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15 **UNITED STATES DISTRICT COURT**
 16 **CENTRAL DISTRICT OF CALIFORNIA**
 17 **WESTERN DIVISION**

18 SECURITIES AND EXCHANGE
 19 COMMISSION,

20 Plaintiff,

21 v.

22 WORLD CAPITAL MARKET INC.;
 23 WCM777 INC.; WCM777 LTD. d/b/a
 24 WCM777 ENTERPRISES, INC.; and
 25 MING XU a/k/a PHIL MING XU,

26 Defendants,

27 KINGDOM CAPITAL MARKET, LLC;
 28 MANNA HOLDING GROUP, LLC;
 29 MANNA SOURCE
 30 INTERNATIONAL, INC.;
 31 WCM RESOURCES, INC.; AEON
 32 OPERATING, INC.; PMX
 33 JEWELS, LTD. TOPACIFIC INC.;
 34 TO PACIFIC INC.; VINCENT J.
 35 MESSINA; and INTERNATIONAL
 36 MARKET VENTURES,

37 Relief Defendants.

Case No. CV-14-2334-JFW-MRW

**RECEIVER'S SEVENTH INTERIM
 REPORT**

Ctrm: 16-Spring St. Floor
 Judge: Hon. John F. Walter

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I. EXECUTIVE SUMMARY

This equity receivership involves a large, complex, and wide ranging group of enterprises and assets associated with the Ponzi scheme that is the subject of the First Amended Complaint filed by the Securities and Exchange Commission ("Commission"). This report covers the Receiver's activities during the third quarter of 2015, during which time, having obtained approvals and authorization from the Court, the Receiver (a) collected the first \$500,000 resulting from the restructure of the promissory notes issued by MycoTechnology, (b) closed the sale of the Links at Summerly liquor license and collected the \$24,500 payment, (c) prepared for the launch of the claims process, (d) continued to address water issues and other operational challenges at the Glen Ivy Golf Course and better position it for sale, and (e) worked towards the sale of the remainder of the real property assets.

This report should be read in conjunction with the Receiver's six prior interim reports, as well as the Receiver's Forensic Accounting Report, all of which contain substantial background and detail on assets recovered and secured. Dkt. Nos. 28, 129, 258, 302, 324, 359 and 376. Effort has been made not to repeat the content of these prior reports.

II. SUMMARY OF RECEIVER'S ACTIVITIES

A. Cash Recoveries

During the third quarter of 2015, the Receiver recovered \$24,500 of net proceeds from the sale of the Links at Summerly liquor license, \$500,000 from the restructure of the MycoTechnology promissory notes, and the monthly installments pursuant to the Court-approved settlement with Dantona/Governmental Impact.

B. Real Property

During the third quarter of 2015, the Receiver continued to manage and operate the following real properties owned by the Receivership Entities:

- 3620 Cypress Avenue, El Monte, California, (property owned by Receivership Entities and the location of the accounting and other

1 operations for certain Receivership Entities) ("El Monte Warehouse").
2 During the course of the third quarter, the Receiver prepared for the
3 disposition of this asset, including coordinating completion of various
4 repairs, including significant roof repairs. Several solid offers have been
5 received that reflect the value of the repairs and the Receiver has opened
6 escrow with the highest and best offer, notified the other potential buyers
7 of the overbid process and started the 21-day due diligence period. Upon
8 waiver of buyer contingencies, the Receiver will seek Court approval of
9 this asset.

