers that knew or should have known of the inappropriate nature of RVG's activities and yet facilitated those activities for their own gain. The forensic accounting resources needed to prosecute these claims will be similar to those needed for fraudulent transfer claims. Potential claims include breach of fiduciary duty, negligence, professional negligence, and breach of contract, among other common law claims. The approximate value of these claims is unknown at this time.

**F. Potential Creditors of the Receivership Estate**

At this time, the Receiver has identified over 800,000 net-loser usernames in the Receiver Defendant's records. The Receivership Team is still determining how many net-loser individuals these usernames represent. Each of these net-losers is a creditor of the Receivership Estate, and the Receiver estimates that the Affiliate-Investors' net losses could potentially amount to approximately \$800 million in claims. In addition, various trade creditors and taxing authorities are creditors of the Receivership Estate. The following is a list of potential non-Affiliate-Investor creditors who have asserted that they are owed amounts, by either sending invoices or making other demands for goods and/or services previously provided to RVG:

<b><u>Creditor</u></b>	<b><u>Creditor or Collections Firm Address</u></b>	<b><u>Amount Invoiced</u></b>
<b>UPS</b>	<b>c/o Baker, Govern and Baker 7771 W Oakland Park Blvd. # 240, Ft. Lauderdale, FL 33351</b>	<b>\$7,539.79</b>
<b>Complete Payment Recovery Services, Inc.</b>	<b>c/o Bennett Law PLLC 10542 S. Jordan Gateway, Suite 200, S. Jordan, UT 84095</b>	<b>\$1,035.00</b>
<b>Best Disposal</b>	<b>1123 Roy Lopp Rd., Lexington, NC 27292</b>	<b>\$110.00</b>
<b>Calvo &amp; Jandebour PLLC, Certified Public Accountants</b>	<b>8709 Gelligum Dr., Charlotte, NC 28277</b>	<b>\$4,687.50</b>
<b>City of Lexington</b>	<b>28 W. Center St., Lexington, NC 27292</b>	<b>\$106.16</b>
<b>City of Lexington</b>	<b>28 W. Center St., Lexington, NC 27292</b>	<b>\$427.71</b>
<b>City of Lexington</b>	<b>28 W. Center St., Lexington, NC 27292</b>	<b>\$73.89</b>
<b>Complete Payment Recovery Services, Inc.</b>	<b>3500 5th St., Northport, AL 35476</b>	<b>\$3,732.75</b>
<b>Complete Payment Recovery Services, Inc.</b>	<b>11601 Roosevelt Blvd., St. Petersburg, FL 33716</b>	<b>\$225.00</b>
<b>Davidson Water, Inc.</b>	<b>PO Box 969, Welcome, NC 27374-0969</b>	<b>\$2.13</b>
<b>Electrical Communications &amp; Security Solutions, Inc.</b>	<b>1513 E. Center St. Ext, Lexington, NC 27292</b>	<b>\$4,160.00</b>

<b>IssueTrak</b>	<b>249 Central Park Ave., Suite 200, Virginia Beach, VA 23462</b>	<b>\$11,220.00</b>
<b>Time Warner Cable</b>	<b>PO Box 70872, Charlotte, NC 28272-0872</b>	<b>\$44.86</b>
<b>Time Warner Cable Residential</b>	<b>PO Box 70872, Charlotte, NC 28272-0872</b>	<b>\$35.33</b>
<b>U.S. Department of Treasury</b>	<b>Internal Revenue Service, Cincinnati, OH 45999</b>	<b>\$25,934.94</b>
<b>USHBB, Inc.</b>	<b>8629 Fawn Lake Circle, Indianapolis, IN 46278</b>	<b>\$878,856.00</b>
<b>Wat-R-Boy</b>	<b>PO Box 26634, Winston-Salem, NC 27114-6634</b>	<b>\$12.81</b>
		<b>Total: \$938,203.87</b>

The above list is not an admission that the above entities are creditors of the Receivership Defendant or the amount of any such claim.

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

As discussed above, the Receiver Team is working to establish a claims process. By January 31, 2013, the Receiver will file with the Court screenshots of the draft online claims form as an exhibit to the Final Liquidation Plan.

**III. CONCLUSION**

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

1. The continuing efforts of the Receiver to investigate and marshal assets of the Receivership Estate;
2. The continuing efforts of the Receiver to establish and implement a claims process in order to distribute proceeds to injured claimants;

3. The continuing efforts of the Receiver to liquidate various assets of the Receivership Estate;
4. The carrying out of any other legal and/or appointed duties of the Receiver as identified in the Receiver Orders, or as the Court deems necessary.

Dated: January 30, 2013

By: /s/ Kenneth D. Bell  
Kenneth D. Bell, 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 FOURTH QUARTER OF 2012** with the Clerk of Court using the CM/ECF system which will send notification to the following parties in this case:

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This the 30th day of January, 2013.

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