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10 Attorneys for Receiver  
KRISTA L. FREITAG

11 **UNITED STATES DISTRICT COURT**  
12 **CENTRAL DISTRICT OF CALIFORNIA**  
13 **WESTERN DIVISION**

14 SECURITIES AND EXCHANGE  
15 COMMISSION,

16 Plaintiff,

17 v.

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

20 Defendants,

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

27 Relief Defendants.  
28

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

**RECEIVER'S EIGHTH INTERIM  
REPORT**

Ctrm: 16  
Judge: Hon. John F. Walter

1 **I. EXECUTIVE SUMMARY**

2 This equity receivership involves a large, complex, and wide ranging group of  
3 enterprises and assets associated with the Ponzi scheme that is the subject of the  
4 First Amended Complaint filed by the Securities and Exchange Commission  
5 ("Commission"). This report covers the Receiver's activities during the fourth  
6 quarter of 2015, during which time, having obtained approvals and authorization  
7 from the Court, the Receiver primarily focused on (a) implementing Phase I of the  
8 investor claims process, (b) completing negotiations to resolve three receivership  
9 assets/claims - assignment of the WCM Resources oil and gas interests, settlement  
10 of the claims against Sue Wang, *et al.*, and sale of the Frequency Networks stock;  
11 (c) monitoring other assets and claims, and (d) selling the remaining real property  
12 assets.

13 This report should be read in conjunction with the Receiver's seven prior  
14 interim reports, as well as the Receiver's Forensic Accounting Report, all of which  
15 contain substantial background and detail on assets recovered and secured. Dkt.  
16 Nos. 28, 129, 258, 302, 324, 359, 376 and 404. Effort has been made not to repeat  
17 the content of these prior reports.

18 **II. SUMMARY OF RECEIVER'S ACTIVITIES**

19 **A. Cash Recoveries**

20 During the fourth quarter of 2015, the Receiver recovered the monthly  
21 installments pursuant to the Court-approved settlement with James  
22 Dantona/Governmental Impact, Inc., and made substantial progress toward cash  
23 recoveries from the Glen Ivy Golf Course, El Monte Warehouse, Frequency  
24 Networks stock, and Sue Wang litigation (all of which are discussed below).

25 **B. Real Property**

26 During the fourth quarter of 2015, the Receiver continued to manage and  
27 operate the following real properties owned by the Receivership Entities:  
28

- 1           □ 3620 Cypress Avenue, El Monte, California, (property owned by  
2           Receivership Entities and the location of the accounting and other  
3           operations for certain Receivership Entities) ("El Monte Warehouse").  
4           During the course of the fourth quarter, the Receiver worked to retain a  
5           back-up buyer for the property as the original potential buyer terminated  
6           its contract. In January 2016, a back-up buyer entered into a contract with  
7           the Receiver at the same sales price as the original buyer and escrow was  
8           opened. On March 22, 2016, the Receiver filed her Motion for Order  
9           Approving: (1) Sale of El Monte Warehouse, (2) Overbid Procedures, and  
10          (3) Real Estate Broker's Commission (Dkt. No. 437), which is set for  
11          hearing on April 25, 2016.
- 12          □ 24400 Trilogy Parkway, Corona, California ("Glen Ivy Golf Course").  
13          The Receiver continued managing operations for this golf course as  
14          discussed further below and worked towards finalizing the marketing/sale  
15          process during the fourth quarter. The Receiver's motion for approval of  
16          the sale, subject to overbid, was filed on February 10, 2016. Dkt. No. 413.  
17          Two qualified overbids were received and an auction was held at the  
18          hearing on March 14, 2016. The sale to the highest bidder was then  
19          approved on March 17, 2016. Dkt. No. 436. The Receiver has since  
20          closed on the sale as approved by this Court.
- 21          □ Wasioja Road, New Cuyama, Santa Barbara County, California (vacant  
22          raw land) ("New Cuyama Property"). As previously discussed, in the first  
23          quarter 2015, the Receiver engaged a broker for the sale of this property,  
24          subject to Court approval. The Receiver will seek Court approval once  
25          terms have been agreed upon with a buyer. One extremely low verbal  
26          offer has been received, an offer which the Receiver is not prepared to  
27          accept. To help improve the marketability of this property, the Receiver is  
28          seeking proposals from water management companies to investigate the

1 site wells in order to offer an opinion as to the suitability of the well to  
2 provide water for agricultural and various other purposes. Upon  
3 completion of this process, the Receiver will work with the broker to  
4 determine the appropriate pricing for this asset.

5 *Glen Ivy Golf Course*

6 The Receiver, the management company ("CSC"), and the golf course  
7 consultant continued to operate this asset during the fourth quarter, the sale of which  
8 was recently consummated as discussed above. Operational challenges with the golf  
9 course persisted through the fourth quarter, including, but not limited to, water  
10 rights disagreements with the Trilogy HOA, existing pumping equipment easement  
11 rights, and deferred maintenance matters.