- 10 • 24400 Trilogy Parkway, Corona, California ("Glen Ivy Golf Course").
11 The Receiver has continued operations of this golf course as discussed
12 further below, has engaged a broker and is in the process of marketing this
13 asset for sale. Given the complexity of the asset and the volume of due
14 diligence materials, the Receiver has set an initial offer deadline of
15 January 8, 2016. Various potential buyers have requested access to the
16 due diligence materials and are currently evaluating the asset.
- 17 • 29381 Village Parkway, Lake Elsinore, California (Golf Course known as
18 "Links at Summerly"). As previously reported, the sale of the real
19 property closed on May 28, 2015 with net sale proceeds of approximately
20 \$650,000. On September 2, 2015, the sale of the liquor license closed
21 upon approval of the transfer by the Alcoholic Beverage Commission.
22 The net sale proceeds were \$24,500.
- 23 • Wasioja Road, New Cuyama, Santa Barbara County, California (vacant
24 raw land) ("New Cuyama Property"). As previously discussed, in the first
25 quarter 2015, the Receiver engaged a broker for the sale of this property,
26 subject to Court approval. The Receiver will seek Court approval once
27 terms have been agreed upon with a buyer. No offers have been received
28 thus far and the Receiver expects the marketing process will take some

1 time, particularly in light of the drought. To assist with the marketing
2 efforts and clarify some boundary questions with an adjacent property
3 owner, the Receiver has engaged a local surveyor to prepare a boundary
4 survey.

5 Glen Ivy Golf Course

6 The Receiver, the management company ("CSC"), and the golf course
7 consultant continue to work with the homeowner's association related to this
8 property ("Trilogy HOA") to attempt to address systemic issues stemming from the
9 parties' inherent divergent interests and to attempt to address revisions to the pre-
10 existing water agreement between the golf course and the Trilogy HOA whereby the
11 HOA obtains agricultural water through the golf course's water delivery system (but
12 does not contribute to any costs associated with the maintenance thereof). In light
13 of the extreme drought, the new water service provider is encouraging the Trilogy
14 HOA to transition certain of its potable water supply meters to agriculture water
15 supply. This translates into the Trilogy HOA requesting further access to the golf
16 course's agricultural water distribution system and supply. The Receiver has
17 attempted to assist and suggested numerous revisions to the pre-existing water
18 agreement which provides for the HOA's *pro rata* contribution towards the water
19 delivery system's expenses and replacement, as well as golf course priority for
20 additional available water - such suggestions have thus far been refused by the
21 HOA. As a result, the Receiver does not expect an agreement will be reached prior
22 to the sale of this asset.

23 The Receiver has also continued to deal with deferred maintenance matters
24 (from water feature issues to water delivery system issues to tree health
25 maintenance), changeover of the property's water service provider, attempts to
26 reestablish access to a secondary water source, discussions with an adjacent property
27 owner regarding water utility easement access and other operational items. The
28 Receiver has also continued to be in contact with the original developer of the golf

1 course regarding issues related to transition of certain habitat maintenance matters
2 for sensitive species at and around the golf course, as addressed in certain contracts
3 and documents. It is not clear from a timing perspective whether these matters will
4 be completed prior to the sale of this asset.

5 The Receiver has dealt with various accidents/safety incidents occurring at
6 the golf course prior to and during her time in control. In each instance, the
7 Receiver has reported the event to insurance and provided assistance as necessary or
8 required to process the claims promptly.

9 As previously mentioned, the Receiver engaged a qualified broker for the
10 disposition of this property, and is presently marketing this asset for sale.

11 **C. Investments, Loans, and Other Transfers to Third Parties**

12 Through her investigation, interviews, forensic accounting, and document
13 review, the Receiver identified a large number of investments, loans, and other
14 transfers to third parties. The following is an updated summary of transfers made to
15 Relief Defendants and other third parties, which the Receiver is actively
16 investigating and pursuing.¹

17 *PMX Jewels and PMX Holdings*

18 The full background regarding the \$1.3 million transferred to PMX Jewels
19 from the Receivership Entities is provided in the Receiver's Third Interim Report.
20 The Los Angeles diamond cutter just recently received the special wheels ordered
21 from Israel and estimates that the polishing and cutting work will be completed in
22 the fourth quarter 2015. A master gemologist appraiser in Los Angeles will
23 ultimately assist with marketing and selling the (flawed) Diamex Diamonds upon
24 completion of the polishing and cutting process. When appropriate, the Receiver
25

26 _____
27 ¹ Note, the Receiver is actively investigating and pursuing various other transfers,
28 including transfers identified through her forensic accounting; however, due to
ongoing investigation and/or lack of material changes to information provided in
prior reports, those transfers are not specifically discussed herein.

