

**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 2013

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 work and findings to date (the “Investigation”) of the Receiver, his counsel, agents, consultants, and advisors (the “Receiver Team”). The facts presented herein 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 (“Zeekler”), and a self-described “private, invitation-only, affiliate advertising division” for Zeekler at the website 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 auction participants would place incremental bids (typically one cent) on merchandise sold via internet auction. Bidders could acquire those bids by purchasing them directly on Zeekler.com for a nonrefundable fee, but ZeekRewards and its affiliates purchased the vast majority of the bids, which they then 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”).¹ 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 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 JULY 1, 2013 AND SEPTEMBER 30, 2013

A. Operations of the Receiver

1. Investigating the Receivership Defendant’s Financial Information

The Receiver continues to investigate the financial information of the Receivership Defendant and to marshal, identify, and secure potential assets of the Receivership Estate. The Receiver continues to work with various financial institutions to obtain the necessary information for the analysis and reconstruction of the Receivership Defendant’s records and a determination of the funds of the Receivership Estate. In addition, the Receiver continues to investigate and

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

analyze accounts of, and payments and transfers to and from, key insiders, third-party advisors, and companies affiliated with RVG and/or its principals and key insiders. Part of this process involves the investigation of transfers made to RVG accounts through various payment processors and e-wallets. Additional and supplemental document requests, subpoenas for documents and/or testimony, witness interviews, and other means of discovery are being and will continue to be used to obtain additional information about various accounts and transactions and, ultimately, to determine whether there are any additional outstanding assets that can be seized for the Receivership Estate.

2. Marshaling and Preserving Receivership Assets

a. Accounts for Holding Receivership Assets

The Receiver maintains four interest-bearing 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, payment processors, and other third parties by the U.S. Secret Service (“USSS”) or the Receiver 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”). A fourth account is used for depositing the proceeds of settlements with net winners and other third parties (the “Settlement Account”).

On July 29, 2013, the Receiver deposited \$5,592,529.49 seized by the USSS from a credit card processor, ePaymentAmerica, and \$812,433.96 seized by the USSS from Eagle Bank, into the Seized Asset Account. On September 5, 2013, the Receiver deposited \$3,650,614.46 seized by the USSS from one of the e-wallet providers, NxSystems, Inc., into the Seized Asset Account. The Receiver also deposited \$2,350,799.63 into the Affiliate Account, the vast

majority of which was received from various financial institutions for checks on which payment had previously been stopped.² In addition, the Receiver deposited \$843,342.84 into the Settlement account during the third quarter.

As of September 30, 2013, the Receivership Estate held approximately \$87.3 million in the Affiliate Account, approximately \$230.2 million in the Seized Asset Account, approximately \$1.1 million in the Pre-Filing Account, and approximately \$1.4 million in the Settlement Account.

b. Cashier's Checks

While most financial institutions complied with the Receiver Orders and the Uniform Commercial Code by honoring cashier's checks, teller checks, and bank money orders that affiliates sent to the Receivership Defendant prior to the commencement of the Enforcement Action, some financial institutions stopped payment on these instruments when they were presented by the Receiver.

On July 22, 2013, the Receiver, through counsel Erwin, Bishop, Capitano & Moss, P.A ("EBCM"), sent demand letters to more than 700 financial institutions to seek reimbursement for more than 7,500 cashier's checks and bank money orders payable to Rex Venture Group on which banks or credit unions were believed to have improperly stopped payment under Section 3-411 of the Uniform Commercial Code and in violation of the Freeze Order. One hundred eighty institutions failed to respond to the July 22 letter, and EBCM confirmed addresses and officer names for the non-responsive institutions and sent a second round of demand letters on a rolling basis throughout September.

² \$46,000.00 of this sum is for bank adjustments related to errors in debits and credits from various transactions in 2012 and 2013.

While most banks and credit unions have been cooperative, a few institutions informed EBCM that they will not comply with the Receiver's demand for payment, notwithstanding the Freeze Order and the UCC. The Receivership team will pursue these claims, either through a motion for a show cause order or through litigation.

