

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

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

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**RECEIVER’S STATUS REPORT FOR THE SECOND QUARTER OF 2016**

**I. INTRODUCTION**

Kenneth D. Bell, Esq., the Court-appointed Temporary Receiver (the “Receiver”) for and over the estate of Rex Venture Group, LLC d/b/a ZeekRewards.com, submits this Quarterly Status Report (the “Report”) in accordance with the Order of this Court entered on August 17, 2012, to provide a status report on the work and findings to date (the “Investigation”) of the Receiver, his counsel, agents, consultants, and advisors (the “Receiver Team”).

**II. SUMMARY OF ACTIVITIES OF THE RECEIVER BETWEEN APRIL 1, 2016 AND JUNE 30, 2016**

**A. Operations of the Receiver**

The U.S. net winner class action lawsuit is the driver in bringing the Receivership to a close. Once this action is completed, the Receiver’s work in any remaining litigation and the claims process should end soon thereafter. FTI’s role going forward will generally be limited to assisting with claims and litigation support. The assistance with claims will involve work on claims distributions, including maintaining the database of allowed claims and any changes to

that database as information is obtained. The litigation support will involve providing the Receiver Team with specific exhibits for many net winner defendants for use in summary judgment motions and damages hearings, as well as providing foreign counsel with specific information regarding the operation of the ZeekRewards website for use in foreign courts to enforce our judgments against foreign net winners.

The Receiver Team has created budgets for the various litigation matters currently pending, which have been discussed with the SEC. These budgets can be made available to the Court upon request. We expect recoveries from the collective litigation will significantly exceed expenditures by the Receiver Team.

**1. Marshaling and Preserving Receivership Assets**

**a. Accounts for Holding Receivership Assets**

At the beginning of the second quarter, the Receiver maintained five bank accounts on behalf of the Receivership Estate for holding Receivership Assets: the “Affiliate Payments Account,” the “Seized Asset Account,” the “Pre-Filing Account,” the “Settlement Account,” and the “Holdback Account.”

Excluding earned interest and transfers between accounts, the Receiver made the following deposits into these accounts during the second quarter of 2016:

- \$5 million into the Affiliate Payments Account, representing the remaining half of the amount owed to the Receiver by NewBridge Bank pursuant to a settlement agreement approved by the Court on March 16, 2016.
- \$218,504.76 and \$5,785.30 into the Affiliate Payments Account and the Settlement Account, respectively, from settlements with various third parties who were holding Receivership Assets or against whom the Receiver asserted claims.

During the second quarter of 2016, the Receiver closed the Seized Asset Account, the Pre-Filing Account, and the Settlement Account because the bank fees for those accounts were exceeding the interest being generated. As of June 30, 2016, the Receivership Estate held approximately \$92.6 million in the Affiliate Payments Account as a reserve against distributions to claimants who have yet to provide the required Release and OFAC Statement, and approximately \$1.4 million in the Holdback Account.

**b. Cashier's Checks**

In the second quarter, the Receiver's conflicts counsel, Erwin, Bishop, Capitano & Moss, P.A. ("EBCM") completed work on outstanding claims arising from dishonored cashier's checks, teller's checks, official checks, and bank money orders. Specifically, the single remaining dishonored instruments claim that was the subject of a previously filed motion for asset turnover pending before the Court was settled. The Receiver anticipates that the settlement payment will be received and the turnover motion dismissed during the third quarter.

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

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

**d. Additional Asset Recovery**

During the second quarter of 2016 the Receiver Team continued to work with counsel in the Turks and Caicos Islands ("TCI") to complete the sale and transfer of a house and car purchased by Jaymes Meyer with Receivership assets. The transaction was complicated by a "caution," or a lien, of \$700,000 having been placed on the house by a contractor who had performed services for Meyer without being paid, and by the fact that renovations to the house by Meyer resulted in it encroaching onto Crown, or government, land. Extensive discussions and documentation were required to gain TCI Court approval and complete the sale for a total

purchase price of \$485,000. During the third quarter of 2016 the Receivership will receive payment of \$110,000 and receive the balance of \$375,000 in 2017.

The Receiver Team also interviewed, engaged, and worked with real estate professionals regarding the sale of a house in Napa, California purchased by Meyer with Receivership Assets. The Receiver Team expects to accept an offer to purchase of more than \$500,000 in the third quarter of 2016.

