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12 WILLIAM J. HOFFMAN

13 **UNITED STATES DISTRICT COURT**
14 **CENTRAL DISTRICT OF CALIFORNIA**
15 **WESTERN DIVISION**

16 SECURITIES AND EXCHANGE
17 COMMISSION,

18 Plaintiff,

19 v.

20 NATIONWIDE AUTOMATED
SYSTEMS, INC.; JOEL GILLIS; and
21 EDWARD WISHNER,

22 Defendants,

23 OASIS STUDIO RENTALS, LLC;
OASIS STUDIO RENTALS #2, LLC; and
24 OASIS STUDIO RENTAL #3, LLC,

25 Relief Defendants.
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27
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Case No. CV-14-07249-SJO (FFMx)

**RECEIVER'S TWENTY FIRST
INTERIM REPORT AND
RECOMMENDATIONS**

Ctrm: 1 - 2nd Floor
Judge: Hon. S. James Otero

1 William Hoffman ("Receiver"), the Court-appointed receiver for Defendant
2 Nationwide Automated Systems, Inc. ("NASI"), Relief Defendants Oasis Studio
3 Rentals, LLC, Oasis Studio Rentals #2, LLC, and Oasis Studio Rentals #3, LLC
4 ("Relief Defendants"), and their subsidiaries and affiliates, including Studios Maui
5 Productions, LLC dba Akamai RV ("Receivership Entities"), hereby submits this
6 twenty first report on his activities and findings to date, as well as his
7 recommendations for the continued administration of the receivership estate
8 ("Report"). This Report focuses on the Receiver's activities during the third quarter
9 of 2019.

10 **I. EXECUTIVE SUMMARY**

11 The Receiver has continued to carry out his duties under the Court's
12 Preliminary Injunction Order, including taking necessary and appropriate actions to
13 secure, preserve, and protect the assets of the Receiverships Entities. The Receiver
14 also completed the sale of NASI's ATM business, as authorized by the Court (Dkt.
15 No. 341). The sale closed on April 30, 2019.

16 As he did in the second quarter of 2019, the Receiver spent significant time in
17 the third quarter on (a) pursuing Clawback Claims (as defined below) in the form of
18 demand letters and Court-authorized settlements, and complaints filed against
19 investors and other third parties who received profits from the Ponzi scheme ("Net
20 Winners"); (b) communication with investors and reviewing documents provided,
21 (c) reviewing and revising accounting necessary for Clawback Claims, as well as
22 tracking and collection of outstanding balances from Clawback settlements, and
23 (d) reviewing and analyzing investor financial hardship applications and supporting
24 financial documents. In addition, the Receiver spent significant time implementing
25 the Court-approved interim distribution of \$31.5 million in receivership estate funds,
26 including updating investor addresses, and processing and issuing distribution
27 checks to those with allowed claims.

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1 The Receiver has also continued his forensic accounting and investigation as
2 necessary and appropriate to identify assets and potential claims to recover investor
3 profits, referral fees, and other transfers to third parties ("Clawback Claims"). In
4 April 2015, the Receiver obtained authority from the Court to pursue Clawback
5 Claims, as well as approval of proposed procedures for such claims. To date, the
6 Receiver has resolved claims in favor of the receivership estate against 430 Net
7 Winners (369 settlements without a complaint filed, 43 settled after a filed
8 complaint, 15 judgments and 3 bankruptcies) for a total recovery to the receivership
9 estate of \$40,270,606, with another \$122,294 due in installment payments.

10 Recoveries from Net Winners, through the pursuit of Clawback Claims, will
11 make up the majority of what is available to distribute to investors from the
12 receivership estate (other than what is distributed through the class settlement with
13 City National Bank). Accordingly, the pursuit of Clawback Claims, which to date
14 has been very successful, should continue to be a primary focus.

15 As discussed below, the Receiver recommends the receivership remain in
16 place as he completes his work to investigate and recover assets, pursues Clawback
17 Claims and settlements as necessary and appropriate, all with the goal of
18 maximizing the value in the receivership estate for the benefit of investor victims.

19 **II. FORENSIC ACCOUNTING**

20 The Preliminary Injunction Order requires the Receiver to "make an
21 accounting, as soon as practicable, to the Court and the SEC of the assets and
22 financial condition of Defendant Nationwide Automated Systems, Inc." Dkt.
23 No. 42, Part XII.E. Accordingly, the Receiver has undertaken to perform such an
24 accounting. The Receiver has made progress in the review of available financial,
25 accounting and banking records to reconstruct transactions of NASI, the Oasis
26 Entities and other affiliated entities.