The Receiver's June 30, 2013 report indicated that there were potentially \$17 million in stop payment claims. The information on which the \$17 million figure was based included many thousands of items that, unknown to the Receiver at that time, had been previously paid, or were personal checks and personal money orders for which the Receiver has no claim. As of September 30, 2013, the Receivership has deposited a net total of \$2,304,799.63 into the Affiliate Account from payments made after July 1, 2013 by financial institutions that were responsible for these stopped payments. The amount recovered consists of the face value of stopped payment instruments, plus reimbursement for returned item fees incurred by the Receivership as a result of the stopped payments. EBCM anticipates the gross recovery from the cashier's check and bank money order claims will exceed \$3 million, but is not likely to reach \$5 million.³ It is anticipated that these collection efforts will continue for approximately another 60 to 90 days and, if there is no litigation, should be complete before the end of 2013.

c. Funds Held by E-Wallets

During the third quarter, the Receiver continued to investigate the extent to which there are any recoverable funds from the Receivership Defendant's former e-wallet vendors. Specifically, the Receiver has been working with the USSS to investigate and secure additional Receivership Assets connected to NxPay and LST transactions from their accounts at Four Oaks Bank. These funds include \$5.2 million in improper credit card chargebacks and fees paid out

³ This projected recovery is an estimate based on funds already recovered and the predicted values given to potential claims still left to be resolved.

after the August 17, 2012, Freeze Order issued.⁴ In addition, the Receiver Team has persisted in its efforts to recover approximately \$10 million from Payza⁵ and to confirm whether SolidTrustPay holds any additional Receivership Assets.

d. Additional Asset Recovery

In addition to the assets seized from ePaymentAmerica, NxSystems, Inc. and Eagle Bank noted above, Planet Payment recently reported that it discovered another approximately \$13,000.00 that it believes belongs to the Receivership Estate, and the Receiver is working to coordinate the transfer of those funds to the Receiver's Seized Asset Account. The Receiver continues to investigate whether there are additional outstanding recoverable assets subject to seizure for the Receivership Estate.

e. Foreign Accounts

During the third quarter, the Receiver continued working to recover the funds associated with the previously-reported foreign account. The Receiver Team is investigating this foreign account and finalizing the reconciliation of the holder's account records. At this time, the Receiver Team estimates that this account holds approximately \$10 million in Receivership Assets.⁶

In addition, the Receiver Team, working with the USSS, identified a foreign account held by Cyber Profit Ltd. containing an undetermined sum of money. The Receiver Team and USSS are working to determine the amount of money held in that account and coordinate the transfer of those funds to the Receiver.

⁴ NxPay and the other e-wallet companies used payment processors and banks to complete transactions, and liability for improper payments on chargebacks after August 17, 2012 is still being determined by the Receiver.

⁵ The Receiver Team's analysis of the transactional data from Payza is not yet complete, as new information has come in which affects this analysis. As a result, this amount is thus subject to change.

⁶ These are the same funds that the Receiver is seeking from Payza. The funds are being held in a foreign bank account.

The Receiver Team has not yet completed the reconciliation of all of the Receivership Defendant's account records with the amount of funds recovered from foreign accounts. As such, the Receiver continues to reserve all of his rights in that regard.

3. Analyzing the Operations of the Receivership Entity

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

During the third quarter, the Receiver Team continued to reconstruct and analyze financial records of the Receivership Defendant, including the creation of certain books and records that were unavailable. FTI's data analysis team continued to analyze three of the RVG databases, which include approximately 1.6 billion records across 406 material tables. During the third quarter, FTI continued to provide detailed analyses that the Receiver Team used in negotiating settlement discussions with net winner Affiliate-Investors.

FTI finished its work related to the reconciliation of commission payments included in the ZeekRewards database to those reflected in the RVG bank statements. This effort included combining separately identified commission and available cash payments in the database to match up with the check amounts listed on the bank statements. In addition, discrepancies were identified between the check numbering in the database and those listed on the bank statements (i.e., the database listed check numbers that were one digit higher than the corresponding checks listed on the bank statements).

FTI also continued investigating and reconstructing over eighteen months of financial information. To this end, FTI has consolidated and analyzed the financial information received from the inception of the Receivership through the third quarter. Recreation of the books and records related to the RVG financial accounts for which FTI has received transaction records covering the period January 1, 2011 through August 17, 2012 is substantially complete.