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

**e. Foreign Accounts**

The Receiver has been engaged in significant litigation and additional discovery relating to its February 11 Motion seeking to recover \$13,174,015.48 in outstanding Receivership Assets, which are or were once held in a foreign account in Moldova, from Payza, PaymentWorld, VictoriaBank (a Moldovan financial institution), and their affiliates, or alternatively to hold these entities in contempt for violating the Court's Freeze Order ("Contempt Motion"). As explained in the previous status report, these funds are outstanding Receivership Assets from the payment processing relationship between RVG, Payza, and PaymentWorld for which a percentage of the processed funds were held on reserve and/or flowed through VictoriaBank in Moldova.

On April 12, the Receiver filed a Supplemental Memorandum in support of his Contempt Motion to notify the Court of a lawsuit Payza had initiated against PaymentWorld, its CEO, and related affiliates in the Superior Court of the State of California, County of Los Angeles. The Receiver Team has been closely monitoring that action, given the Receiver's interest in the funds at issue. During the second quarter, the Receiver learned that PaymentWorld CEO Roman

Balanko was seeking to compel arbitration in that matter. Accordingly, the Receiver Team filed an ex parte motion to intervene in that action and argued its motion at a case management conference in that case. The Court held the motion in abeyance and ordered the Receiver to file a motion in the normal course. Subsequently during the third quarter, the Court granted the Receiver's motion to intervene in the California lawsuit.

The Receiver and the Respondents named in the Receiver's Contempt Motion have been briefing the issues the Receiver raised in the Contempt Motion and Respondents' various challenges thereto. VictoriaBank filed a motion to dismiss the Receiver's Contempt Motion, arguing that the Court does not have jurisdiction over it and, therefore, does not have authority to freeze the funds in its New York correspondent bank account or otherwise order the return of Receivership Assets. The Receiver Team prepared and filed a brief in opposition to VictoriaBank's motion, arguing that the Court has jurisdiction over VictoriaBank and the authority to freeze the assets because VictoriaBank has sufficient contacts with the United States and, based on new information, knowingly aided and abetted the violation of the Court's Freeze Order. On June 21, the Court held a hearing on VictoriaBank's Motion. The Court ordered that the motion would be held in abeyance until the Receiver undertakes additional discovery.

To further support the Contempt Motion and the recovery of the outstanding assets, the Receiver is pursuing additional discovery, including discovery of additional documents and information that certain Respondents failed to produce previously or that is relevant to new information that has been produced, and the deposition testimony of PaymentWorld's CEO, Roman Balanko. In the meantime, the funds at VictoriaBank's correspondent bank account remain frozen subject to the interim freeze order.

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

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

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

In addition, the Receiver Team worked with the assistance of FTI to respond to multiple records requests from attorneys for Paul Burks and the U.S. Attorney's Office leading up to the criminal trial of Mr. Burks. In response to a February 16, 2016 subpoena from Paul Burks' attorneys, Tin, Fulton, Walker and Owen, the Receivership provided inventories of items sold at auction on behalf of the receivership. In addition, we provided inventories of all documents, computers and physical items located at RVG's Lexington facilities as of August 20, 2012. We also made these items available for onsite review by both parties on multiple occasions. During May and June, we provided all approved settlement agreements and all documents produced to the Receivership by Richard Waak to Burks' attorneys, and we provided both parties with copies of all transcripts in our possession. We also arranged to have 91 boxes of affiliate bid sheets delivered to trial upon the request of Burks' attorneys. In response to a June 3, 2016 trial subpoena from the U.S. Attorney's Office, the Receivership provided copies of all documents obtained from Payza, Solid Trust Pay, Network Merchants/Vantage Payments, and GETI for select time periods. In addition, we provided the U.S. Attorney's office with copies of all checks deposited by the Receiver pursuant to the Court's previous Order.

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

The Receiver Team continued its frequent communications with individual Affiliates in the second quarter. These communications addressed inquiries about asserted claims, distributions on claims, and the allowance of claims. Further, the Receiver communicated to Affiliates via the Receivership website in an announcement dated May 6, 2016. This announcement addressed the fact that many foreign affiliates have been unable to deposit or cash their distribution checks, and it provided information regarding foreign affiliates' ability to request that their distributions be made via wire transfer. Following this notice, the Receiver sent emails to all foreign Affiliates who are eligible to receive their distributions by wire transfer explaining how they may exercise this option.

