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8
9 **UNITED STATES DISTRICT COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**

11 **WESTERN DIVISION**

12 SECURITIES AND EXCHANGE
COMMISSION,

13 Plaintiff,

14 v.

15 WORLD CAPITAL MARKET INC.;
WCM777 INC.; WCM777 LTD. d/b/a
16 WCM777 ENTERPRISES, INC.; and
MING XU a/k/a PHIL MING XU,

17 Defendants,

18 KINGDOM CAPITAL MARKET, LLC;
19 MANNA HOLDING GROUP, LLC;
MANNA SOURCE
20 INTERNATIONAL, INC.;
WCM RESOURCES, INC.; AEON
21 OPERATING, INC.; PMX
JEWELS, LTD. TOPACIFIC INC.;
22 TO PACIFIC INC.; VINCENT J.
MESSINA; and INTERNATIONAL
23 MARKET VENTURES,

24 Relief Defendants.

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

**RECEIVER'S REPORT
REGARDING PHASE I OF CLAIMS
PROCESS AND EX PARTE
APPLICATION FOR APPROVAL OF
RECOMMENDATION FOR
PHASE II**

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

1 **TO ALL PARTIES AND THEIR COUNSEL OF RECORD:**
2 **PLEASE TAKE NOTICE** that as soon as the matter may be heard in
3 Courtroom 6 of the above-entitled Court, located at 312 N. Spring Street,
4 Los Angeles, California 90012, Krista L. Freitag ("Receiver"), Court-appointed
5 permanent receiver for Defendants World Capital Market Inc.; WCM777 Inc.;
6 WCM777 Ltd. d/b/a WCM777 Enterprises, Inc.; and Relief Defendants Kingdom
7 Capital Market, LLC; Manna Holding Group, LLC; Manna Source
8 International, Inc.; WCM Resources, Inc.; ToPacific Inc.; To Pacific Inc.; and their
9 subsidiaries and affiliates ("Receivership Entities"), will and hereby does apply,
10 *ex parte*, to the Court for an order approving her recommendation regarding Phase II
11 of the claims process and related budget. The Receiver also submits this report
12 regarding Phase I of the claims process.

13 This Application is made pursuant to Local Rule 7-19, *et seq.* Counsel for the
14 Securities and Exchange Commission ("Commission") was notified of this
15 Application in accordance with Local Rule 7-19.1; the Receiver and her counsel
16 have met and conferred with the Commission. The Commission has indicated it
17 does not oppose this Application.

18 This Application is based upon this Notice of *Ex Parte* Application, the
19 attached Memorandum of Points and Authorities, and all documents and pleadings
20 already on file in this action, and upon such further oral and documentary evidence
21 as may be presented at the time of the hearing.

22
23 Dated: March 10, 2016

ALLEN MATKINS LECK GAMBLE
MALLORY & NATSIS LLP

24
25 By: /s/ Ted Fates
26 TED FATES
27 Attorneys for Receiver
28 KRISTA L. FREITAG

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1 **MEMORANDUM OF POINTS AND AUTHORITIES**

2 **I. EXECUTIVE SUMMARY**

3 On June 3, 2015, the Receiver filed her Motion for Order: (1) Setting Claims
4 Bar Date; (2) Approving Claim Forms; and (3) Approving Engagement of Third
5 Party Claims Administrator ("Motion"). Dkt. No. 341. In the Motion, due to the
6 large number of investors and challenges in analyzing their claims, the Receiver
7 proposed a three-phase claims process using a third party claims administrator
8 capable of automating the intake and review of claims and ultimately assisting in
9 any distribution. Additionally, the Receiver stated she would report to the Court at
10 the end of Phase I (claims submission) and provide her recommendations regarding
11 proceeding with Phase II (claims testing). The Court granted the Motion on July 13,
12 2015, and set November 9, 2015, as the deadline to submit claims ("Claims Bar
13 Date"). Dkt. No. 354.

14 On October 23, 2015, due to the low initial response rate from investors, the
15 Receiver filed an *Ex Parte* Application to Extend the Claims Bar Date to
16 December 24, 2015 ("*Ex Parte* Application"). Dkt. No. 396. On December 24,
17 2015, at 11:59 p.m., the Court-approved extended time period for investors to
18 submit claims officially ended. At the end of Phase I, a total of 35,545 claims,
19 representing 72,253 separate investments totaling more than \$386 million, had been
20 submitted. The total dollar amount of claims submitted is in excess of what the
21 Receivership Entities' banking records reflect as the *net* amounts invested, by more
22 than \$300 million.