However, a limited number of transactions require further investigation. Additionally, in the third quarter, documents located during the ongoing investigation of the Receivership Defendant's operations indicate the possibility of additional financial accounts. Further investigation regarding these accounts continues with the help of the USSS. As information regarding these additional accounts is received, FTI continues to update the books and records related to the RVG financial accounts.

b. Investigating the Receivership Defendant's Operations

During the third quarter, the Receiver Team continued its investigation into the operations of the Receivership Defendant. This investigation is ongoing and includes a review of RVG bank and payment processor records, public records, documents produced by third parties, documents collected from the Receivership Defendant, and the ZeekRewards.com website.

In addition, the Receiver Team communicated throughout the third quarter—through counsel when appropriate—with numerous individuals and entities believed to have information about Receivership Assets and the operations of RVG. The Receiver Team continues to interview the Receivership Defendant's former employees, officers, advisors, and promoters who are willing to be interviewed, as well as various third parties. These interviews have identified numerous other individuals and entities with relevant information, and the Receiver Team continues to pursue this information using voluntary and compulsory means as necessary.

As previously reported, the Receiver Team has collected several terabytes of data in response to subpoenas and voluntary document requests sent to the Receivership Defendant's former employees, service providers, and other professional advisors, as well as certain Affiliate-Investors. The Receiver Team collected a significant amount of additional data during the third

quarter and continued to apply its protocol for culling, reviewing, and cataloging the data. The protocol was designed to pinpoint for review those documents that are most relevant and necessary in aiding the Receiver in the execution of his duties and to avoid incurring costs associated with reviewing less relevant documents. The Receiver Team continued the review process during the third quarter, utilizing a team of contract attorneys, Receiver Team members, and document review specialists.

The Receiver Team continues to negotiate with others regarding their necessary productions and pursues compulsory means as necessary to obtain responsive documents. 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.

c. Privilege Review Team

As previously reported, Paul Burks has asserted attorney-client privilege and work product protection over communications and electronic documents in the Receiver's possession and/or control on the grounds of a joint representation by counsel of Mr. Burks and the Receivership Defendant. These claims stem from the time frame when Burks asserts that he and RVG were represented jointly by the same outside counsel. The Receiver has waived RVG's attorney-client privilege and work product protection for RVG's pre-receivership records, and the Receiver intends to waive such privilege as to any corporate communications over which the Court determines Burks has no right to object.

The Receiver's internal "taint team" of McGuireWoods LLP ("MW") lawyers has been communicating with Mr. Burks' counsel in an effort to reach an agreement on the classification of privileged documents as either (1) Mr. Burks' personal privilege, (2) Mr. Burks and RVG's

joint privilege, or (3) RVG-only privilege. Through these discussions, the taint team has been able to narrow the list of documents at issue. The Receiver is also pursuing access to the file materials retained by RVG's former counsel (who remain Burks' counsel) under applicable North Carolina ethics rules.

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). The Receiver has regularly updated his communications on that website during this process. During the third quarter, the Receiver posted two update letters on that site. The first update letter, posted on August 2, 2013, generally reminded Affiliate-Investors of their need to timely file any claims they wished to assert against the Receivership Defendant and addressed additional related topics. The Receiver also posted an update on September 6, 2013 that generally addressed topics related to the closing of the Claims Process. Additionally, the Receiver has continually updated the Frequently Asked Question portion of the website to address numerous concerns raised by creditors of the Receivership Defendant. During the third quarter, the Receiver updated the Claims FAQ on August 21, September 3, and after the claims process closed on September 5. The Receiver Team has made extensive efforts to reach out to and respond to Affiliate-Investors and other creditors throughout the third quarter.

5. Issues Concerning Federal Taxes

During the third quarter, the Receiver Team worked with the IRS to determine whether there are any additional, outstanding employment-related taxes that need to be paid. As of September 27, 2013, the remaining employment-related taxes stated as owed were \$38,943.42.

Of that amount, the IRS continues to work on confirmation of receipt of a previous payment in the amount of \$31,830.98.

