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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 NINETEENTH
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 nineteenth 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 first 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 continued operations of NASI's ATM business, as authorized by the Court. As
15 previously discussed, the ATM business generates a steady, but modest amount of
16 revenue. The revenue has been steadily declining due to the age of the machines
17 and termination of certain leases, so the Receiver located a buyer and sought
18 approval of a sale of the remaining ATM business. Dkt. No. 328. The sale was
19 approved by the Court on April 16, 2019. Dkt. No. 341.

20 As he did in the fourth quarter of 2018, the Receiver spent significant time in
21 the first quarter on (a) pursuing Clawback Claims (as defined below) in the form of
22 demand letters, Court-authorized settlements, and complaints filed against investors
23 and other third parties who received profits from the Ponzi scheme ("Net Winners");
24 (b) communication with investors and reviewing documents provided, (c) reviewing
25 and revising accounting necessary for Clawback Claims, and (d) reviewing and
26 analyzing investor financial hardship applications and supporting financial
27 documents. In addition, the Receiver spent significant time implementing the
28 Court-approved claim procedures, including locating and providing notices to

1 investors whose current addresses were not in NASI's books and records, and
2 reviewing and analyzing investor claims.

3 The Receiver has also continued his forensic accounting and investigation as
4 necessary and appropriate to identify assets and potential claims to recover investor
5 profits, referral fees, and other transfers to third parties ("Clawback Claims"). In
6 April 2015, the Receiver obtained authority from the Court to pursue Clawback
7 Claims, as well as approval of proposed procedures for such claims. To date, the
8 Receiver has resolved claims in favor of the receivership estate against 421 Net
9 Winners (361 settlements without a complaint filed, 43 settled after a filed
10 complaint, 15 judgments and 2 bankruptcies) for a total recovery to the receivership
11 estate of \$39,376,882, with another \$88,864 due in installment payments.

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

17 As discussed below, the Receiver recommends the receivership remain in
18 place as he completes the winding down of the ATM operations and continues to
19 investigate and recover assets, pursue Clawback Claims and settlements as
20 necessary and appropriate, all with the goal of maximizing the value in the
21 receivership estate for the benefit of investor victims.

22 **II. ATM OPERATIONS**

23 During the first quarter of 2019, the Receiver continued operations of the
24 NASI ATM machines, which consist of 84 ATMs operating at various hotels and
25 other locations around the country and 155 non-operating ATMs that are outdated or
26 need substantial repairs. Further, the Receiver's staff has continued business
27 relationships with the ATM service vendors and the ATM locations to maximize the
28 revenue into the receivership estate.

1 Revenue and expenses from ATM operations vary on a monthly basis
2 depending on the amount of transactions for each ATM. During the first quarter,
3 6 ATMs were removed from hotel and other locations due to terminated leases and
4 age of the ATM machines. The costs of upgrading these ATM machines would
5 likely exceed the revenue from them, so the Receiver determined not to upgrade
6 them.

7 Gross revenues for January, February and March 2019 were \$47,021, \$44,363
8 and \$41,682 respectively. The monthly net income from ATM operations (after
9 payments to the ATM servicers and locations) were (\$1,203), (\$3,936) and (\$3,752),
10 respectively, for a total loss of (\$8,891). The average monthly net income for the
11 quarter was a loss of (\$2,963).

12 The revenue and net income is seasonal and is substantially higher during the
13 second and third quarters as compared to the first and fourth quarters. Nevertheless,
14 the net income has declined to the point where it is either break-even or slightly
15 negative, depending on the season. As a result, the Receiver marketed the
16 remaining ATMs for sale, negotiated and executed a purchase agreement with a
17 proposed buyer, filed a Motion for approval of the sale, which was approved on
18 April 16, 2019. Dkt. No. 341. Escrow closed on the sale of the ATM portfolio on
19 April 30, 2019, and monthly payments for April 2019, the final month the
20 receivership estate is responsible for these payments, are being made to ATM
21 locations.

22 **III. FORENSIC ACCOUNTING**

23 The Preliminary Injunction Order requires the Receiver to "make an
24 accounting, as soon as practicable, to the Court and the SEC of the assets and
25 financial condition of Defendant Nationwide Automated Systems, Inc." Dkt.
26 No. 42, Part XII.E. Accordingly, the Receiver has undertaken to perform such an
27 accounting. The Receiver has made progress in the review of available financial,
28

1 accounting and banking records to reconstruct transactions of NASI, the Oasis
2 Entities and other affiliated entities.

3 Reconstruction of financial and accounting documents is a central task (a) to
4 determine who received funds from the Receivership Entities and how much they
5 received, (b) to prepare necessary tax filings, (c) to determine the proper amount of
6 profits of investors, and (d) determine the proper amounts of losses of investors.
7 The Receiver's accounting personnel has worked diligently to create an accurate
8 check register showing the checks paid by NASI to investors that cleared, not
9 bounced, which is a critical and time-consuming task.

