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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;
24 OASIS STUDIO RENTALS #2, LLC; and
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 EIGHTEENTH
INTERIM REPORT AND
RECOMMENDATIONS**

Ctrm: 10C
Judge: Hon. S. James Otero

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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 ("Receivership Entities"),
5 hereby submits this eighteenth report on his activities and findings to date, as well as
6 his recommendations for the continued administration of the receivership estate
7 ("Report"). This Report focuses on the Receiver's activities during the fourth
8 quarter of 2018.

9 **I. EXECUTIVE SUMMARY**

10 The Receiver has continued to carry out his duties under the Court's
11 Preliminary Injunction Order, including taking necessary and appropriate actions to
12 secure, preserve, and protect the assets of the Receiverships Entities. The Receiver
13 also continued operations of NASI's ATM business, as authorized by the Court. As
14 previously discussed, the ATM business generates a modest amount of revenue.
15 The revenue has been steadily declining due to the age of the machines and
16 termination of certain leases, so the Receiver has located a buyer and sought
17 approval of a sale of the remaining ATM business. The motion is pending. Dkt.
18 No. 328.

19 As he did in the third quarter of 2018, the Receiver spent significant time in
20 the fourth quarter on (a) pursuing Clawback Claims (as defined below) in the form
21 of demand letters, Court-authorized settlements, and complaints filed against
22 investors and other third parties who received profits from the Ponzi scheme ("Net
23 Winners"); (b) efforts to identify, recover, and protect the assets of the Oasis Studio
24 Rentals entities and their affiliates, including efforts to recover amounts owed to the
25 entities or transferred from them to third parties; (c) communication with investors
26 and reviewing documents provided, (d) reviewing and revising accounting necessary
27 for Clawback Claims, and (e) reviewing and analyzing investor financial hardship
28 applications and supporting financial documents, and (f) providing accounting and

1 document support for the ongoing litigation against City National Bank and related
2 parties. In addition, the Receiver spent significant time implementing the Court-
3 approved claim procedures, including locating and providing notices to investors
4 whose current addresses were not in NASI's books and records, and reviewing and
5 analyzing investor claims.

6 The Receiver has also continued his forensic accounting and investigation as
7 necessary and appropriate to identify assets and potential claims to recover investor
8 profits, referral fees, and other transfers to third parties ("Clawback Claims"). To
9 date, the Receiver has resolved Clawback Claims in favor of the receivership estate
10 against 418 Net Winners (359 settlements without a complaint filed, 42 settled after
11 a filed complaint, 15 judgments and 2 bankruptcies) for a total recovery to the
12 receivership estate of \$39,299,827, with another \$129,580 due in installment
13 payments.

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

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

24 **II. ATM OPERATIONS**

25 The Receiver has continued operations of the NASI ATM machines, which
26 consist of 90 ATMs operating at various hotels and other locations around the
27 country and 149 non-operating ATMs that are outdated or need substantial repairs.
28 Further, the Receiver's staff has continued business relationships with the ATM

1 service vendors and the ATM locations to maximize the revenue into the
2 receivership estate.

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

9 Gross revenues for October, November and December 2018 were \$53,999,
10 55,568 and \$48,635 respectively. The monthly net income from ATM operations
11 (after payments to the ATM servicers and locations) were (\$860), (\$757) and
12 (\$2,307), respectively, for a total loss of (\$3,924). The average monthly net income
13 for the quarter was a loss of (\$1,308).

14 The revenue and net income is seasonal and is substantially higher during the
15 second and third quarters as compared to the first and fourth quarters. Nevertheless,
16 the net income has declined to the point where it is either break-even or slightly
17 negative, depending on the season. As a result, the Receiver has marketed the
18 remaining ATMs for sale, negotiated and executed a purchase agreement with a
19 proposed buyer, and filed a Motion for approval of the sale. Dkt. No. 328.

20 **III. FORENSIC ACCOUNTING**

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

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

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

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

22 **IV. PENDING CLAWBACK CASES**

23 As discussed above, the Receiver has resolved claims in favor of the
24 Receivership Estate against 418 Net Winners (359 settlements without a complaint
25 filed, 42 settled after a filed complaint, 15 judgments and 2 bankruptcies) for a total
26 recovery to the receivership estate of \$39,299,827, with another \$129,580 due in
27 settlement payments still to be made. Another 122 demand letters to Net Winners
28 are currently outstanding. The rate of settlements prior to a complaint being filed in

1 relation to total demand letters sent to Net Winners is very high – 63.9% (359
2 settlements without a complaint being filed and 42 settlements after a complaint was
3 filed). Of course, not all Net Winners accept the Court-approved settlement
4 proposal included in the demand letter and therefore complaints must be filed. To
5 date, 68 complaints have been filed and 1 case remains active.