Additionally, as previously reported for the second quarter, MW continues to work with FTI and National Law Forms to respond to Affiliate-Investor inquiries regarding 2012 1099s. No third-quarter inquiries resulted in amended 1099s for Affiliate-Investors being filed. The Receiver anticipates that responding to Affiliate-Investor inquiries will be an ongoing process. The Receiver Team received a notice of proposed penalties from the IRS in the amount of \$104,600.00 in September relating to the year 2011. The proposed penalty relates to information returns filed by RVG. The Receiver Team is working to resolve this proposed penalty.

The Receiver Team continues the process of causing federal and state income tax forms to be prepared and filed, with appropriate extensions, for RVG. Given that RVG is a flow-through entity for federal and state income purposes, the Receiver Team does not anticipate the Receivership to owe federal or state income taxes.

6. Litigation in the SEC Enforcement Action⁷

During the third quarter, the Receiver opposed the motion by certain net winners to intervene in the SEC action and dissolve the Receivership. The Court heard oral arguments on the issue on July 27, 2013, and subsequently denied this motion, preserving the Receivership Estate. *See* (Doc. No. 151).

In addition, the Receiver served multiple subpoenas for documents upon key insiders, vendors, and net winner Affiliate-Investors. The Receiver Team has engaged in extensive discussions with counsel for these individuals and entities and has been engaged in discovery disputes with some subpoena recipients.

⁷ This section discusses litigation in the SEC Enforcement Action. The Receiver's litigation efforts related to the recovery of fraudulently transferred funds are discussed later in this Report.

B. The Receiver's Fund Accounting

The Receiver's Second 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, 2013 through September 30, 2013, is attached hereto as Exhibit B. The Schedule sets forth the following receipts and disbursements:

1. The Receivership received funds in the amount of \$10,055,577.91 from the USSS in seized assets;
2. Received funds in the amount of \$2,304,799.63 from the deposit of Affiliate-Investor financial instruments;⁸
3. Received funds in the amount of \$843,342.84 from third-party litigation settlements;⁹
4. Received income from other sources, such as interest income, a returned retainer fee, and bank adjustments to deposits made in 2012 and 2013 totaling \$140,327.08; and,
5. Disbursed funds from the Receiver's accounts, on a cash basis, of \$2,647,879.17, which includes the fees previously approved for payment of FTI and MW. There were also funds disbursed for bank fees related to management of the Receiver's accounts; claims process expenses; state and

⁸ 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.

⁹ As of the end of the third quarter, the Receiver has agreed to approximately \$2.2 million in settlements with third parties.

federal taxes; back pay; RVG website and database hosting with InternetDynamo in Miami, Florida; security services; utilities; property insurance; workers compensation insurance; and other professional services.

Between July 1, 2013 and September 30, 2013, the Receivership Estate deposited \$13,344,047.46 and disbursed \$2,647,879.17. The Schedule does not include additional funds that were collected by the USSS on behalf of the Receivership Estate, totaling approximately \$856,000. Therefore, the Receiver marshaled total assets of approximately \$329.2 million during the period between August 17, 2012 and September 30, 2013, while disbursing approximately \$9.3 million during the same period.

D. Description of All Known Non-Cash Receivership Property

As previously reported, 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 ZeekRewards scheme was operated (to which a functioning, leased laundromat is attached), and a warehouse. The Receivership Defendant was also previously a tenant under leases for an office building, three storage units, and two apartments in Davidson County, NC, and a lease for a virtual corporate office in Las Vegas, Nevada. All personal property in the corporate apartments and storage units were transferred to the warehouse in anticipation of auction. The virtual office in Las Vegas was prepaid by RVG through April 25, 2015. The Receiver will not renew the lease on this virtual office.

During the third quarter of 2013, the Receiver Team worked with the auction company to value and catalog the Receivership Defendant's personal property in anticipation of auction. The Receiver also filed a motion outlining the Receiver's proposed auction procedures for liquidating

the personal and real property, and seeking the Court's approval of the notice and sale of the real property. (Doc. No. 158). The Court granted this motion on October 17, 2013 (Doc. No. 160), and in accordance with the Court's Order approving the Receiver's auction procedures, the Receiver and retained auctioneers will conduct the auction within 60 days of the issuance of the Order. The auction will take place on December 16 and 17, 2013, with the real property being auctioned off beginning at noon on December 16. The websites for the auction will be as follows: <http://www.ironhorseauction.com/ZeekReceiverDay1> for December 16 items; and <http://www.ironhorseauction.com/ZeekReceiverDay2> for December 17 items.¹⁰

E. Description of Claims Held by the Receivership Estate

The Receiver Team has continued to evaluate options and strategies for pursuing funds fraudulently transferred by the Receivership Defendant.