1 will seek further orders from this Court regarding the disposition of the Diamex
2 Diamonds.

3 WCM Resources and Aeon Operating

4 The Receivership Entities' records and Xu indicated that \$4.3 million was
5 transferred to Relief Defendant WCMR. WCMR then invested approximately
6 \$3.1 million of these funds in oil and gas leases in Texas and Louisiana and
7 contracted with Aeon Operating Inc., located in Texas ("Aeon"), to operate the
8 leases. The Receiver secured approximately \$1.2 million remaining in the WCMR
9 account upon her appointment.

10 The Receiver and her counsel have been in communication with Aeon and its
11 counsel, as well as industry consultants, to gather information about the leases and
12 operations and evaluate options for disposing of the leases and maximizing the
13 recovery therefrom. Through this investigation, the Receiver has determined the
14 leases have very limited value.

15 The wells on the Cameron Parish lease in Louisiana, into which WCMR put
16 approximately \$1.8 million, generated very disappointing results when they were
17 operating and there is a large amount (hundreds of thousands) of unpaid bills to
18 contractors and other creditors (and lienholders) on the project, which is currently
19 dormant. The Davis Lease in Callahan County, Texas, into which WCMR put
20 approximately \$1.2 million, has not generated any return to date and the operator,
21 Merkaz Drilling, claims that Aeon Exploration /WCMR owes approximately
22 \$391,000 for unpaid bills on the project, plus large contractual penalties. The leases
23 located in Limestone County, Texas, into which WCMR put approximately
24 \$100,000, have no activity on them and were simply acquired in the hope that
25 drilling would come to the area and the leases would be sold at a profit. The leases
26 generally expire in November 2016, with an option to extend them to
27 November 2018. On September 16, 2015, Aeon filed Chapter 7 bankruptcy in the
28 Northern District of Texas.

1 The Receiver is attempting to recover some value from the Cameron Parish
2 and Davis leases by assigning them to others involved in the projects. Although the
3 recoveries will be small, the assignments will also eliminate potential vendor claims
4 against the receivership estate for unpaid bills relating to the projects. The Receiver
5 anticipates having these deals documented soon and will present them to the Court
6 for approval.

7 Robert Sensi

8 As previously reported, through counsel, the Receiver reached a compromise
9 with Sensi and agreed, subject to Court-approval, to the entry of a stipulated
10 judgment in the amount of \$325,000 in favor of the Receiver. Pursuant to this
11 Court's August 21, 2015 Order issued in response to the Receiver's update (Dkt.
12 No. 369), the Receiver filed a motion for approval of the stipulation for entry of
13 judgment, and on September 4, 2015, this Court entered the Judgment (Case
14 No. 14-cv-9069, Dkt. No. 31).

15 Governmental Impact/James Dantona

16 As previously reported, on April 23, 2015, the Receiver filed a motion for
17 approval of settlement with GII and Dantona. Dkt. No. 325. The motion was
18 granted, GII and Dantona have since made payment to the Receiver pursuant to the
19 settlement, and they were dismissed from the action on May 1, 2015.

20 Aberin and ZHB failed to respond to the Receiver's complaint and failed to
21 appear to defend this action. Their defaults were entered, and, on the Receiver's
22 motion, a default judgment was entered against them for \$325,000. Since the
23 default judgment was entered, the Receiver's counsel was contacted by counsel
24 purporting to represent Aberin and ZHB to discuss the judgment and possible
25 settlement based on claims that Aberin and ZHB have limited net worth and no
26 significant assets or equity in their home. While these discussions are ongoing, the
27 Receiver is in the process of reviewing recently received specific documentation to
28

1 confirm Aberin and ZHB's claims of limited net worth and will file a motion with
2 this Court if settlement of the judgment is appropriate.