6 Overall, the rate of cases filed (68) in relation to total expired demand letters
7 (including settlements and outstanding demands) is remarkably low – only 11.1%.
8 Further, the rate of currently active cases (1) in relation to total claims is even
9 lower – only 0.2%. Accordingly, the Receiver's pursuit of Clawback Claims has not
10 only been very successful to date, but has also been extremely efficient.

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

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

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

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

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

25 During the fourth quarter of 2018, (a) business operations had a negative cash
26 flow of \$3,924 (total business income of \$158,203 minus total business expenses of
27 \$162,202), (b) the Receiver obtained a total of \$319,523 from Clawback Claims,
28 (c) interest of \$30,470 was received for receivership funds deposited, and

1 (d) disbursements totaling \$385,107 were paid to the Receiver, his counsel, and
2 other professionals for Court-approved fees and expenses incurred during the second
3 quarter of 2018 (their fifteenth fee applications, which were approved during the
4 fourth quarter), resulting in an ending balance of \$36,082,554, as of December 31,
5 2018. A Standardized Fund Accounting Report is attached hereto as Exhibit A.

6 In addition, the Receiver has already had recoveries from Clawback
7 settlements in January and February 2018. An additional \$108,011 has been
8 recovered.

9 **VII. INVESTOR COMMUNICATIONS**

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

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

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

17 In the next week, the Receiver anticipates filing his motion for approval of
18 proposed allowed claim amounts, approval of his proposed plan to distribute
19 receivership estate assets, and authority to make interim distributions to those with
20 allowed claims. If the motion is approved, the Receiver will be able to distribute the
21 vast majority of the funds in the receivership estate. The order setting the allowed
22 amount of all NASI investor claims, if approved by this Court, will also allow the
23 CNB settlement to be funded and distributions to the investor class members made.

24 **VIII. RECOMMENDATIONS**

25 The Receiver recommends the receivership continue and his investigation and
26 accounting be allowed to proceed.

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1 **A. ATM Operations**

2 As discussed above, the ATM operations generated a negative revenue
3 (\$1,308 per month) during the fourth 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. Dkt.
8 No. 328.

9 **B. Clawback Claims**

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

16 **C. Claims Process**

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

25 As noted above, the Receiver anticipates filing his motion for approval of
26 proposed allowed claim amounts, approval of his proposed plan to distribute
27 receivership estate assets, and authority to make interim distributions to those with
28 allowed claims in the next week.

1 **D. Distributions**

2 In connection with seeking approval of proposed allowed claim amounts, the
3 Receiver will request approval of a plan of distributing receivership estate assets to
4 investors and creditors with allowed claims and request authorization to make
5 interim distributions pursuant to the plan.

6 **IX. CONCLUSION**

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

9
10 Dated: March 22, 2019

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS LLP

11 By: _____ /s/ Edward Fates

12 EDWARD G. FATES
13 Attorneys for Receiver
14 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 01/01/2018 through 12/31/2018

Fund Accounting (See Instructions):

		<u>Detail</u>	<u>Subtotal</u>	<u>Grand Total</u>
Line 1	Beginning Balance (As of 10/01/2018)	\$	36,121,668	
	Increases in Fund Balance			
Line 2	Business Income	\$	158,203	
Line 3	Cash and Securities			
Line 4	Interest/Dividend Income	\$	30,470	
Line 5	Business Asset Liquidation			
Line 6	Personal Asset Liquidation			
Line 7	Third-Party Litigation Income	\$	319,523	
Line 8	Miscellaneous - Other			
	Total Funds Available (Lines 1-8)			\$ 36,629,864

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>	\$	(385,107)	
Line 10b	<i>Business Asset Expenses</i>	\$	(162,202)	
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	\$	(547,310)	

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):		\$ (547,310)
Line 13	Ending Balance (As of 12/31/2018)		\$ 36,082,554
Line 14	Ending Balance of Fund - Net Assets		
Line 14a	Cash & Cash Equivalents	\$ 36,082,554	
Line 14b	Investments		
Line 14c	Other Assets or Uncleared Funds		
	Total Ending Balance of Fund - Net Assets		\$ 36,082,554

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: February 26, 2019