23 In order for the Receiver to fairly distribute what is estimated to be nearly
24 \$30 million in recovered assets to the victims, the Receiver believes it is necessary
25 to conduct some level of review of the 72,253 separate investments. With such a
26 large number of investments to be reviewed, and recognizing that, for example, a
27 significant number of the cash claims are unsubstantiated, the Receiver has a plan to
28 limit the review of cash claims so as to be cost effective. However, the costs of

1 Phase II will necessarily increase from the original Phase II estimate of \$177,054,
2 which reflected only Epiq's time. The proposed budget for Phase II is \$374,866.
3 This increase in cost results from the fact that the number of claimed transactions to
4 be tested (72,253) is more than double the Receiver's stated assumption in the
5 Motion (33,713), and the number of cash transactions needing to be manually tested
6 (58,481) is substantially greater than anticipated. As such, the proposed combined
7 budget for work by the Receiver and Epiq in Phase II will be \$374,866. This
8 reflects an increase of \$197,812. It is important to note that the estimate for Epiq to
9 complete the work in Phase II as contemplated in the Motion, but based on actual
10 claimed transactions submitted, would be \$422,823. Accordingly, the Receiver's
11 revised claims testing approach proposed herein is projected to save the receivership
12 estate almost \$50,000.

13 Since the claims submission period ended, the Receiver has been working
14 with Epiq to analyze the claims data received to formulate the Phase II claims
15 review process proposed herein, and has developed a plan to complete the review as
16 cost effectively and efficiently as possible. The Receiver now submits this report
17 regarding Phase I of the claims process and seeks approval of her recommendation
18 regarding Phase II.

19 II. CLAIMS PROCESS BACKGROUND

20 As discussed in the Motion, identifying investor claimants and determining
21 the amounts of their claims presents a serious challenge in this case. The difficulty
22 stems from the fact the Receivership Entities' books and records did not include a
23 database of investors and their transactions with the Receivership Entities. The
24 Receiver was able to locate and obtain from a web hosting company (Liquid Web)
25 various Structured Query Language (SQL) databases. During her forensic
26 accounting process, the Receiver also gathered information from banking
27 institutions, individual investors, and third parties. Through these efforts, the
28 Receiver now has several databases against which investor claims can be tested,

1 improving the feasibility of validating investor claims. Unfortunately, none of them
2 is complete as a stand-alone database and each has significant limitations. In light
3 of this, the Receiver proposed a phased claims process such that further
4 administrative expenses would not be incurred unless the claims data received from
5 investors in Phase I is feasible to test and investor claims can be verified with a
6 reasonably high degree of accuracy.

7 During Phase I, after the web portal for receiving investor claims was
8 constructed, notice was sent to investors on September 9, 2015, directing them to the
9 claims portal and providing detailed instructions for submitting claims. On
10 October 23, 2015, due to the low initial response rate from investors, the Receiver
11 filed her *Ex Parte* Application to extend the Claims Bar Date. Along with the
12 Claims Bar Date extension, the Receiver proposed several steps to encourage and
13 facilitate the submission of claims by investors, including reminder email blasts, live
14 telephone lines for investor calls, allowing investors to mail supporting documents
15 rather than scanning and sending them electronically, mailing notices to certain
16 investors for whom the Receiver had addresses but who had not submitted claims,
17 and holding an in-person meeting in Los Angeles, at which investors could receive
18 assistance in electronically submitting claims.¹ While the Claims Bar Date
19 extension successfully generated claims, a significant number of unsubstantiated
20 claims were submitted.² This issue is further discussed below in Section III.

21
22 ¹ Although the meeting held in Los Angeles was successful in terms of assisting
23 investors in submitting claims electronically, the costs would have been
24 materially higher for meetings in other locations due to travel and the need to
25 rent space (to save on costs, the Los Angeles meeting was held at the warehouse
owned by the Receivership Entities in El Monte). Ultimately, the Receiver
determined that costs of holding additional meetings in other locations
outweighed the likely benefits.

26 ² In the final seven days of Phase I, 31,624 of the total 72,253 investments
27 submitted were received. Of those, the vast majority are offshore claims
28 submitted with no or insufficient supporting documentation. Overall,
approximately 9,000 investments were submitted with no supporting
documentation at all.

1 Although the number of investor transactions needing to be tested is at the
2 high end of the range anticipated in the Motion (24,000 to 96,000), the Receiver
3 believes it is feasible to test and verify the 72,253 claimed investor transactions and
4 generate recommended lists of allowed claims and disallowed claims that reflect,
5 with a reasonable degree of accuracy, the victims' losses from the WCM777
6 scheme.

7 As of December 31, 2015, the Receiver was holding \$20,328,686 and
8 anticipates recovering another \$7,000,000 or more. Although the costs discussed
9 below are significant, the Receiver believes the proposed approach is the only cost
10 effective way to verify claims and distribute the recovered funds. Accordingly, the
11 Receiver recommends and seeks authority to move forward with Phase II of the
12 claims process, *i.e.*, testing investor claims, as proposed herein, and seeks approval
13 of the estimated Phase II budget of \$374,866.