This undertaking required substantial effort, because we were required to determine the best method to send these wires. The first inquiry was to determine who would be eligible to receive a wire. Most victims who reside outside the United States could receive a check and cash it. However, there were certain hardships. The first question was whether it was cost effective to let everyone do it or only those who have not yet been able to cash checks. After looking at the amount of potential participants who would be eligible for a blanket wire program and the administrative cost of setting it up, we determined that it would cost too much for administration to let all foreign victims request wires (this is in addition to the actual wire fees involved. The database maintenance involved in administering both the wire database and the check database is not insubstantial and we did not wish to have any overlap if possible).

We then had to determine what would be the most cost effective way to make these payments, in USD or to use the local currency. That involved a survey of the location of the banks we were dealing with, a determination of whether that country could even accept USD transfers, what data was required to be collected, and the method for keeping and storing that

information. Once we made this determination, the Receiver Team set about creating a website update for the portal. It was imperative that we insulate the Receivership assets from any improper assertions by holders of claims if their wires were misdirected and to ensure that the program functioned for the victims who were receiving the wires. It required significant thought and foresight into the issues to be faced and the claims the victims might bring if they somehow did not receive their wire. Further, the Receiver Team also reviewed potential currency conversion costs and issues regarding foreign wires, since conversions on the day of a wire versus the day of the Receivership filing would result in vastly different amounts. This required a weighing of USD vs. Local Currency and when/how the claim should be valued. This was a nuanced yet significant issue the Receiver Team needed to resolve before finalizing the plan.

Finally, the Receiver Team was required to converse extensively with Wells Fargo, the bank holding the Receivership's accounts. Failure to create a portal that would provide all possible information would have caused substantial back and forth with individual affiliates regarding the submitted data, or it would have resulted in an inordinate number of failed wires or misdirected wires. Once these details were sorted out and we had a plan to move forward, the Receiver Team drafted the motion requesting the ability to make distributions via wire transfer, organized notice of the eligible entities to receive those wire transfers, and then set about to test the website. The Receiver sent the first wires to those who had completed the data in the early portion of the third quarter of 2016.

There are approximately 18,000 foreign affiliates who are eligible to participate in the wire program (we sent each of them notice). Those 18,000 people are owed approximately \$17 million at the current rising tide percentage. Thus far, approximately 530 have completed the wire information sufficiently for us to send the claimant a wire. There appears to be some lag in

claimants logging in to provide the information, likely because claimants need to determine what information they need to obtain from their banks before uploading it.

#### **4. Issues Concerning Federal Taxes**

Last quarter, the Receivership reported that the IRS sent a notice of intent to levy to the Receiver Team that was addressed to “Rex Venture Group, c/o Paul Burks,” and that the Receiver Team sent correspondence regarding the reason for the penalty and who is liable for it. During the second quarter, Receiver Team received a letter from the IRS noting that the levy was on temporary hold. The Receiver Team is awaiting further response from the IRS.

In addition, the Receiver Team conducted legal tax research to determine the IRS’ obligation to return tax payments that constitute a fraudulent transfer. The Receiver continues to analyze this issue in an effort to maximize the funds available to ZeekRewards claimants.

During the second quarter, FTI worked with the Receiver to research and respond to requests by the IRS for additional information associated with a ZeekRewards participant.

#### **5. Litigation in the SEC Enforcement Action<sup>1</sup>**

The Receiver Team conducted significant litigation-related activity in the dispute with Payza, PaymentWorld, and VictoriaBank, as discussed above. This litigation was filed as a contempt motion in the SEC Action, and is therefore referenced in this section. The Receiver’s other main litigation activity occurred in claims against net winners and RVG’s third party advisors, which is discussed later in this report.

##### **B. The Receiver’s Fund Accounting**

The Receiver’s Standardized Fund Accounting Report is attached hereto as Exhibit A.

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<sup>1</sup> The Receiver’s efforts related to the recovery of fraudulently transferred funds and other damages incurred by RVG are discussed later in this Report.