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

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

24 **IV. PENDING CLAWBACK CASES**

25 As discussed above, the Receiver has resolved claims in favor of the
26 receivership estate against 421 Net Winners (361 settlements without a complaint
27 filed, 43 settled after a filed complaint, 15 judgments and 2 bankruptcies) for a total
28 recovery to the receivership estate of \$39,376,882, with another \$88,864 due in

1 settlement payments still to be made. Another 121 demand letters to Net Winners
2 are currently outstanding. The rate of settlements prior to a complaint being filed in
3 relation to total demand letters sent to Net Winners is very high – 63.7% (361
4 settlements without a complaint being filed and 43 settlements after a complaint was
5 filed). Of course, not all Net Winners accept the Court-approved settlement
6 proposal included in the demand letter and therefore complaints must be filed. To
7 date, 68 complaints have been filed and no cases remain active.

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

12 **V. CLAIMS AGAINST CITY NATIONAL BANK**

13 For almost the entire duration of the NASI Ponzi scheme, which started in the
14 late 1990s, the company ran its banking transactions through accounts at City
15 National Bank ("CNB"). In addition, at least two CNB executives invested, directly
16 or through a related entity, in NASI and therefore became familiar with NASI's
17 operations and purported investment returns. In light of these facts, the Receiver
18 has gathered documents and investigated potential claims against City National
19 Bank.

20 On May 4, 2016, the Court approved the Receiver's engagement of Newhouse
21 Law Group and Girardi | Keese LLP as co-special counsel to represent the Receiver
22 in pursuing claims against CNB and related parties. Dkt. No. 150. On June 21,
23 2016, the Receiver filed his complaint against CNB, Royal Bank of Canada, a
24 Canadian bank, Patrick Brian Fitzwilliams, and Betty Saleh Fitzwilliams in Los
25 Angeles Superior Court. As previously communicated to this Court, for efficiencies'
26 sake, Special Counsel has continued to work closely and coordinate efforts with
27 Class Counsel in the matters of *Payne v. City National Bank*, *Madison v. City*
28 *National Bank*, and *Allison v. City National Bank*. On September 30, 2017, a class-

1 action complaint was filed by non-California investors in federal court in New York,
2 styled as *Wilinsky et al. v. City National Bank, NA, et al.*, Case 1:17-cv-07463-JGK.

3 On November 17, 2016 and February 2, 2018, the Receiver and Special
4 Counsel attended a global mediation with CNB, counsel representing the investors,
5 and the other parties in the related actions before the Los Angeles Superior Court.
6 The parties continued to negotiate settlement terms through the mediator, the Hon.
7 Carl West (Ret.), over several months until the basic terms of a global class
8 settlement were reached and then eventually documented and executed, subject to
9 Court approval.

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

18 One of the key steps toward completion of the settlement – this Court's entry
19 of an order setting the allowed amount of all investor claims (which claims
20 constitute the class for the class settlement) – occurred on April 25, 2019. Dkt.
21 No. 347.

22 **VI. POST-RECEIVERSHIP RECEIPTS AND DISBURSEMENTS**

23 At the time the Receiver was appointed on September 30, 2014, NASI had
24 approximately \$461,000 in cash. Since then, the balance in the receivership estate
25 has grown rapidly, primarily due to recoveries through Clawback Claims. By the
26 end of 2015, the balance had increased to \$5,695,473, by the end of 2016, the
27 balance had grown to \$27,893,271, by the end of 2017, the balance had grown to
28 \$35,919,846, and by the end of 2018, the balance had grown to \$36,082,554.

1 During the first quarter of 2019, (a) business operations had a negative cash
2 flow of \$8,891 (total business income of \$133,066 minus total business expenses of
3 \$142,639.35), (b) the Receiver obtained a total of \$128,332 from Clawback Claims,
4 (c) interest of \$8,710 was received for receivership funds deposited, and
5 (d) disbursements totaling \$262,258 were paid to the Receiver, his counsel, and
6 other professionals for Court-approved fees and expenses incurred during the third
7 quarter of 2018 (their sixteenth fee applications, which were approved during the
8 first quarter 2019), resulting in an ending balance of \$35,947,766, as of March 31,
9 2019. A Standardized Fund Accounting Report is attached hereto as Exhibit A.

10 In addition, the Receiver has already had recoveries from Clawback
11 settlements in April and May 2019. An additional \$56,734 has been recovered.

12 **VII. INVESTOR COMMUNICATIONS**

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

1 accordingly. Investors are reminded to promptly contact the Receiver's office and
2 provide their new contact information if their contact information changes.

3 As discussed above, the Receiver continues to devote considerable time and
4 focus to the pursuit of Clawback Claims. Additionally, on January 9, 2018, the
5 Receiver filed a renewed motion for approval of procedures for the administration of
6 claims of investors with net losses from the Ponzi scheme (as well as the claims of
7 other creditors). Dkt. No. 247. The motion was granted on February 7, 2018. Dkt.
8 No. 256. On March 8, 2018, pursuant to the approved claim procedures, the
9 Receiver sent notices to investors and creditors with detailed instructions regarding
10 the claims process.