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

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

18 *PMX Jewels and PMX Holdings*

19 The full background regarding the \$1.3 million transferred to PMX Jewels  
20 from the Receivership Entities is provided in the Receiver's Third Interim Report.  
21 The Receiver is advised that the Los Angeles diamond cutter received the special  
22 wheels ordered from Israel; however, such wheels were not strong enough to  
23 complete the polishing and cutting of the stones. A master gemologist appraiser in  
24 Los Angeles who was engaged to ultimately assist with marketing and selling the  
25 (flawed) Diamex Diamonds upon completion of the polishing and cutting process is

26 \_\_\_\_\_  
27 <sup>1</sup> 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 currently conferring with the diamond cutter to determine what, if anything, can be  
2 done with the stones at this point. When appropriate, the Receiver will seek further  
3 orders from this Court regarding the disposition of the Diamex Diamonds.

4 WCM Resources and Aeon Operating

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

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

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

1 November 2018. On September 16, 2015, Aeon filed Chapter 7 bankruptcy in the  
2 Northern District of Texas.

3 The Receiver worked to recover some value from the Cameron Parish and  
4 Davis leases (and minimize the receivership estate's exposure to claims relating to  
5 the projects) by assigning them to others involved in the projects. On January 22,  
6 2016, the Receiver filed her Motion for Approval of Assignments of Oil and Gas  
7 Lease Interests. Dkt. No. 405. The Motion was granted on February 3, 2016. Dkt.  
8 No. 408.

9 Governmental Impact/James Dantona

10 As previously reported, on April 23, 2015, the Receiver filed a motion for  
11 approval of settlement with GII and Dantona. Dkt. No. 325. The motion was  
12 granted, GII and Dantona made payment to the Receiver pursuant to the settlement,  
13 and they were dismissed from the action on May 1, 2015. Since then, Dantona has  
14 continued to make monthly settlement payments to the Receiver, which payments  
15 are secured by a deed of trust encumbering real property owned by Dantona. Late in  
16 the first quarter 2016, the Receiver learned that Dantona secured a buyer to sell the  
17 property securing the monthly settlement payments, which sale is anticipated to  
18 generate sufficient proceeds to fully pay off the remaining balance of the monthly  
19 settlement obligation. The Receiver is in communication with escrow regarding  
20 payoff of the settlement from the sale proceeds and is informed by escrow that sale  
21 will close around mid-to-late April 2016.

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

1 documents, said production was deficient in making a determination. Additional  
2 documentation and information was thus requested and the Receiver is awaiting  
3 receipt of these documents and information.

4 While settlement discussions may proceed, Aberin and ZHB have since filed  
5 a number of motions with the Court seeking to set aside their defaults, but these  
6 motions have each been stricken by the Court for procedural deficiencies. Pursuant  
7 to discussions with Aberin and ZHB's counsel, the Receiver's counsel is informed  
8 that Aberin and ZHB intend to re-file their motion. However, and as of the date of  
9 this submission, no such motion has been filed. Notwithstanding their intent to seek  
10 relief from default, Aberin and ZHB are continuing in their discussions with the  
11 Receiver and her counsel for a possible settlement.

12 *Sue Wang/MaNa Fashion/JJ Sparkles/Yuanhao*

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

23 All but three defendants - JJ Sparkles, Genergeia, and Jianjun Wang - filed  
24 answers to the Complaint. While Sue Wang, Xioamei Deng, MaNa Fashion, and  
25 Saza Investment ("Wang Defendants"), answered the Complaint, they failed to  
26 otherwise defend the action and a default judgment was entered against the Wang  
27 Defendants, along with the three defendants who failed to answer the Complaint, on  
28 January 4, 2016. The Receiver proceeded with the action as to the remaining



1 defendants Huajian Wu and Yuanhao ("Wu Parties") and filed her motion for  
2 summary judgment as to the Wu Parties on November 16, 2015. The Court granted  
3 summary judgment in favor of the Receiver as against the Wu Parties on  
4 December 1, 2015. The Receiver and the Wu Parties previously engaged in  
5 settlement discussions on the basis of the Wu Parties' claim that they had no  
6 substantial assets to satisfy the judgment. However, these discussions were cut short  
7 when the Receiver independently discovered real property partially owned by  
8 Huajian Wu, which was not disclosed to the Receiver during the settlement  
9 discussions. The Receiver is evaluating the real property and associated issues with  
10 seeking recovery on the judgment through a forced sale.