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

The Receiver's Schedule of Receipts and Disbursements ("Schedule") from April 1, 2016 through June 30, 2016, is attached hereto as Exhibit B. The Schedule sets forth the following receipts and disbursements:

1. The Receivership received funds of \$5,224,290.06 from third-party litigation settlements;<sup>2</sup>
2. Received income from other sources, such as interest income and return of pre-paid funds, totaling \$18,377.65;
3. Disbursed funds from the Receiver's accounts of \$987,288.64 to affiliate-investors;
4. Disbursed additional funds from the Receiver's accounts of \$786,290.80. These funds were disbursed for: bank fees related to management of the Receiver's accounts; RVG website and database hosting; claims process expenses; RVG website and database hosting; the fees previously approved for payment of FTI and McGuireWoods; other legal services; utilities; and other professional services.<sup>3</sup>

Between April 1, 2016 and June 30, 2016, the Receivership Estate deposited \$5,242,667.71 and disbursed \$1,773,579.44. The Receiver has marshaled total assets of approximately \$361.4 million during the period between August 17, 2012 and June 30, 2016, while disbursing approximately \$269.1 million during the same period.

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<sup>2</sup> As of the end of the second quarter 2016, the Receiver has agreed to approximately \$3.27 million in settlements with net winner affiliates. The Receiver has collected over \$23.7 million in total litigation-related settlements since the inception of the Receivership.

<sup>3</sup> See attached Exhibit B for further detail regarding disbursements and receipts.

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

In the second quarter, the Receiver team worked to maintain a residential home in Clarksville, Arkansas through the engagement of local contractors. This property was surrendered to the Receiver as part of a settlement with Defendant Dawn Wright-Oliveras. Before this property can be sold, a lien filed by a general contractor who had worked on the home must be removed from the property's title. This is a contested matter. The Receiver has retained local counsel, who is working to address the lien issue. The Receiver anticipates resolving this issue during the third quarter and putting the home on the market for sale. In the interim, the Receiver has worked to prepare the property for placement on the market.

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

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

**a. U.S. Net Winner Lawsuit**

During the second quarter, the Receiver Team analyzed the expert report of the net winner class and spent significant effort preparing the Receiver's Motion for Summary Judgment against the named defendants as well as against the entire net winner class. The preparation of this motion required significant legal research and planning. The Receiver filed the summary judgment motion on June 30, 2016. The motion seeks judgment against the named net winners for the full amount set forth in the Receiver's Complaint, and it seeks judgment as to liability for the net winner class, which if granted, will require further adjudication of the amount owed to the Receivership Estate by each class member. If the Court grants the Receiver's motion, it will result in judgments with a face value of over \$200 million, although the actual amount recovered by the Receivership is likely to be substantially lower.

In addition, the Receiver Team worked with collections counsel to pursue collection efforts against net winners for whom the Receiver has already obtained judgment, including Todd Disner, Trudy Gilmond, David Sorrells, and Michael Van Leeuwen. Regarding Mr. Van Leeuwen, EBCM continued efforts to locate him and to serve an Order for Mr. Van Leeuwen to show cause why he should not be held in contempt for failing to appear for a state court supplemental debtor examination. Contempt proceedings and service of the Order to show cause remain pending.

**b. Claims Against Foreign Net Winners**

The Receiver continued litigation against the remaining defendants in the lawsuits against Canadian, Israeli, British Virgin Islands, Norwegian, and Swedish defendants. For the majority of foreign net winner defendants, the Receiver has already obtained default judgment. These matters are ongoing, and the Receiver team has been involved in written discovery and informal settlement discussions in these lawsuits.

In addition, the Receiver Team continued its efforts in pursuing fraudulently transferred assets from net winners residing in foreign countries. These efforts have involved extensive work in analyzing the various countries' courts' requirements of proof and providing documentation and analysis to foreign counsel working on the Receiver's behalf. During the second quarter, the Receiver Team also prepared and coordinated the service of demand letters to foreign defendants against whom the Receiver has obtained judgment. The Receiver Team also engaged in settlement negotiations with foreign defendants and finalized settlements with multiple foreign net winners.

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

During the second quarter, the Receiver deposed Darryle Douglas, against whom the Receiver had previously obtained judgment. This deposition involved Mr. Douglas' previous

claims that he retained a copy of the ZeekRewards database, as well as an examination of his financial records.