14 **III. REPORT ON PHASE I: CLAIMS SUBMISSION**

15 As noted above, the allowed time to submit claims ended on December 24,
16 2015, at 11:59 p.m. As of October 16, 2015 (approximately five weeks from when
17 notices first went out), the total number of claims submitted was only
18 approximately 2,600. As a result of the extended Claims Bar Date and the
19 additional steps set forth in her *Ex Parte* Application, the Receiver, through Epiq,
20 received a total of 35,545 claims by the Claims Bar Date, representing a total of
21 72,253 separate claimed transfers to the Receivership Entities ("Claimed
22 Investments"). The 72,253 Claimed Investments total more than \$386 million. Of
23 the 72,253 Claimed Investments, 71,474 are in US Dollars and 779 are in other
24 currencies.

25 The 71,474 Claimed Investments in US Dollars were submitted by claimants
26 located in over 90 different countries. The following is a breakdown:

27
28

Country	Number of Claimed Investments Included on Claims	% of Total	Total Dollar Value of Claimed Investments	% of Total
China (incl. Hong Kong)	44,380	62%	\$167,000,000	43%
United States	13,000	18%	\$97,000,000	25%
Taiwan	1,800	3%	\$28,000,000	7%
Brazil	1,200	2%	\$19,000,000	5%
Japan	1,000	1%	\$12,000,000	3%
Canada	1,000	1%	\$9,000,000	2%
Other ³	9,094	13%	\$54,000,000	14%
Totals	71,474	100%	\$386,000,000	100%

The claim form allowed claimants to identify their payment method as Cash, Check, Wire, Credit Card, E-Cash, Kingdom Pay or Other. The following summarizes the 71,474 Claimed Investments in US Dollars by payment method:

Payment Method	Number of Claimed Investments Included on Claims	% of Total	Total Dollar Value of Claimed Investments	% of Total
Cash	58,481	82%	\$270,000,000	72%
Wire	4,746	7%	\$49,600,000	13%
Check	3,657	5%	\$36,000,000	10%
E-Cash	2,284	3%	\$1,200,000	0%
Other	1,679	2%	\$14,000,000	4%
Kingdom Pay	370	1%	\$3,000,000	1%
Credit Card	257	0%	\$2,100,000	1%
Totals	71,474	100%	\$375,900,000	100%

As noted above, the Receiver also received a total of 779 investments in other currencies (Hong Kong Dollar, German Pound, Euro, French Franc) from

³ Other includes countries such as Australia, Chile, Columbia, Ecuador, France, Germany, Honduras, Kazakhstan, Malaysia, Mexico, Peru, Russian Federation, Spain, Ukraine and numerous others.

1 approximately 25 separate countries, including Brazil, China, Hong Kong, Taiwan,
2 Spain, United Kingdom, and numerous others.

3 The approved claim form allowed investors to include multiple transfers on
4 one claim and such transfers could be made via varying payment methods, such as
5 cash, wire, check, credit card, and other. Although there were 35,545 claims
6 submitted (a number not far from the stated assumption of 33,713 in the Motion,
7 based on which Epiq provided its budget for Phase II), the actual number of
8 Claimed Investments is more than double that - 72,253 - and each Claimed
9 Investment must be separately tested. The Receiver cannot simply deem an entire
10 claim valid or invalid. As it turns out, it is not uncommon for a claimant to submit a
11 single claim for \$10,000 which includes three *unsubstantiated* \$2,000 cash
12 investments and two *valid* \$2,000 check investments. Therefore, going forward, a
13 claim submission by one investor will be referred to as a "claim" and each
14 individual transaction submitted by an investor will be referred to as a "Claimed
15 Investment." This distinction is key in understanding the Receiver's proposal for
16 Phase II of the claims process.

17 It is also important to keep in mind that in the final seven (7) days of Phase I,
18 31,624 of the total 72,253 investments submitted were received. Of those, the vast
19 majority are offshore claims submitted with no or insufficient supporting
20 documentation (*i.e.*, ID only).

21 **IV. PRELIMINARY ANALYSIS IN PREPARATION FOR PHASE II**

22 The Receiver, in conjunction with Epiq, has performed a preliminary analysis
23 by running various automated queries on the 72,253 Claimed Investments. The
24 databases used to run these queries include the following:

- 25 **A. Claims Database File** - Represents the electronic claims received
26 during the claims submission period. This data includes each
27 claimant's name, address, claim dollar amount, investment payment
28 method (cash, wire, check, etc.) and other information. As noted

1 above, this file includes 72,253 Claimed Investments totaling
2 approximately \$386 million.

3 B. **SQL Database File** - Database obtained by the Receiver through
4 Liquid Web. This is the database believed to be associated with the
5 investors; however, for numerous reasons (including, but not limited to,
6 the sheer volume of investor line items), while this database provides
7 relevant information for the testing process, it cannot be solely relied
8 upon as a stand-alone database. This data includes the investor name,
9 address, investment amount, and other investment information. This
10 file includes approximately 790,000 investor line items.