11 In an effort to efficiently update investors and decrease the calls and emails
12 from investors seeking to confirm receipt of their submitted claims, the Receiver
13 posted a list of claims received from investors on the Receiver's website, [www.nasi-](http://www.nasi-receivership.com)
14 receivership.com, under the "Claims Admin." tab. The list of received claims will
15 only reference the claims number with no other identification information and will
16 be updated periodically. Investors are encouraged to review the Receiver's website
17 for updates instead of calling and emailing the Receiver (and Receiver's staff) for
18 updates or confirmations.

19 On March 26, 2019, the Receiver filed his motion for order (a) resolving
20 disputed claims and approving proposed allowed amounts of claims, (b) approving
21 proposed plan of distribution, and (c) authorizing Receiver to make interim
22 distributions. Dkt. No. 337. The motion was granted on April 25, 2019. Dkt.
23 No. 347. The Receiver is now taking steps necessary to process and send out
24 interim distribution checks to those with allowed claims. Pursuant to the order, the
25 total amount to be distributed at this time is \$31.5 million.

26 **VIII. RECOMMENDATIONS**

27 The Receiver recommends the receivership continue and his investigation and
28 accounting be allowed to proceed.

1 **A. ATM Operations**

2 As discussed above, the ATM operations generated a negative revenue
3 (\$2,963 per month) during the first quarter. The net revenue has been declining
4 steadily due to the age of some of the ATM machines (more and more of which are
5 obsolete), and the Receiver does not expect that trend will materially change.
6 Accordingly, the Receiver has entered into a purchase agreement to sell all the
7 ATMs and has filed a Motion with the Court seeking approval of the sale, which
8 was approved by the Court. Dkt. No. 341. As stated above, the sale of the entire
9 ATM portfolio is complete and the Receiver will wind down operations, including
10 making final payments to ATM locations.

11 **B. Clawback Claims**

12 The Court has authorized the Receiver to pursue Clawback Claims and
13 approved the Receiver's proposed procedures for prosecuting such claims. As
14 discussed above, recoveries from Clawback settlements have been very successful
15 to date. The Receiver will continue to pursue such claims and file complaints
16 against profiting investors who choose not to accept the Court-approved settlement
17 offer.

18 **C. Claims Process**

19 As noted above, the Court has approved the Receiver's renewed motion for
20 approval of procedures for the administration of investor and creditor claims. The
21 Receiver mailed notices to investors on March 8, 2018, and worked diligently to (1)
22 locate and provide notices to investors whose claims notices were returned and/or
23 not delivered, (2) take inventory of Claims Submission Forms and supporting
24 documents provided by investors to the Receiver, (3) communicate with investors to
25 confirm the Receiver's receipt of documents from investors and to answer questions
26 regarding the claims process.

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1 The Receiver filed his motion for approval of proposed allowed claim
2 amounts on March 26, 2019, which was approved by the Court on April 25, 2019.
3 Dkt. No. 347.

4 **D. Distributions**

5 Pursuant to the Court's approval of proposed allowed claim amounts and
6 order authorizing interim distributions, the Receiver will make interim distributions
7 to investors and creditors with allowed claims no later than June 24, 2019.

8 **IX. CONCLUSION**

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

11
12 Dated: May 31, 2019

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS LLP

By: /s/ Edward Fates

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 01/01/2019 through 03/31/2019

Fund Accounting (See Instructions):

		<u>Detail</u>	<u>Subtotal</u>	<u>Grand Total</u>
Line 1	Beginning Balance (As of 01/01/2019)	\$ 36,082,554		
	Increases in Fund Balance			
Line 2	Business Income	\$ 133,066		
Line 3	Cash and Securities			
Line 4	Interest/Dividend Income	\$ 8,710		
Line 5	Business Asset Liquidation			
Line 6	Personal Asset Liquidation			
Line 7	Third-Party Litigation Income	\$ 128,333		
Line 8	Miscellaneous - Other			
	Total Funds Available (Lines 1-8)			\$ 36,352,663
	Decreases in Fund Balance:			
Line 9	Disbursements to Investors			
Line 10	Disbursements to Receivership Operations			
Line 10a	<i>Disbursements to Receiver or Other Professionals</i>	\$ (262,258)		
Line 10b	<i>Business Asset Expenses</i>	\$ (142,639)		
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		\$ (404,897)	
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			
	3. Miscellaneous			
	<u>Total Plan Development Expenses</u>			
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		
	Total Disbursements to Court/Other:		
	Total Funds Disbursed (Lines 9-11):		\$ (404,897)
Line 13	Ending Balance (As of 03/31/2019)		<u>\$ 35,947,766</u>
Line 14	Ending Balance of Fund - Net Assets		
Line 14a	Cash & Cash Equivalents	\$ 35,947,766	
Line 14b	Investments		
Line 14c	Other Assets or Uncleared Funds		
	Total Ending Balance of Fund - Net Assets		<u>\$ 35,947,766</u>
Other Supplemental Information:			
	<i>Report Items NOT To Be Paid by the Fund:</i>		
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		
	<u>Total Plan Implementation Expenses Not Paid by the Fund</u>		
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: May 23, 2019