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5 Claimants

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7 **UNITED STATES DISTRICT COURT**
8 **CENTRAL DISTRICT OF CALIFORNIA**
9 **WESTERN DIVISION**

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11 SECURITIES AND EXCHANGE
COMMISSION,

12 Plaintiff,

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14 v.

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

18 Defendants,

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

24 Relief Defendants.
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Case No. 14-CV-2334-JFW-MRW

**MEMORANDUM OF POINTS
AND AUTHORITIES IN
PARTIAL OPPOSITION TO
RECEIVER'S DISTRIBUTION
PLAN**

DATE: November 28, 2016
TIME: 1:30 p.m.
CTRM: 16 (Spring Street Floor)
JUDGE: Hon. John F. Walter

1 The 139 claimants represented by the undersigned (“Claimants”) do not doubt the
2 considerable and diligent effort thus far made by the Receiver to establish an equitable yet
3 workable approach to identifying claims that should be allowed, but suggest that more
4 finely tuned criteria will more fairly identify claims meriting allowance without causing
5 an undue increase in administration costs.

6 While readily willing to allow the relatively small number of claims based on
7 investments paid directly to the Receivorship Entities (“Direct Claims”), the Receiver
8 shows undue reluctance to allow many of the vast majority of claims involving
9 investments paid to intermediary leaders (“Leader Claims”). The Receiver appears to
10 base this reluctance on the disparity between the total in Direct Claims (\$80.8 million)
11 and the much larger total in Leader Claims (\$412 million), together with the concededly
12 frequent lack of bank record documentation to corroborate the Leader Claims, which are
13 typically based on cash transactions between claimants and leaders. For Leader Claims
14 lacking definitive bank record documentation, the Receiver’s “supplemental testing”
15 approach has been to allow only the Leader Claims in which the claimant’s name can be
16 found in the “Actual Deposit File” or the “SQL Database.” [Receiver’s Points and
17 Authorities (“RPAS”), 8:16-9:24]. and then to allow only the further Leader Claims in
18 which the claimant’s name does show up on one of these lists.

19 This “supplemental testing” approach put only 1,607 further claims (2% of the
20 total 72,253 claims) into the conditionally allowed column. [RPAS 9:4]. While
21 attractively objective on its face, the Receiver’s exclusive reliance on data in the Actual
22 Deposit File and the SQL Database as the *sine qua non* for Leader Claims lacking bank
23 record documentation is flawed. The SQL Database in particular probably falls far short
24 of a complete listing of Leader Claim investors, in that the Defendants apparently busied
25 themselves on purging investor names from their records after sensing that their operation
26 was on the brink of being shut down by the authorities. [Opposing Declaration of Michael
27 E. Adams (“Adams Decl.”), 3:7-11].

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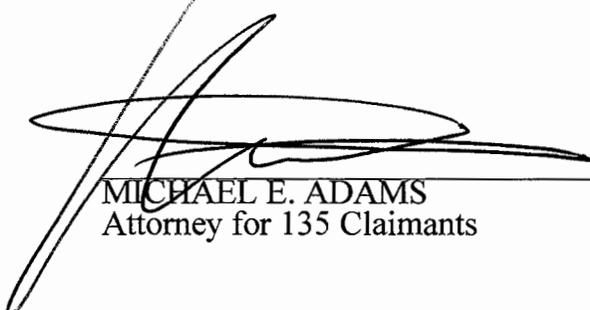
1 What is needed is further, more finely-tuned supplemental testing that invites
2 claimants to submit additional evidence in support of their presently disallowed Leader
3 Claims. How to define such evidence in a workable manner? One approach would be to
4 give claimants the opportunity to appear before the court (or a designated hearing officer)
5 to testify in support of their claims. Claimants submit that such hearings would be a
6 reasonably effective way to weed out spurious claims: while some may have succumbed
7 to the temptation to submit such claims in a faceless online context, predictably far fewer
8 would have the temerity to appear in court and testify to such claims. It may be added
9 that some precedent for such hearings can be found in some class actions that turn to such
10 hearings for resolution of individualized issues such as damages. An alternative approach
11 would be at least to allow further written submissions, such as declarations from the
12 Leaders confirming that they received the cash investments, and/or printouts obtained by
13 claimants contemporaneously with their investments (e.g. well before the Defendants
14 began changing their records after learning that the authorities were about to descend
15 upon them) to confirm that the claimants were credited by Defendants with the “Units”
16 for which the claimants had paid.

17 The balance to be struck is between achieving as fair and evenhanded a result as
18 possible without incurring administrative expense that unduly depletes the assets to be
19 distributed to the victims. Herein, so far as practicable, no distinction should be drawn
20 between investors defrauded into paying money directly to the Defendants’ entities, and
21 investors defrauded into paying money to intermediate Leaders set up by Defendants to
22 enhance the inflow of their ill-gotten gains. The Receiver suggests that the latter
23 investors should be discounted because they were drawn into a “secondary market” for
24 which the Defendants at the top should not be deemed responsible. However, as to the
25 various ways that Leaders took money from beguiled investors (who sometimes were as
26 beguiled as their investors into believing that buying “Units” was a legitimate
27 investment), it appears that no such “secondary market” existed in any meaningful sense,
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1 in that Defendants uniformly gave their blessing to transactions in which their Leaders
2 were intermediaries by posting confirmation on their website that the investors had
3 received the “Units” for which they paid. [Adams Decl., 2:19-3:6]. In any case, in that
4 the Leaders were acting as the agents (actual or at least ostensible) of the Defendants, the
5 Defendants were and are legally responsible no less for the losses sustained by investors
6 who dealt with Leaders as for the losses sustained by investors who paid their money
7 directly to the Defendants. An analysis in terms of equity should be no different.

8 DATED: November 7, 2016

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MICHAEL E. ADAMS
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