11 C. **Actual Deposit File** - This database, derived from bank record source
12 data, was created by the Receiver to document all of the cash, check,
13 and wire deposits made into Receivership Entity bank accounts
14 directly. It was created from the Receivership Entity bank record
15 deposit detail, such as deposited check copies, wire remittance forms,
16 and cash deposit slips. This file includes approximately 4,800 investor
17 and cash deposits totaling \$46 million into US bank accounts and
18 4,300 US Dollar investor deposits totaling \$45 million⁴ into Hong
19 Kong bank accounts.

20 D. **Actual Disbursement File** - This database, derived from bank record
21 source data, was created by the Receiver to document all check and
22 wire payments from Receivership Entity bank accounts directly to an
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⁴ The Receiver obtained additional documentation after issuing her Forensic Accounting Report which allowed a significant number of previously "Uncategorized" HSBC Deposits to be categorized as investor deposits.

1 investor. This file includes payments to 6,681 different payees totaling
2 \$18.3 million⁵ in payments.

3 In light of the volume of Claimed Investments and in order to develop the
4 proposed Phase II testing protocol, the Receiver first had Epiq run automated
5 queries to allocate the 71,474 Claimed Investments in US Dollars⁶ into four "Pots"
6 based on the following criteria:

- 7 1. Pot #1 - The claimant's name was matched to both the SQL
8 Database AND the Actual Deposit File.
- 9 2. Pot #2 - The claimant's name was matched to the SQL Database
10 BUT NOT the Actual Deposit File.
- 11 3. Pot #3 - The claimant's name was matched to the Actual Deposit
12 File BUT NOT the SQL Database.
- 13 4. Pot #4 - The claimant's name was NOT matched to either the
14 SQL Database or the Actual Deposit File.

15 After allocating the Claimed Investments into the four pots, the Claimed
16 Investments were then further allocated by payment type (Cash, Check, Wires,
17 Credit Cards, E-Cash, Kingdom Pay, and Other) into smaller pots because the
18 testing protocol will be specific to the different payment methods. A flowchart
19 showing the four primary pots and the smaller pots based on payment type is
20 attached hereto as **Exhibit A**.

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23 ⁵ These payments are recorded in the Receiver's Forensic Accounting Report as
24 \$3,846,529 in Investor Commissions, \$2,425,246 in Investor
25 Refunds/Recessions, and \$1,963,600 in Global Payout payments from Domestic
US bank accounts. In addition, \$10,135,980 in Global Payout payments were
made from the HSBC bank accounts.

26 ⁶ The initial automated queries focus on the 71,474 Claimed Investments in US
27 Dollars. The Receiver has also looked at the 779 Claimed Investments in other
28 currencies and does not believe the query results for this relatively small set of
claims would be materially different.

1 The vast majority of Claimed Investments in US Dollars were made in
2 cash - 58,481 out of 71,474 (approximately 82%). Of the 58,481 Claimed
3 Investments in cash, 33,419 (approximately 57%) did not initially match any name
4 in the SQL Database or Actual Deposit File. The following summarizes the
5 automated query results for the 71,474 Claimed Investments in US Dollars:⁷

6 Payment Method	Pot #1	Pot #2	Pot #3	Pot #4	Total
7 Cash	298	24,735	29	33,419	58,481
8 Wire	157	2,281	13	1,206	3,657
9 Check	1	136	-	120	257
10 E-Cash	186	1,481	-	617	2,284
11 Other	12	258	-	100	370
12 Kingdom Pay	13	867	1	798	1,679
Credit Card	245	2,906	72	1,523	4,746
Totals	912	32,664	115	37,783	71,474

13 In other words, more than half of the Claimed Investments in US Dollars
14 (37,783 out of 71,474) show no initial link to the available databases, and therefore
15 fall into Pot #4. All of these Claimed Investments, including the documentation
16 submitted, will have to be manually reviewed and tested. The Receiver also had
17 Epiq run preliminary automated queries on the Actual Disbursement File and
18 matched a total of 1,043 of the 6,681 disbursements to claimants who submitted
19 claims. Manual testing will be required to match the remaining actual
20 disbursements to claimants who submitted claims (in the event claimants did not
21 enter such disbursement).

22 In summary, the claims data is such that a high percentage of Claimed
23 Investments need to be manually reviewed and tested. As discussed below,
24 knowledge of the scheme, the leader/investor relationships, and the different
25

26
27 ⁷ The Receiver anticipates that certain Claimed Investments will be reclassified
28 from one pot to another during the claims testing process based upon the review
of the underlying documents submitted with the claim.

1 payment methods and processors used will be crucial in efficiently reviewing and
2 testing these Claimed Investments and minimizing Phase II costs.

3 **V. RECOMMENDATION FOR PHASE II: CLAIMS TESTING**

4 **A. Testing Complexities**

5 The challenges with respect to testing and verifying claims are discussed in
6 the Motion, but the following summarizes some of the complexities (as examples)
7 involved in testing Claimed Investments.