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

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

In the lawsuit against Gary Bessoni and the entities he used to provide “leads” to RVG and Affiliates, the Receiver filed an amended complaint, adding Sam Adlerman and his entity S.T. Eagle, Inc., as defendants. The amended complaint alleges that Mr. Adlerman wrongfully profited from his role in the ZeekRewards scheme over and above his significant net winnings. Adlerman introduced RVG Insiders to Bessoni for the purpose of purchasing leads for use in the scheme’s “bid giveaway” system. As a result of this introduction and the resulting relationship, Adlerman received a “commission” on every lead Bessoni sold to RVG. Altogether, Bessoni paid Adlerman, either directly or through Adlerman’s entity S.T. Eagle, more than \$630,000 in RVG funds, which the Receiver has demanded be returned to the Receivership Estate for distribution to the victims of the ZeekRewards scheme. *See Bell v. Peak USA, LLC, et al.*, No. 3:15cv233. In late June 2016, all parties to the lawsuit consented to an amended schedule of litigation, and the Court entered an amended Scheduling Order, granting the parties’ consent motion.

In addition, the Receiver Team has engaged in significant settlement discussions with counsel for Mr. Bessoni and the Peak defendants. These settlement discussions were ongoing at quarter’s end.

**b. *Bell v. Kaplan***

In the lawsuit against attorney Howard Kaplan, the Receiver did not undertake significant work, as the Receiver’s motion for reconsideration of the Court’s Order on motion to dismiss is

currently pending. Once the motion for reconsideration is resolved, the parties will begin discovery.

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

There are no non-Affiliate pre-Receivership creditors of the Receivership Estate with a reasonable likelihood of collecting on any claims they assert should be paid by the Estate.

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

On April 30, 2016, the Receiver issued checks to approximately 345 Affiliate claimants. The aggregate amount of this distribution was \$658,030. This distribution was calculated using the rising tide method that was previously approved by the Court and set the rising tide amount as 60% of the Affiliate's allowed claim amount. On June 30, 2016, the Receiver reissued checks to approximately 506 Affiliate claimants. These checks were reissued to claimants (1) who had requested one of their prior distribution checks be reissued or (2) for whom a prior check distribution had been returned to the Receivership with a forwarding address provided.

Despite the issuance of approximately 175,000 claim determinations, approximately 40,500 Affiliates who hold an allowable claim have either failed to respond to their claim determination or failed to provide all necessary documentation to be eligible for a distribution. By Order of this Court, an Affiliate who does not provide the required Release and the OFAC Statement is not eligible to receive a distribution. These Affiliates will remain ineligible to receive a distribution until they have completed the claim determination process. However, the Receiver has maintained adequate reserves to pay all Affiliates whose claims are allowed in the amounts in which such Affiliates submitted claims. The Receiver reserves the right to release these reserves.

On April 27, the Court approved a motion to pay certain foreign Affiliates by wire transfer. Over 18,000 foreign Affiliates were notified that they are eligible to receive payment via wire. These foreign Affiliates have the ability to provide the needed banking information in order to send a wire transfer. It is anticipated that wires will be sent to eligible foreign Affiliates in the third quarter.

Approximately 2,061 Affiliates objected to the claim determination issued by the Receiver Team. The Receiver Team has resolved all of these objections to date. Any further objections to previously determined claims would now be untimely. There are currently no open objections to claim determinations.

The receivership holds significant reserves to make distributions to nearly 40,000 claimants who have yet to complete the Court ordered release and/or OFAC certification. There are insufficient funds above those reserves to make a third interim partial distribution cost effective at this time. Upon the anticipated successful conclusion of the defendant net winner class litigation, additional funds will be available for a final distribution.

### **III. CONCLUSION**

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

1. To continue the Receiver's efforts to investigate and marshal assets of the Receivership Estate;
2. To continue the Receiver's efforts to implement the claims and distribution processes in order to distribute proceeds to injured claimants;
3. To continue the Receiver's efforts to liquidate various assets of the Receivership Estate; and

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

Dated: August 16, 2016

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

and

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Attorneys for the Receiver,  
Kenneth D. Bell, Esq.

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that I have electronically filed the foregoing **RECEIVER'S STATUS REPORT FOR THE SECOND QUARTER OF 2016** with the Clerk of Court using the CM/ECF system, which will send electronic copies to counsel of record registered to receive electronic service.

Dated: August 16, 2016

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