3 Sue Wang/MaNa Fashion/JJ Sparkles/Yuanhao

4 As previously reported, the Receiver has sought and attained asset freezes on
5 three single-family homes purchased with funds transferred from ToPacific to
6 Defendant Ming Xu's sister, Sue Wang, their mother, Xiaomei Deng, and several
7 interrelated persons and entities. In August 2015, the Receiver learned that Sue
8 Wang attempted to transfer title to these two properties on the same date the Court
9 ordered a freeze thereon (April 1, 2015). The Receiver also sought permission to
10 pursue claims against Sue Wang, Xiaomei Deng, and related persons and entities.
11 The Court granted the motion on January 22, 2015, and gave the Receiver 60 days
12 to file her complaint. The Receiver filed her Complaint on March 23, 2015. Dkt.
13 No. 273.

14 All but three defendants - JJ Sparkles, Genergeia, and Jianjun Wang - have
15 filed answers to the Complaint. Default has been entered against these three
16 defendants. The Receiver has proceeded with her case as to Huajian Wu and
17 Yuanhao ("Wu Parties") and filed her motion for summary judgment as to the Wu
18 Parties on November 16, 2015. The Court granted the motion on December 1, 2015.
19 The Receiver and the Wu Parties have also engaged in settlement discussions and
20 the Receiver anticipates having a settlement agreement to present to the Court for
21 approval shortly.

22 Sue Wang, Xioamei Deng, MaNa Fashion, and Saza Investment ("Wang
23 Defendants"), all of whom are represented by the same counsel, have failed to
24 (a) provide initial disclosures, (b) file a Rule 26(f) report, (c) respond to the
25 Receiver's discovery requests, and (d) respond in any way to either of two separate
26 motions to compel. Accordingly, on November 9, 2015, Magistrate Judge Wilner
27 issued a report and recommendation that terminating sanctions be entered against
28 the Wang Defendants.

1 Despite their complete lack of participation in the litigation, the Wang
2 Defendants have participated in settlement discussions. However, after many
3 months, they still have not taken steps necessary to complete the settlement,
4 including returning title to the two rental properties to Sue Wang so that a deed of
5 trust securing the proposed settlement payment can be placed on them. If a
6 settlement can be reached with the Wang Parties, the Receiver will seek Court
7 approval thereof.

8 *MycoTechnology, Inc.*

9 As previously reported, KCM purchased three convertible promissory notes
10 from MycoTechnology, Inc. ("Myco") for a total of \$1,050,000. During the second
11 quarter of 2015, the Receiver was able to reach an agreement with Myco regarding a
12 restructure and payoff of the notes based on additional capital raises. The Court
13 approved the agreement on June 2, 2015. Dkt. No. 340. During the third quarter
14 2015, the Receiver received \$500,000 from Myco and continues to monitor Myco's
15 activities and efforts to raise capital.

16 *Frequency Networks*

17 On or about August 12, 2013, KCM entered into an agreement to purchase a
18 number of series A preferred shares ("Stock Purchase Agreement") of Frequency
19 Networks, Inc. ("Frequency Networks"), a company engaged in providing for the
20 sharing of video via social media. Pursuant to the terms of the purchase, KCM paid
21 \$3,000,000 for approximately 7,000,000 shares in Frequency Networks, which
22 originally represented approximately 10.2% of the outstanding shares. The Receiver
23 has met with the company's executives, has assumed a seat on the Frequency
24 Networks board of directors, has requested numerous documents, and is monitoring
25 the company's activities to determine how best to maximize the recovery from
26 KCM's shares. The next board meeting is scheduled for December 6, 2015.

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1 **D. Investor Communications**

2 The Receiver has established a dedicated web page on her website, which
3 provides case information, updates, and answers to frequently asked questions to
4 investors and creditors. The Internet address for the webpage is
5 www.worldcapitalmarketreceivership.com. In addition, the Receiver is maintaining
6 a dedicated e-mail address and telephone line for investor inquiries and regularly
7 returns a significant volume of emails and phone calls from investors in both
8 English and Spanish.