8 **A. Unsubstantiated Claims** - As typical protocol and particularly in light
9 of the number of Claimed Investments which did not initially match the
10 SQL Database or Actual Deposit File names (Pot #4), automated and
11 manual review procedures will be needed to identify the claims
12 submitted with no or inadequate supporting documentation. Note,
13 investors were instructed and repeatedly reminded of the importance of
14 submitting all available documents supporting their claims.

15 **B. Cash** – As noted above, approximately 82% of the Claimed
16 Investments in US Dollars are cash (58,481). Additionally, numerous
17 claimants paid cash to other individuals rather than to the Receivership
18 Entities directly. Cash is inherently difficult to validate due to the lack
19 of supporting bank and company data available. Therefore, manual
20 review of documentation provided by claimants is required.

21 **C. Similarity of Names** - There are a significant number of claimants with
22 similar names.

23 **D. Duplicate claims** - Claimants filed multiple claims for the same
24 Claimed Investments.

25 **E. Inaccurate Claim Amounts** - Claimants included the value of the
26 actual investments plus Kingdom 'points' and/or Claimed Investment
27 amounts do not match the supporting documents submitted. In some
28 cases, extra zeroes were included in amounts claimed.

1 (i) The former is likely due to the continued lack of
2 understanding/acceptance that Kingdom points do not
3 correspond to actual dollars.

4 F. **Leader/Investor (aka Recruit) Duplicate Claims** - Leader claims can
5 include investments from other "downline" investors (*e.g.*, five recruits
6 gave \$2,000 each to a leader, who then pays WCM. The leader submits
7 a claim to receive the \$10,000 and the five recruits each submit claims
8 for \$2,000).

9 G. **Credit Card Investments** - A significant number of claimants who
10 invested using a credit card had their charges reversed (or "charged
11 back") by the credit card company which must be offset against their
12 loss.

13 (i) Such chargebacks are captured in the Receiver's Actual
14 Disbursement File and will need to be matched and linked to
15 investor claims.

16 H. **Kingdom Pay Platform** - These Claimed Investments went through
17 different payment platforms such as Euro Wallet, Nesysco Cards
18 Systems Corp. and M&V Global Investment and therefore will need to
19 be tested separately.

20 I. **Currency Exchange** – the 779 Claimed Investments in different
21 currencies will require currency exchange analysis.

22 J. **Translation** - Translation is required for review of certain underlying
23 supporting documentation provided by claimants, deficiency notices,
24 and notices of the Receiver's recommendations to the Court regarding
25 allowed and disallowed claims.

26 K. **Wrong Currency Type** – Some claimants selected US Dollars when
27 the Claimed Investment was actually in a different currency such as
28

1 Hong Kong Dollars (or other currencies from the over 90 different
2 countries from which the Receiver received claims).

3 L. **Payment Method "Other"** - A total of 1,679 Claimed Investments
4 were received where the payment type was listed as "Other." A
5 significant portion of these Claimed Investments will need to be
6 reclassified to either cash, check, or wire transfer after manual review.

7 M. **Disbursements to Claimants** - A total of \$18 million was paid to
8 6,407 different investors. The payments not automatically matched to
9 (valid) investor claims will need to be identified and linked to payee
10 investor claims to determine the actual net loss.

11 **B. Modifications to Phase I Process and Effect on Phase II**
12 **Recommendation**

13 Although not without challenges due to the previously discussed complexities
14 of this case, the Phase I process was completed successfully. In order to make it a
15 success, however, modifications to the original Phase I plan were necessary and the
16 Receiver and her staff's involvement was beyond that which was anticipated. In
17 addition to the extension of the Bar Date, communications were necessarily
18 expanded to help claimants, and certain tasks were handled by the Receiver due to
19 the Receiver and her staff's knowledge of the nuances of the scheme. In particular,
20 Epiq's staff could not address the majority of inquiries received from claimants.
21 This was not because Epiq is not qualified, but because Epiq's staff had no
22 experience with this particular scheme and its nuances.

23 The following are examples of modifications to Phase I, which the Receiver
24 believes will cross-over to the Phase II claims review process:

25 A. During Phase I, claimant inquiries were not typical "what is the
26 deadline to file a claim" or "how do I file a claim" type of questions.
27 Rather, claimants would send an email and/or call to explain the
28 specifics of how they invested in the scheme and then ask how their

1 specific scenario impacts how they complete the claim form. While
2 the Receiver made every attempt to address common themed questions
3 through a regularly updated Frequently Asked Questions ("FAQ")
4 platform (40 FAQ's were completed), thousands of correspondence
5 was still received. Due to the specific nature of a significant amount
6 of the email correspondence, rather than Epiq reviewing first,
7 forwarding questions to the Receiver, and then Epiq responding; it was
8 more efficient to have the Receiver's staff respond directly. If a
9 question was for Epiq, the Receiver's office simply let Epiq know to
10 respond. This approach eliminated duplication of efforts and costs
11 associated with same.