27 Reconstruction of financial and accounting documents is a central task (a) to
28 determine who received funds from the Receivership Entities and how much they

1 received, (b) to prepare necessary tax filings, (c) to determine the proper amount of
2 profits of investors, and (d) determine the proper amounts of losses of investors.
3 The Receiver's accounting personnel has worked diligently to create an accurate
4 check register showing the checks paid by NASI to investors that cleared, not
5 bounced, which is a critical and time-consuming task.

6 Due to the large size and length of time the Ponzi scheme operated, an
7 enormous amount of information is required to be traced and verified. Reliable
8 information about NASI's check register and similar information was either not
9 available or not accurate, which required the Receiver's accounting personnel to
10 reconstruct the ledger of transactions. Information from bank statements and
11 cleared checks were used to create a schedule of checks paid by NASI to investors.
12 On average, over 2,000 checks were paid by NASI to investors on a monthly basis
13 in 2014.

14 In addition to the ongoing accounting of transactions in order to pursue
15 Clawback Claims against select investors and third parties, the Receiver's staff
16 compiled schedules for identified losing investors and mailed them to investors
17 pursuant to the approved Claims Process. The Receiver will continue to complete
18 the forensic accounting required to pursue Clawback Claims for investor profits,
19 referral fees, and other transfers, as well as the investor loss analysis.

20 **III. PENDING CLAWBACK CASES**

21 As discussed above, the Receiver has resolved claims in favor of the
22 receivership estate against 430 Net Winners (369 settlements without a complaint
23 filed, 43 settled after a filed complaint, 15 judgments and 3 bankruptcies) for a total
24 recovery to the receivership estate of \$40,270,606, with another \$122,294 due in
25 settlement payments still to be made. Another 60 demand letters to Net Winners are
26 currently outstanding. The rate of settlements in relation to total demand letters sent
27 to Net Winners is very high – 67.1% (369 settlements without a complaint being
28 filed and 43 settlements after a complaint was filed). Of course, not all Net Winners

1 accept the Court-approved settlement proposal included in the demand letter and
2 therefore complaints must be filed. To date, 68 complaints have been filed and no
3 cases remain active.

4 Overall, the rate of cases filed (68) in relation to total expired demand letters
5 (including settlements and outstanding demands) is remarkably low – only 10.9%.
6 Accordingly, the Receiver's pursuit of Clawback Claims has not only been very
7 successful to date, but has also been extremely efficient.

8 **IV. CLAIMS AGAINST CITY NATIONAL BANK**

9 As previously reported, the parties reached a global settlement of the
10 Receiver's action and the investors' action against City National Bank ("CNB") and
11 related parties, subject to Court approval. The Receiver's motion for approval of the
12 settlement (Dkt. No. 287) was filed on August 2, 2018, and an Order was issued by
13 this Court on October 3, 2018 (Dkt. No. 299). The motion for preliminary approval
14 of the settlement filed in the Los Angeles Superior Court was heard on August 30,
15 2018 and an Order filed the same day (the Order was E-Served on September 11,
16 2018). The hearing for final approval of the settlement was held on January 29,
17 2019 and a Settlement Order and Final Judgment was filed and E-served the same
18 day (*Madison v. City National Bank was consolidated into Payne v. City National*
19 *Bank*).

20 One of the key steps toward completion of the settlement – this Court's entry
21 of an order setting the allowed amount of all investor claims (which claims
22 constitute the class for the class settlement) – occurred on April 25, 2019. Dkt.
23 No. 347. Once the claims approval order issued by this Court became final, the
24 settlement was funded by CNB, including \$33 million going to the class settlement
25 fund, \$550,000 going to the receivership estate on account of the Receiver's claims
26 against Mark Soffa (which claims were dismissed as part of the global settlement)
27 and \$450,000 going to Mark Soffa on account of his claims against CNB (which
28 claims were also dismissed as part of the global settlement). The fees and costs

1 approved by the Los Angeles Superior Court to be paid to Special Counsel
2 representing the Receiver, counsel representing the investors, and the Receiver for
3 his work as administrator for the class settlement were then paid from the class
4 settlement funds.

5 In August 2019, the Receiver, in his capacity as administrator of the class
6 settlement, issued distribution checks to investors with allowed claims from the
7 class settlement fund. The total distributed to investors from the class settlement
8 fund was approximately \$22.5 million.