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

As of September 30, 2013, the Receiver estimates that net winner Affiliate-Investors received over \$283 million in fraudulent transfers from the Receivership Defendant.¹¹ The Receiver Team intends to recoup as much of this money as possible for the Receivership Estate, but it is unable to estimate the portion of this amount that may be reduced to judgment and eventually collected.

The Receiver's litigation team continues to evaluate the most efficient and cost-effective method for pursuing fraudulent transfer claims. As reported previously, the Receiver's clawback litigation is likely to be a combination of individual actions, group actions, defendant class

¹⁰ These links will also be posted in a notice on the Receiver's website and will be activated closer to the date of the auction.

¹¹ This number has fluctuated as the Receiver Team's investigation has progressed, and the Receiver Team continues to work to determine the precise collective sum of money obtained by net winner Affiliate-Investors.

actions, and other alternative dispute resolutions as approved by the Court. 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 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. The first clawback claims are now imminent, and a lawsuit against multiple named defendants along with a class of net winners will be filed during the fourth quarter of 2013.

2. Settlements with Net Winner Affiliate-Investors

In an attempt to resolve as many claims against net winners as possible prior to litigation, the Receiver has encouraged net winner Affiliate-Investors to voluntarily enter into settlement discussions with the Receiver. The Receiver has now reached settlement agreements with more than 155 net winners. These promised settlement payments total approximately \$2,235,000 on net winnings of \$3,940,000, an approximate 56.7% return. The individual settlements range from approximately 45% to 100% of a given individual's net winnings, reflecting the different

circumstances of the various winners and the Receiver's judgment as to the appropriate amount, taking into consideration the amount won, the winner's financial resources, the extent and nature of the winner's recruitment of others to join the Scheme, when the settlement was sought, and other individual situations. During the third quarter, the Receiver entered into settlement agreements with 21 net winners, who agreed to return approximately \$418,000. The Receiver will next seek the Court's approval of the more recent settlement agreements, which the Receiver entered into subsequent to filing his June 28, 2013 Motion to Approve Settlement Agreements and for Leave to Settle Certain Claims Against Net Winners (Doc. No. 150).

3. Investigating Claims against Receivership Defendant Insiders

The Receiver continues to evaluate and prepare for the prospect of filing claims against Receivership Defendant insiders including employees, contractors, and other RVG agents who played an active role in furthering the scheme. The approximate value of these potential claims remains unknown at this time.

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

The Receiver continues to evaluate the prospect of filing claims against RVG's third-party advisors, vendors, and 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 approximate value of these potential claims remains unknown at this time.

F. Potential Creditors of the Receivership Estate¹²

Since the entry of the August 17, 2012 Initial Receiver Order, the Receivership Defendant has received invoices and bills from various purported trade creditors and taxing

¹² This Section does not address net loser Affiliate-Investors or other individuals and entities submitting claims through the Claims Process which do not fall into the Trade Creditor category. The Claims Process and associated claims against the Receivership Estate are discussed below in Section G.

authorities. These purported trade creditors and taxing authorities were required to file claims in the Claims Process in order to recover on account of the claims in these invoices or bills. Upon the close of the Claims Process, approximately \$23.6 million in claims had been asserted by alleged trade creditors and taxing authorities. Alleged trade creditors asserted the vast majority of these claims, totaling approximately \$23.4 million. However, numerous claims that were filed in the trade creditors and taxing authorities category appear to have been filed in the wrong category (in large part by Affiliate-Investors). The Receiver anticipates properly classifying these claims through the claims reconciliation process.

Two trade creditors' claims account for approximately 90% of the sum of the claims asserted in the trade creditor class. The chart below denotes these claims.