12 a. If Epiq's staff was to review the claims, such claims would
13 need to be initially processed by Epiq's staff (likely with
14 numerous questions posed to the Receiver throughout the
15 review process), then reviewed by Epiq's management,
16 and then a final review would need to be completed by the
17 Receiver's office. This duplication of efforts would not be
18 efficient, but necessary given the complexities of the
19 claims - it is not possible for the Receiver to provide a
20 perfectly defined, objective claims review protocol for
21 Epiq's staff to follow.

22 B. Again, due to the nuances of the scheme, the Receiver had to be
23 intimately involved (developing, designing, testing, and reviewing the
24 results) in the creation of the queries run by Epiq during the
25 preliminary testing for Phase II.

26 a. It is fully expected that the Receiver will have to remain
27 intimately involved in the creation of queries throughout
28 the Phase II process. Such queries help make the review

1 process as efficient as possible, as they provide for
2 automation of the claims that can be automatically
3 verified. Epiq, however, should continue to run such
4 queries.

5 Claims administrators have separate departments that each handle one task or
6 (category of tasks) for a case, such as building a web portal or database into which
7 claims data will be entered, processing and entering claims into the database,
8 reviewing and objecting to claims, and issuing and monitoring distributions. As
9 such, the individuals at Epiq who would be assigned to review claims in this case
10 would have no knowledge of this particular scheme and would be working on the
11 case for the first time.

12 In a traditional bankruptcy or class action case, the majority of questions from
13 claimants are straight forward and a protocol or set of instructions for reviewing
14 claims and handling claimant questions can be provided. In this case, the variations
15 in the way people invested, amounts invested, involvement of leaders, points,
16 transfer of points between investors, "upline" and "downline" relationships, payment
17 methods, and numerous different combinations of the above are too many and too
18 great to create a complete, objective protocol for Epiq to follow. In many cases,
19 judgment calls will have to be made as to whether a claimant has provided sufficient
20 supporting documents to establish a link between his or her cash and the scheme.
21 This work can be handled more efficiently by the Receiver and her staff due to their
22 knowledge of the scheme gained over the last nearly two years.

23 This is not to say Epiq should not have an important role in the Phase II
24 process. Epiq can and should provide their claims administration platform,
25 translation services, automated query capabilities, and automated claims review for
26 a portion of the Claimed Investments.

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1 **C. Recommended Phase II Testing Methodology**

2 Considering the data received from claimants and the databases available to
3 the Receiver against which to test such data, the initial question is whether it is
4 feasible to test Claimed Investments and generate results that are reliable and
5 accurate to a reasonably high degree. While the Phase I process proved more
6 difficult than expected and required a significant amount of the Receiver and her
7 staff's time due to the types of inquiries received and while the Phase II budget is
8 necessarily larger than originally estimated, the Receiver believes Claimed
9 Investments can be tested and approved or disapproved with a reasonably high
10 degree of accuracy.

11 Due to the need to manually review so many claims and the knowledge
12 required for such review, the Receiver believes it will be more efficient and cost-
13 effective for the majority of Claimed Investments to be tested by her staff, rather
14 than by Epiq. Therefore, the Receiver proposes a hybrid Phase II testing approach
15 combining the strengths and knowledge developed over time in the Receiver's office
16 with Epiq's platform/infrastructure, automation, and translation capabilities as
17 follows:

18 A. Manual Review - Given the number of discrepancies identified
19 (*e.g.*, Pot #4) during Epiq's preliminary Phase II automated analysis
20 between the Claimed Investments and the Receiver's underlying
21 financial and database records, a large percentage of Claimed
22 Investments require manual review. This includes a manual review of
23 the underlying supporting documents provided by claimants. The
24 Receiver's office has significant experience with and detailed
25 knowledge of the complexities and nuances associated with the
26 numerous methods used to invest in the scheme. Thus, the Receiver
27 believes it is nearly impossible to create a perfectly defined
28 approval/denial protocol for Epiq's staff to use in testing claims. The

1 Receiver proposes, however, that Claimed Investments for purported
2 cash transfers for which no or insufficient documentation was
3 submitted and which fall into Pot #4, *i.e.*, no link to the available
4 databases has been found ("Unsubstantiated Cash Claims"), be denied
5 with little to no manual review of the Claimed Investments. For many
6 of these Unsubstantiated Cash Claims, the only documentation
7 provided is a copy of an ID card. The proposed manual review would
8 be limited to confirming that no other documentation was provided
9 (which cannot be determined without opening the PDF attachment to
10 the claim). The Receiver estimates there are approximately 34,500
11 Unsubstantiated Cash Claims. As noted above, denying these Claimed
12 Investments with the very limited manual review described above will
13 reduce the Receiver's estimated Phase II budget by approximately 10%.