9 **V. POST-RECEIVERSHIP RECEIPTS AND DISBURSEMENTS**

10 At the time the Receiver was appointed on September 30, 2014, NASI had
11 approximately \$461,000 in cash. Since then, the balance in the receivership estate
12 has grown rapidly, primarily due to recoveries through Clawback Claims. By the
13 end of 2015, the balance had increased to \$5,695,473, by the end of 2016, the
14 balance had grown to \$27,893,271, by the end of 2017, the balance had grown to
15 \$35,919,846, by the end of 2018, the balance had grown to \$36,082,554, and by the
16 end of the first quarter of 2019, the balance had grown to \$35,947,766. During the
17 second quarter of 2019, distributions in the amount of \$12,226,268 were made to
18 allowed claims, along with other receipts and disbursements detailed in the
19 Twentieth Interim Report (second quarter of 2019), resulting in an ending balance of
20 \$23,618,820 (as of June 30, 2019).

21 During the third quarter of 2019, (a) the Receiver obtained a total of \$869,622
22 in recoveries, including recoveries from Clawback Claims (\$319,622) and the Mark
23 Soffa-related portion of the CNB global settlement (\$550,000), (b) interest of \$896
24 was received for receivership funds deposited, (c) distributions to allowed claims
25 totaling \$19,054,716 were made, (d) disbursements totaling \$246,438 were paid to
26 the Receiver, his counsel, and other professionals for Court-approved fees and
27 expenses incurred during the first quarter of 2019 (their eighteenth fee applications,
28 which were approved during the third quarter 2019), (e) outstanding ATM business

1 expense of \$883 was paid, and (f) software vendor fees for check processing
2 expenses of allowed claim distributions totaling \$1,651.99 were paid, resulting in a
3 balance of \$5,185,650 (as of September 30, 2019). A Standardized Fund Accounting
4 Report is attached hereto as Exhibit A.

5 **VI. INVESTOR COMMUNICATIONS**

6 The Receiver has taken many steps to inform investors about the receivership,
7 including establishing a website (www.nasi-receivership.com), two dedicated
8 telephone lines (858-242-1161 and 858-242-1166), and a dedicated e-mail address
9 (receiver@nasi-receivership.com). The website is designed to be investors' primary
10 source of information about the receivership and provides basic information about
11 receiverships, answers to commonly asked questions, status updates, pleadings filed
12 in the case, and Court orders. In addition, the website has an investor questionnaire
13 designed to obtain information from investors, including their contact information,
14 investment amounts, ATM locations, and price paid per ATM. The investor
15 questionnaire is a cost-effective method of obtaining information from investors,
16 which the Receiver can then cross-reference and confirm or supplement with
17 existing information. Thus far, more than 1,300 investor questionnaire submissions
18 have been made via the Receiver's website. The Receiver will continue to update
19 the receivership website and review information and documents provided by
20 investors. The Receiver's staff will also continue to monitor the Receivership's
21 voicemail line, email address, fax line, and website questionnaires and respond
22 accordingly. Investors are reminded to promptly contact the Receiver's office and
23 provide their new contact information if their contact information changes.

24 As discussed above, the Receiver has processed and sent out interim
25 distribution checks to those with allowed claims and is working to identify and
26 resolve delivery issues. Pursuant to the order, the total amount distributed at this
27 time is \$31.5 million.

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1 **VII. RECOMMENDATIONS**

2 The Receiver recommends the receivership continue and his investigation and
3 accounting be allowed to proceed.

4 **A. Clawback Claims**

5 The Court has authorized the Receiver to pursue Clawback Claims and
6 approved the Receiver's proposed procedures for prosecuting such claims. As
7 discussed above, recoveries from Clawback settlements have been very successful
8 to date. The Receiver will continue to pursue such claims and file complaints
9 against profiting investors who choose not to accept the Court-approved settlement
10 offer.

11 **B. Distributions**

12 Pursuant to the Court's approval of proposed allowed claim amounts and
13 order authorizing interim distributions, the Receiver made interim distributions to
14 investors and creditors with allowed claims by June 24, 2019. The Receiver
15 continues to identify and resolve delivery issues. Once his remaining Clawback and
16 recovery work is completed, the Receiver will seek authority to make a final
17 distribution and conclude the receivership.

18 **VIII. CONCLUSION**

19 Based on the foregoing, the Receiver requests an order approving this Report
20 and his recommendations discussed above.