9 **E. Investor Claims Process**

10 Subsequent to this Court's July 13, 2015 order granting the Receiver's motion
11 for approval of the claim process setting the deadline to submit claims to the
12 Receiver as November 9, 2015, and primarily during the third quarter 2015, the
13 Receiver worked diligently with the Court-approved claims administrator, Epiq, to
14 implement phase one of the approved claim process. This work included
15 constructing and testing the Claims Portal (www.wcm777claimsprocessing.com),
16 preparing and testing the Interactive Voice Response ("IVR") system to provide
17 telephone support to claimants (initially, without live agents), drafting and revising
18 investor notices and instructions, drafting and revising answers to approximately
19 40 frequently asked questions, and translating the full Claims Portal, the frequently
20 asked questions, the IVR, and the notices and information into five languages.

21 On September 9, 2015, the claims notice was published in the USA Today
22 and the Wall Street Journal-Asia, the Receiver mailed physical notices to any other
23 known creditor of the Receivership Entities (approximately 1,100 notices), and Epiq
24 sent an e-mail blast to the e-mail addresses in the Receiver's possession (the
25 previously discussed Liquid Web database) believed to be (or potentially be)
26 associated with investors. A notice and link to the Claims Portal were also posted at
27 the top of the receivership website used to provide other case information to
28 investors, www.worldcapitalmarketreceivership.com.

1 As a result of a tepid initial response from investors, for a variety of reasons,
2 including, but not limited to, the lack of a complete or trustworthy company
3 database, the location of many investors outside the United States, the fact that a
4 significant number of investors gave their money to other individuals who pooled
5 the funds with those of other investors before investing with the Receivership
6 Entities, and the issuance and trading of "points," the Receiver sought an extension
7 of the bar date and authorization to take various steps to address the relatively low
8 initial response rate. On October 26, 2015, this Court agreed to extend the bar date
9 from November 9, 2015, to December 24, 2015, and authorized the Receiver to take
10 the proposed steps. Dkt. No. 399.

11 As proposed in the Receiver's application, in addition to a reminder email
12 blast notifying investors of the extended bar date and steps approved by the Court,
13 the steps taken by the Receiver include opening a live telephone line for investor
14 calls (which can be answered in six different languages), allowing investors to
15 submit their supporting documents by mail, mailing physical notices to investors
16 whose addresses are available from checks, and holding an in-person meeting in Los
17 Angeles at which investors were able to submitting claims with assistance from the
18 Receiver and her staff. As a result of these efforts, the response rate and number of
19 claims received have increased significantly. As of November 27, 2015,
20 approximately 11,900 claims had been received.

21 **III. POST-RECEIVERSHIP RECEIPTS AND DISBURSEMENTS**

22 The following summary reflects the Receivership Entities' consolidated cash
23 balance as of September 30, 2015:
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1	Manna Holding (closed)	\$0
2	Manna Source International (closed)	0
3	WCM Resources	1,278,474
4	World Capital Market	19,313,852
5	Kingdom Capital Market (non-golf - closed)	0
6	Kingdom Capital Market (golf)	190,397
7	Grand Total	\$20,782,723

8
9 The following is a summary of the consolidated cash activity in the Receiver-
10 controlled Receivership Entities' bank accounts for the period from March 27, 2014,
11 through September 30, 2015:

12	TRO Account Cash Balance at 3/27/14	\$2,242,756
13	Recovery – Horsman Law Firm	11,281,453
14	Recovery – First General Bank	1,502,355
15	Recovery – Defendant and Affiliate Accounts	419,862
16	Recovery – Baseballers Against Drugs	100,000
17	Recovery – Undisbursed Funds Held by Global Payout	56,396
18	Recovery – Funds Left in Escrow from Failed Real Estate Purchase	40,000
19	Recovery – Pasadena Office Security Deposit	10,455
20	Recovery – Monrovia Property Net Sale Proceeds	957,333
21	Recovery – Walnut Property Net Sale Proceeds	2,334,617
22	Recovery – Lazarus Third-Party Transfer	750,000
23	Recovery – Personal Property Sale Proceeds (includes garments)	313,855
24	Recovery – Vincent J. Messina Transfer	2,133,214
25	Recovery – Links at Summerly Golf Course Net Sale Proceeds	651,309
26	Recovery – Links at Summerly Golf Course Liquor License Sale Proceeds	24,500

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Recovery – Lake Elsinore Property Net Sale Proceeds	425,042
Recovery – Wellman & Warren Retainer	71,063
Recovery – Government Impact Settlement Funds	39,534
Recovery – Formerly Jointly Held Funds (Governmental Impact)	40,466
Recovery – MycoTechnology Settlement Funds	500,000
Other Misc. (Incl. Interest Income)	65,435
Golf Revenues	4,187,098
Golf Expenses	(5,590,323)
Non-Golf Real & Personal Property Expenses	(193,730)
WCM One-Time Payroll & Related	(46,809)
WCM Moving & Storage	(21,983)
Other Miscellaneous Expenses	(40,410)
Claims Process Notice Publication	(9,469)
Receiver Legal Fees & Expenses	(855,022)
Receiver Fees & Expenses	(690,869)
Cash Book Balance at 09/30/15	\$20,698,128

As of September 30, 2015, outstanding checks relating to golf course and Receivership Estate operations were \$77,095 and \$7,500, respectively, resulting in a bank cash balance of **\$20,782,723**.

IV. RECOMMENDATIONS

As a general matter, the Receiver recommends the receivership continue and she be authorized to continue to marshal, preserve and protect the assets of the Receivership Entities, investigate and pursue recovery of transfers to third parties, gather financial records and complete her accounting for purposes of asset identification/recovery and the investor claims process, and carry out her other duties under the Court's orders.

1 **A. Document Recovery Efforts**

2 As reasonably necessary, the Receiver will continue to obtain records from all
3 financial institutions where the Receivership Entities maintained accounts as well as
4 from attorneys and accountants engaged by the Receivership Entities. The Receiver
5 has served subpoenas on certain institutions, individuals, and entities and proposes
6 to proceed with these efforts to obtain documents, assets, and information. It may
7 also be necessary to take the depositions of certain individuals to obtain additional
8 information.

9 **B. Receivership Asset Recovery Efforts and Investigation**

10 The Receiver will seek to locate any presently unaccounted for receivership
11 assets that may exist and will continue efforts to efficiently maximize recovery of
12 assets located, to the extent reasonably possible. The Receiver also recommends
13 continuing to explore whether there are third parties who aided Xu in connection
14 with this enterprise. The Receiver will continue to evaluate whether such third
15 parties should be liable for damages caused to the Receivership Entities and their
16 investors. The Receiver will seek Court approval before pursuing any such claims.

17 **C. Maximize Value of Commercial and Residential Properties**

18 The Receiver will continue her efforts to stabilize, efficiently manage, and
19 maximize the value and/or potential recovery of all properties owned by the
20 Receivership Entities and will seek Court approval of proposed sales. The Receiver
21 is also proceeding with efforts to market and sell the remaining real property assets,
22 the New Cuyama Property in Santa Barbara County, the Glen Ivy Golf Course, and
23 the El Monte Warehouse.

24 **D. Quarterly Reports**

25 Pursuant to the June 10, 2014 Order, the Receiver will file, on a quarterly
26 basis, interim reports and interim fee applications for herself and her counsel.

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1 Dated: December 3, 2015


KRISTA L. FREITAG
Receiver

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3
4 Dated: December 4, 2015

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS LLP

5
6 By: /s/ Ted Fates

TED FATES
Attorneys for Receiver
KRISTA L. FREITAG

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