11 As for the Wang Defendants, and notwithstanding the entry of default  
12 judgment, the Receiver successfully negotiated the terms of a cash settlement after  
13 many months of discussions, and on February 18, 2016, the Receiver filed her  
14 Motion for Approval of Settlement with Wang Defendants (Dkt. No. 414). The  
15 settlement contemplates the payment of \$1,125,000 to the receivership, which  
16 payment is secured by three real properties owned by the Wang Defendants. The  
17 Motion was approved by the Court and the Wang Defendants have since made an  
18 initial \$50,000 payment. The Receiver is awaiting payment of the remaining  
19 \$1,075,000, which is due within 60 days of the approval order. If full payment is  
20 not received by the deadline, the Receiver will proceed to foreclose on the three  
21 properties securing the settlement obligation via the deed of trust recorded as part of  
22 the settlement.

23 On April 6, 2016, the Wang Defendants proposed a sale of two of the three  
24 properties which serve as collateral for their settlement obligation to pay down a  
25 portion of the remaining settlement obligation. The Receiver, through her counsel,  
26 is in communications with counsel for the Wang Defendants to provide instructions  
27 to facilitate the proposed sales and payment to the receivership.

28



1           MycoTechnology, Inc.

2           As previously reported, KCM purchased three convertible promissory notes  
3 from MycoTechnology, Inc. ("Myco") for a total of \$1,050,000. During the second  
4 quarter of 2015, the Receiver was able to reach an agreement with Myco regarding a  
5 restructure and payoff of the notes based on additional capital raises. The Court  
6 approved the agreement on June 2, 2015. Dkt. No. 340. During the third quarter  
7 2015, the Receiver received \$500,000 from Myco and continues to monitor Myco's  
8 activities and efforts to raise capital. Based on recent discussions with the Myco's  
9 CEO, while additional funding has occurred, it does not appear the next fundraising  
10 threshold (\$10,000,000), which would produce an additional \$250,000 to the  
11 receivership estate, will be reached in the near term.

12           Frequency Networks

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

22           On March 14, 2016, after receiving this Court's approval to file under seal, the  
23 Receiver filed a motion seeking approval of a sale of the shares of Frequency  
24 Networks (Dkt. No. 431). This Court granted the Receiver's motion and approved  
25 the sale of shares on April 5, 2016 (Dkt. No. 440). The Receiver is coordinating  
26 with Frequency Networks to complete the approved sale and will provide further  
27 updates to the Court as appropriate.

28

1            Zypsee/Whisk

2            KCM acquired a minority interest in Zypsee, Inc., dba Whisk for \$75,000.  
3 Whisk created software for the ground transportation industry. The Receiver was  
4 contacted by the CEO of Whisk in October 2015 to report that the company had run  
5 out of capital and was in the process of being acquired. Whisk's stock is not  
6 publicly traded. The Receiver explored some private sale options, but these proved  
7 to be uneconomical. Accordingly, the Receiver agreed to Whisk's acquisition by  
8 Deem, another privately held company. The transaction closed on February 12,  
9 2016.

10           **D. Investor Communications**

11           The Receiver established a dedicated web page on her website, which  
12 provides case information, updates, and answers to frequently asked questions to  
13 investors and creditors. The Internet address for the webpage is  
14 [www.worldcapitalmarketreceivership.com](http://www.worldcapitalmarketreceivership.com). In addition, the Receiver continues to  
15 maintain a dedicated e-mail address and telephone line for investor inquiries and  
16 regularly returns a significant volume of emails and phone calls from investors in  
17 both English and Spanish.

18           **E. Investor Claims Process**

19           Subsequent to this Court's July 13, 2015 order granting the Receiver's motion  
20 for approval of the claim process setting the deadline to submit claims to the  
21 Receiver as November 9, 2015, as later extended to December 24, 2015, and  
22 primarily during the fourth quarter 2015, the Receiver worked diligently with the  
23 Court-approved claims administrator, Epiq, to implement Phase I of the approved  
24 claims process. This work included significant interaction with Epiq and claimants,  
25 preparation of the Receiver's Request for Order Extending Deadline to Submit  
26 Claims (approved by this Court on October 26, 2015, Dkt. No. 399) due to tepid  
27 initial response rates, and subsequent implementation of the tasks set forth therein,  
28 including live telephone line interaction, mailing physical notices to investors whose

1 addresses are available from checks, and holding an in-person meeting in  
 2 Los Angeles at which investors were able to submit claims with assistance from the  
 3 Receiver and her staff. All such efforts vastly improved the claim response rates,  
 4 with over 35,000 claims representing over 72,000 investments ultimately submitted.  
 5 Late in the fourth quarter, the Receiver also began work to analyze the claims data  
 6 in preparation for her report on Phase I of the claims process and recommendation  
 7 regarding Phase II, which was filed and approved by the Court in the first quarter of  
 8 2016.