14 B. Automated Queries - Epiq has the computer analytical skills to create
15 and perform automated testing queries on the claims database and other
16 testing databases provided to them by the Receiver. Such queries will
17 be necessary throughout the review process to keep the process as
18 efficient and effective as possible.

19 C. Translation - Epiq has the ability to translate claims, supporting
20 documents, emails, deficiency notices, and other documents and
21 communications.

22 D. Deficiency Notices - Epiq has the ability to send deficiency notices,
23 arrange for responses, and analyze the responses.⁸

24 E. Capacity - Both Epiq and the Receiver have the ability to provide
25 Phase II resources, as needed.

26
27 ⁸ The Receiver's office will be involved with review of documentation received in
28 response to deficiency notices.

1 F. Infrastructure - Epiq has the infrastructure to handle the administrative
2 side of the process, including providing the platform for the electronic
3 claims data and claimant correspondence, processing physical
4 documents received, and related tasks (including distribution of funds
5 in Phase III of the process).

6 G. Claims Approval and Distribution Recommendation - The Receiver
7 will make the recommendation to the Court for approval and denial of
8 claims, as well as propose distributions of receivership estate funds to
9 the holders of allowed claims (Phase III).

10 VI. BUDGET

11 A. Actual Phase I Costs Compared to Budget

12 Epiq projected an initial Phase I cost of \$144,367, with a cap of \$166,023.
13 The Phase I budget for Epiq was later increased by up to \$44,200 to a range of
14 \$188,567 to \$210,223 when the Court granted the Receiver's *Ex Parte* Application.
15 Epiq's total fees and costs for Phase I are within that range.

16 B. Proposed Phase II Budget

17 As reported to the Court in the Motion, Epiq's original Phase II estimated
18 budget was based primarily on 33,713 claims (now referred to as Claimed
19 Investments) and assumed that 50% of them could be automatically verified through
20 automated testing. The budget has necessarily been revised due to the actual total of
21 72,253 Claimed Investments received (more than double) with the preliminary
22 analysis indicating significantly less than 50% of Claimed Investments can be
23 verified via automated testing (Pot #4 by itself exceeds 50%).

24 As discussed above, due to the complexities in testing claims, the Receiver
25 recommends a hybrid testing approach, which includes allocating some tasks to
26 Epiq and some tasks to the Receiver and her staff. The total estimated budget for
27 Phase II using this hybrid approach is approximately \$375,000. If, on the other
28 hand, all claims were to be tested by Epiq, with oversight from the Receiver, the

1 estimated Phase II budget would be approximately \$423,000 (including the
2 estimated Receiver's time).

3 The key elements of the proposed Phase II budget are as follows:

- 4 A. Claims Testing - Represents the manual claims testing review for
5 claims not verified or denied based on the automated queries and
6 testing procedures. Budget – 689 hours at an estimated cost of
7 \$111,000 performed by the Receiver's office.
- 8 B. Deficiencies Testing - Represents the review and testing of the
9 responses submitted by claimants for claims initially deemed to be
10 deficient. It is estimated that approximately 55,000 deficient email
11 notices will be sent and the Receiver will receive approximately 10,000
12 responses requiring review of documentation. Budget - combined
13 276 hours between the Receiver and Epiq at a combined estimated cost
14 of \$41,000. Deficiency notices will be sent by Epiq and the response
15 testing will be performed by the Receiver's office. As noted above, this
16 amount, along with the Claims Testing numbers above, can be reduced
17 by approximately \$35,000 (reducing the total budget by approximately
18 10%) if Unsubstantiated Cash Claims are denied with the very limited
19 manual review described above.
- 20 C. Disbursement Testing - Represents testing related to allocating
21 disbursements from the Receivership Entities or Global Payout to
22 various claimants for potential offset. Budget - 60 hours at an
23 estimated cost of \$12,000 performed by the Receiver.
- 24 D. Claimant Support & Monitoring - Represents time to manage and
25 monitor correspondence from claimants. Budget – 848 hours⁹ at an
26 estimated cost of \$50,000 performed by Epiq.

27
28 ⁹ Some of this time has been spent already in responding to investor inquiries.

- 1 E. Computer Support & Queries Analysis - Represents designing and
2 implementing automated queries to assist in minimizing manual
3 review, to the extent possible, in the claims testing process. Budget –
4 132 hours at an estimated cost of \$28,000 performed by Epiq.
- 5 F. Project Management, Testing & Quality Control - Represents Epiq's
6 project management time for developing and overseeing the query
7 creation, document management file creation, claimant support and
8 monitoring, deficiency email logistics, and other testing and reporting
9 tasks. Budget – 120 hours at an estimated cost of \$18,000 performed
10 by Epiq.
- 11 G. Project Management, Testing & Quality Control - Represents
12 developing and implementing various testing procedures, quality
13 control, reporting, and ultimate recommendation for distribution.
14 Budget – 380 hours at an estimated cost of \$95,000 performed by the
15 Receiver.
- 16 H. Other Budget Items - Includes the following items and estimated costs:
17 (all Epiq):
- 18 (i) Translation Costs - \$15,000
 - 19 (ii) E-Blast costs for Deficient & Final Claims - \$3,000
 - 20 (iii) Website Hosting - \$1,000
 - 21 (iv) Source Document Management (PDF) - \$1,000
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1 The following table provides a summarized breakdown of Phase II projected
 2 costs:

Category	Projected Total Cost
Claims Testing – Receiver	\$111,000
Deficiencies Testing – Receiver (this and Claims Testing estimate is subject to \$35,000 reduction if Unsubstantiated Cash Claims are denied as discussed above)	\$41,000
Disbursement Testing – Receiver	\$12,000
Claimant Support & Monitoring – Epiq	\$50,000
Computer Support & Queries Analysis – Epiq	\$28,000
Project Management, Testing & Quality Control – Epiq	\$18,000
Project Management, Testing & Quality Control – Receiver	\$95,000
Subtotal	\$355,000
Other Budget Items – Epiq	
Translations Costs	\$15,000
E-Blasts for Deficient & Final Claims	\$3,000
Website Hosting	\$1,000
Source Document Management (PDF)	\$1,000
Subtotal	\$20,400
Total¹⁰	\$375,000

17 **C. Proposed Phase II Budget Compared to Estimated Budget in**
 18 **Motion and Revised Epiq Budget**

19 In the Motion, the cap on Epiq's costs for Phase II was \$177,054. This was
 20 based on several assumptions - the primary one being that 33,713 claims (aka
 21 Claimed Investments) would need to be tested. Therefore, the cap on Epiq's
 22 Phase II costs, on average, was \$5.25 per Claimed Investment. The \$177,054
 23 estimate did not include any amount for the Receiver's time for supervising and
 24 reviewing the claims testing.

25 Based on the 72,253 Claimed Investments actually received, Epiq's revised
 26 total budget (including time for the Receiver to oversee and supervise the process) is

27 ¹⁰ This total could become approximately \$340,000 if Unsubstantiated Cash Claims
 28 are denied as discussed above.

1 approximately \$423,000. In light of the number of Claimed Investments requiring
2 manual review, and the time and effort associated with the work, the Receiver
3 recommends a hybrid approach with an estimated cost of \$375,000. This cost
4 includes the Receiver's and Epiq's estimated fees. This translates to an estimated
5 cost, on average, of \$5.18 per Claimed Investment.

6 The primary reason for the hybrid approach is that it will be more efficient
7 and cost less than having Epiq complete the manual claims review work. The
8 alternative, if Epiq performs the manual review of claims, is estimated to cost
9 \$423,000. Moreover, if Epiq reviews the claims solely, the Receiver anticipates her
10 and her staff will need to frequently answer questions and review Epiq's work, thus
11 duplicating the effort and time spent reviewing claims. Since her appointment in
12 March 2014, the Receiver and her staff have developed extensive knowledge and
13 familiarity with the complexities of the scheme. In contrast, as noted above, the
14 claims review personnel at Epiq would have no familiarity with the details of the
15 scheme when the claims testing process begins. Furthermore, in light of the
16 complexities - including the various leader/investor up-line and down-line payment
17 relationships - the Receiver believes it would be nearly impossible (and extremely
18 time consuming) to develop a comprehensive protocol for Epiq to manually review
19 Claimed Investments. Therefore, the Receiver and her staff's instruction, oversight
20 and guidance would necessarily be extensive, reducing efficiency in the testing
21 process. For these reasons, the Receiver's Phase II proposal is the most cost-
22 effective and efficient approach.

23 **VII. PHASE II TIMELINE**

24 Due to the time required to conduct preliminary testing on the data received
25 during Phase I, develop this Phase II recommendation, and obtain an order from the
26 Court regarding the recommendation, the Receiver requests a 40-day extension of
27 the original timeline for Phase II in the Motion, which was as follows:

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Tasks	Original Date	Proposed Date
Phase One Claim Filing Deadline	December 24, 2015	December 24, 2015
Exception Reporting and Audits (claims review)	120 Days from Claims Filing Deadline	160 Days from Claims Filing (June 1, 2016)
Deficiency Notifications	120 Days after Claims Filing Deadline	160 Days after Claims Filing Deadline (June 1, 2016)
File Motion to Allow and Disallow Claims	180 Days from Claims Filing Deadline	220 Days from Claims Filing Deadline (July 31, 2016)

VIII. CONCLUSION

Based on the foregoing, the Receiver requests an order authorizing her to proceed with Phase II of the claims process and approving the proposed claims testing methodology and estimated budget described above. At the conclusion of the claims testing process, the Receiver will file her recommendations regarding allowed claims and disallowed claims and seek Court approval of a plan for distributing receivership estate assets to holders of allowed claims.

Dated: March 10, 2016

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EXHIBIT A

WCM Claims Testing Allocation (Potential Payment Pots)