<u>Creditor</u>	<u>Alleged Service Provided</u>	<u>Amount Asserted</u>
Plastic Cash International	Credit Card Processing	\$14,896,183.00
InternetDynamo Inc.	Managed Hosting Service	\$6,231,384.00

The above list is not an admission that the above entities are creditors of the Receivership Defendant or that the above amounts asserted are due and owing. Specifically, the Receiver disputes the amounts claimed by these purported creditors and believes there are substantial defenses to each such claim.

The Receiver anticipates reconciling these claims, as well as all other trade creditor and taxing authority claims, with all other claims submitted through the Claims Process. Additionally, the Receiver anticipates that he will establish the priority of payment for the claims of these purported trade creditors and taxing authorities in the Distribution Motion.

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

On May 8, 2013, the Court entered the Order Approving (I) Claims Process, (II) Setting of Bar Date, and (III) Approving Notice Procedures (the “Claims Order”). As set forth in the prior quarterly status report, notice of the Claims Order was served on more than 1.5 million entities in accordance with the Claims Order. The Claims Order provided for the Claims Process to close at 11:59 p.m. prevailing Eastern Time on September 5, 2013. At that time, the Claim Portal closed, and no further claims were accepted from any potential creditors.

Recently, the Receiver requested that the Claims Process be reopened for the limited purpose of permitting claims or amendments of claims from (a) financial institutions seeking to file a subrogation claim on behalf of its affiliate customers after paying stopped payment cashier's checks, teller's checks, and bank money orders to the Receivership on or after August 1, 2013; or (b) affiliates whose financial institutions pay the Receivership on or after August 1, 2013 for stopped payment cashier's checks, teller's checks, and bank money orders, and are thereafter charged or debited by their financial institutions for these items. *See* (Doc. No. 157, Motion to Extend Deadline for Filing Claims Relating to Financial Instruments Paid to the Receiver on or After August 1, 2013). The Court granted this motion, setting deadline for asserting such claims as 11:59 p.m. prevailing Eastern Time on December 1, 2013. *See* (Doc. No. 161).

Certain claims statistics are discussed below. The claims statistics discussed in this report are preliminary in nature and are subject to confirmation and reconciliation. Specifically, as the Court has reopened the Claim Process for a limited set of claimants as described in the preceding paragraph, it is likely that the aggregate sum of the Affiliate-Investor claims and subrogation claims filed by financial institutions will increase.

As of the closing of the Claims Portal on September 5, in excess of 174,000 entities had submitted in excess of \$596 million in claims against the Receivership Defendant. Approximately 99% of the entities filing claims have asserted that they were Affiliate-Investors or retail auction users of ZeekRewards. The purported Affiliate-Investors or retail auction users filed approximately 94% of the dollar amount of all claims filed against the Receivership Defendant. The remaining 1% of entities has filed claims across all of the remaining categories of creditors, with the vast majority of dollar amounts of such claims having been asserted by purported trade creditors.

FTI has coordinated with Garden City Group to receive several extracts of claimant-filed data to prepare for the initial stages of claims reconciliation. Concurrently, FTI is performing initial claims variance analyses and is working on customizing a claims management tool that will allow for cost-effective, online review of claims. Further, FTI, MW, and Garden City Group are working to determine the best method to reconcile all claims that were not in agreement with the books and records of ZeekRewards in the most efficient and cost-effective manner possible. This process is still under review. Pursuant to the Claims Order, upon completion of the claims reconciliation process, claims determination letters will be issued to the claimants.

The Receiver anticipates filing a motion that will seek to distribute the Receivership Assets to the claimants on a pro-rata basis. This motion will seek to, among other things: (1) establish the procedures for the resolution of objections to claim determination amounts; (2) establish the priority of payments among all claimants; (3) establish the method for determining the amounts of the distributions to be made (rising tide, net investment, etc.); (4) establish the method of distributions to be made (e.g., check); (5) address the application and allocation of expenses in making distributions; and (6) address how to treat *de minimus* distributions. The

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have electronically filed the foregoing **RECEIVER'S STATUS REPORT FOR THE THIRD QUARTER OF 2013** with the Clerk of Court using the CM/ECF system, which will send electronic copies to counsel of record registered to receive electronic service.

This the 30th day of October, 2013.

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