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

10 The following summary reflects the Receivership Entities' consolidated cash  
 11 balance as of December 31, 2015:

|                                            |                     |
|--------------------------------------------|---------------------|
| Manna Holding (closed)                     | \$0                 |
| Manna Source International (closed)        | 0                   |
| WCM Resources                              | 1,278,796           |
| World Capital Market                       | 19,032,480          |
| Kingdom Capital Market (non-golf - closed) | 0                   |
| Kingdom Capital Market (golf)              | 71,933              |
| <b>Grand Total</b>                         | <b>\$20,383,209</b> |

19 The following is a summary of the consolidated cash activity in the Receiver-  
 20 controlled Receivership Entities' bank accounts for the period from March 27, 2014  
 21 through December 31, 2015:

|                                             |                    |
|---------------------------------------------|--------------------|
| <b>TRO Account Cash Balance at 3/27/14</b>  | <b>\$2,242,756</b> |
| Recovery – Horsman Law Firm                 | 11,281,453         |
| Recovery – First General Bank               | 1,502,355          |
| Recovery – Defendant and Affiliate Accounts | 419,862            |
| Recovery – Baseballers Against Drugs        | 100,000            |

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|-----------------------------------------------------------------------|-------------|
| Recovery – Undisbursed Funds Held by Global Payout                    | 56,396      |
| Recovery – Funds Left in Escrow from Failed Real Estate Purchase      | 40,000      |
| Recovery – Pasadena Office Security Deposit                           | 10,455      |
| Recovery – Monrovia Property Net Sale Proceeds                        | 957,333     |
| Recovery – Walnut Property Net Sale Proceeds                          | 2,334,617   |
| Recovery – Lazarus Third-Party Transfer                               | 750,000     |
| Recovery – Personal Property Sale Proceeds (includes garments)        | 313,855     |
| Recovery – Vincent J. Messina Transfer                                | 2,133,214   |
| Recovery – Links at Summerly Golf Course Net Sale Proceeds            | 651,309     |
| Recovery – Links at Summerly Golf Course Liquor License Sale Proceeds | 24,500      |
| Recovery – Lake Elsinore Property Net Sale Proceeds                   | 425,042     |
| Recovery – Wellman & Warren Retainer                                  | 71,063      |
| Recovery – James Dantona/Governmental Impact, Inc. Settlement Funds   | 42,534      |
| Recovery – Formerly Jointly Held Funds (Governmental Impact, Inc.)    | 40,466      |
| Recovery – MycoTechnology Settlement Funds                            | 500,000     |
| Other Misc. (Incl. Interest Income)                                   | 74,064      |
| Golf Revenues                                                         | 4,665,302   |
| Golf Expenses                                                         | (6,221,637) |
| Real & Personal Property Expenses (Non-Golf)                          | (286,376)   |
| WCM One-Time Payroll & Related                                        | (46,809)    |
| WCM Moving & Storage                                                  | (21,983)    |
| Other Miscellaneous Expenses                                          | (50,693)    |
| Epiq - Claims Process (incl. Notice Publication)                      | (134,501)   |

|                                      |                     |
|--------------------------------------|---------------------|
| Receiver Legal Fees & Expenses       | (855,022)           |
| Receiver Fees & Expenses             | (690,869)           |
| <b>Cash Book Balance at 12/31/15</b> | <b>\$20,328,686</b> |

As of December 31, 2015, outstanding checks relating to golf course operations were \$54,523, resulting in a bank cash balance of **\$20,383,209**.

#### **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.

##### **A. Document Recovery Efforts**

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

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

The Receiver will seek to locate any presently unaccounted for receivership assets that may exist and will continue efforts to efficiently maximize recovery of assets located, to the extent reasonably possible. The Receiver also recommends continuing to explore whether there are third parties who aided Xu in connection with this enterprise. The Receiver will continue to evaluate whether such third

1 parties should be liable for damages caused to the Receivership Entities and their  
2 investors. The Receiver will seek Court approval before pursuing any such claims.


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

4 The Receiver will continue her efforts to stabilize, efficiently manage, and  
5 maximize the value and/or potential recovery of all properties owned by the  
6 Receivership Entities and will seek Court approval of proposed sales. The Receiver  
7 is also proceeding with efforts to market and sell the remaining real property assets,  
8 the New Cuyama Property in Santa Barbara County and the El Monte Warehouse.

9 **D. Quarterly Reports**

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

13  
14 Dated: April 15, 2016

By:   
KRISTA L. FREITAG  
Receiver

15  
16  
17 Dated: April 15, 2016

ALLEN MATKINS LECK GAMBLE  
MALLORY & NATSIS LLP

18  
19 By: /s/ Edward Fates  
EDWARD G. FATES  
Attorneys for Receiver  
KRISTA L. FREITAG

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