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22 Dated: January 28, 2020

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS LLP

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By: /s/ Edward Fates

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EDWARD G. FATES
Attorneys for Receiver
William Hoffman

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EXHIBIT A

STANDARDIZED FUND ACCOUNTING REPORT for
Equity Receivership over Nationwide Automated Systems, et al. - Cash Basis
Receivership; Civil Court Docket No. 44
Reporting Period 07/01/2019 through 09/30/2019

Fund Accounting (See Instructions):

		<u>Detail</u>	<u>Subtotal</u>	<u>Grand Total</u>
Line 1	Beginning Balance (As of 07/01/2019)	\$ 23,618,820		
	Increases in Fund Balance			
Line 2	Business Income	\$ -		
Line 3	Cash and Securities			
Line 4	Interest/Dividend Income	\$ 896		
Line 5	Business Asset Liquidation			
Line 6	Personal Asset Liquidation			
Line 7	Third-Party Litigation Income	\$ 869,622		
Line 8	Miscellaneous - Other			
	Total Funds Available (Lines 1-8)			\$ 24,489,339
	Decreases in Fund Balance:			
Line 9	Disbursements to Investors (cleared)		\$ (19,054,716)	
Line 10	Disbursements to Receivership Operations			
Line 10a	<i>Disbursements to Receiver or Other Professionals</i>	\$ (246,438)		
Line 10b	<i>Business Asset Expenses</i>	\$ (883)		
Line 10c	<i>Personal Asset Expenses</i>			
Line 10d	<i>Investment Expenses</i>			
Line 10e	<i>Third-Party Litigation Expenses</i>			
	1. Attorney Fees			
	2. Litigation Expenses			
	<u>Total Third-Party Litigation Expenses</u>			
Line 10f	<i>Tax Administrator Fees and Bonds</i>			
Line 10g	<i>Federal and State Tax Payments</i>			
	Total Disbursements for Receivership Operations		\$ (247,321)	
Line 11	Disbursements for Distribution Expenses Paid by the Fund			
Line 11a	Distribution Plan Development Expenses:			
	1. Fees			
	Fund Administrator			
	Distribution Agents			
	Consultants			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses	\$ (1,651.99)		
	3. Miscellaneous			
	<u>Total Plan Development Expenses</u>		\$ (1,651.99)	
Line 11b	Distribution Plan Implementation Expenses:			
	1. Fees:			
	Fund Administrator			
	IDC			
	Distribution Agents			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses			
	3. Investor Identification:			
	Notice/Publishing Approved Plan			
	Claimant Identification			
	Claims Processing			
	Web Processing			
	Web Site Maintenance/Call Center			
	4. Fund Administrator Bond			
	5. Miscellaneous			
	6. Federal Account for Investor Restitution			
	(FAIR) Reporting Expenses			
	<u>Total Plan Implementation Expenses</u>			

Total Disbursements for Distribution Expenses Paid by the Fund

	<u>Detail</u>	<u>Subtotal</u>	<u>Grand Total</u>
Line 12	Disbursements to Court/Other:		
Line 12a	Investment Expenses/Court Registry Investment System (CRIS) Fees		
Line 12b	Federal Tax Payments		
Line 12c	Non-Investor - Priority Claim		
	Total Disbursements to Court/Other:	\$ -	
	Total Funds Disbursed (Lines 9-11):		\$ (19,303,689)
Line 13	Ending Balance (As of 09/30/2019)		\$ 5,185,650
Line 14	Ending Balance of Fund - Net Assets		
Line 14a	Cash & Cash Equivalents	\$ 5,185,650	
Line 14b	Investments		
Line 14c	Other Assets or Uncleared Funds		
	Total Ending Balance of Fund - Net Assets		\$ 5,185,650

Other Supplemental Information:

Report Items NOT To Be Paid by the Fund:

Line 15 Disbursements for Plan Administration Expenses Not Paid by the Fund:

- Line 15a Plan Development Expenses Not Paid by the Fund:
1. Fees
 - Fund Administrator
 - IDC
 - Distribution Agents
 - Consultants
 - Legal Advisors
 - Tax Advisors
 2. Administrative Expenses:
 3. Investor Identification:
 - Notice/Publishing Approved Plan
 - Claimant Identification
 - Claims Processing
 - Web Site Maintenance/Call Center
 4. Fund Administrator Bond
 5. Miscellaneous
 6. FAIR Reporting Expenses
- Total Plan Implementation Expenses Not Paid by the Fund
- Line 15c Tax Administrators Fees & Bonds Not Paid by the Fund

Total Disbursements for Plan Administration Expenses Not Paid by the Fund

Line 16 Disbursements to Court/Other Not Paid by the Fund:

- Line 16a Investment Expenses/CRIS Fees
- Line 16b Federal Tax Payments

Total Disbursements to Court/Other Not Paid by the Fund

Line 17 DC & State Tax Payments

Line 18 No. of Claims:

- Line 18a # of Claims Received This Reporting Period
- Line 18b # of Claims Received Since Inception of Fund

Line 19 No. of Claimants/Investors:

- Line 19a # of Claimants/Investors Paid This Reporting Period
- Line 19b # of Claimants/Investors Paid Since Inception of Fund

Receiver:

William J. Hoffman of Trigild, Inc.

Date: November 19, 2019