

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF FLORIDA
WEST PALM BEACH DIVISION

CASE NO. 14-80468-CV-MIDDLEBROOKS/BRANNON

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

JCS ENTERPRISES, INC. d/b/a JCS
ENTERPRISES SERVICES, INC., T.B.T.I., INC.,
JOSEPH SIGNORE, and PAUL L. SCHUMACK, II,

Defendants.

FIFTH REPORT OF RECEIVER JAMES D. SALLAH, ESQ.

I, James D. Sallah, Esq., not individually, but solely in my capacity as the Court-appointed receiver (the "Receiver") for JCS Enterprises Inc., d/b/a JCS Enterprises Services Inc. ("JCS"), T.B.T.I., Inc. ("TBTI"), My Gee Bo, Inc. ("Gee Bo"), JOLA Enterprise Inc. ("JOLA"), and PSCS Holdings, LLC ("PSCS"), their affiliates, subsidiaries, successors, and assigns (collectively, the "Receivership Entities" or "Estate") submit this Fifth Report regarding the present status of the Estate ("Fifth Report"). Although the Order Reappointing me as Receiver dated December 12, 2014 ("Receivership Order") (DE 173) does not require me to file status reports, I believe it is prudent at this time to submit this Fifth Report to apprise the Court and all interested parties of my ongoing efforts in carrying out my court-ordered obligations.

IMPORTANT – PLEASE READ CAREFULLY

THE STATEMENTS CONTAINED IN THIS REPORT ARE BASED ON MY INVESTIGATION CONDUCTED IN THE TIME ELAPSING FROM THE RECEIVERSHIP'S ESTABLISHMENT. I HAVE COMPILED THIS REPORT BASED ON BOTH MY AND MY PROFESSIONALS': (1) REVIEW OF TENS OF THOUSANDS OF PAGES OF DOCUMENTS, INCLUDING EXTENSIVE FINANCIAL RECORDS; AND (2) INTERVIEWS WITH NUMEROUS INDIVIDUALS, INCLUDING EMPLOYEES, ACCOUNTANTS, LEGAL PROFESSIONALS, VENDORS, INVESTORS, FINANCIAL INSTITUTIONS, AND OTHER RELATED PERSONS. THE FACTS AND CONCLUSIONS HEREIN MAY BE SUBJECT TO CHANGE AS MY INVESTIGATION PROGRESSES DURING THE COURSE OF THE RECEIVERSHIP. OTHER THAN THE AMOUNTS CONTAINED IN THE BANKS AND/OR BROKERAGE INSTITUTIONS, THE VALUE OF MOST OTHER ASSETS HAS YET TO BE DETERMINED DEFINITELY. AS ADDITIONAL INFORMATION IS DISCOVERED, I INTEND TO FILE ADDITIONAL REPORTS FROM TIME TO TIME.

IN WRITING THIS REPORT, I HAVE ATTEMPTED TO BALANCE THE IMPORTANCE OF FULL AND FAIR DISCLOSURE OF MATERIAL INFORMATION WITH THE CONCERNS OF THE UNDERLYING BUSINESSES AND ASSETS INFORMATION REMAINING CONFIDENTIAL FOR COMPETITIVE REASONS. TO THAT END, I HAVE OPTED, IN MOST CASES, TO DISCLOSE A SIGNIFICANT AMOUNT OF FINANCIAL INFORMATION AND CAUTION ANY INDIVIDUALS OR ENTITIES WHO INTENTIONALLY MISREPRESENT THE INFORMATION CONTAINED HEREIN IN AN EFFORT TO DISPARAGE THE RECEIVERSHIP ENTITIES, OR SEEK TO USE IT UNFAIRLY TO GAIN A COMPETITIVE ADVANTAGE, THAT ANY SUCH ACTION MAY HAVE SIGNIFICANT LEGAL CONSEQUENCES.

FINALLY, TO THE EXTENT THAT THE RECEIVERSHIP ENTITIES ARE ENGAGED IN LITIGATION OR ARE EXPLORING POTENTIAL LAWSUITS AGAINST INDIVIDUAL OR ENTITIES, I HAVE NOT SET FORTH ALL OF THE INFORMATION SURROUNDING THESE LAWSUITS OR POTENTIAL LAWSUITS SO AS NOT TO DISCLOSE PRIVILEGED, WORK-PRODUCT INFORMATION, OR LITIGATION STRATEGY.

I. CURRENT CASH BALANCES IN RECEIVERSHIP ESTATE ACCOUNTS

As of December 31, 2016, I have obtained the following net cash amounts, which are currently segregated into four primary Estate accounts:

Receivership Estate Account Balances as of December 31, 2016	
JCS Enterprises, Inc.	\$2,666,303.91
T.B.T.I., Inc.	4,416,093.38
My Gee Bo, Inc.	995,066.12
JOLA Enterprise Inc.	582,651.29
Cash Balances in Receivership Estate Accounts	\$8,660,114.70

The table above includes only the cash balances currently maintained in bank accounts under my control. It represents an increase of **\$1,725,545.99** since April 30, 2016, as reflected in my Fourth Report. In addition, it excludes, among other things, settlements awaiting Court approval, tangible assets, real property, personalty, and other liquid assets that are also currently under my control, or that otherwise have been frozen.¹

In accordance with the Receivership Order and/or this Court’s approval, I have also paid certain necessary expenses in carrying out my duties and responsibilities. Specifically, the following tables reflect amounts transferred to the Estate accounts and certain disbursements paid from May 1, 2016 to December 31, 2016:

¹ For example, as explained in more detail below, I have settlements with profiteers, subject to Court approval, of approximately \$400,000.00, as well as title to at least one parcel of real property.

JCS Enterprises, Inc. – Receivership Estate Segregated Account as of December 31, 2016	
Beginning Balance: 5/1/16	
Receipts: 5/1/16-12/31/16	
Litigation and Settlements	207,349.00
Real Estate Asset Liquidation	201,558.65
Tax Refunds	54,604.03
Security Deposit Refunds	270.40
Total Receipts 5/1/16-12/31/16	463,782.08
Disbursements: 5/1/16-12/31/16	
Legal and Professional Fees	149,800.90
Costs to Maintain Property	22,497.04
Other Expenses	402.00
Total Disbursements: 5/1/16-12/31/16	172,699.94
Balance in JCS Enterprises, Inc. Segregated Account	\$2,666,303.91

T.B.T.I., Inc. – Receivership Estate Segregated Account as of December 31, 2016	
Beginning Balance: 5/1/16	\$3,009,045.15
Receipts: 5/1/16-12/31/16	
Tax Refunds	176,772.30
Litigation and Settlements	1,606,091.64
Total Receipts 5/1/16-12/31/16	1,782,863.94
Disbursements: 5/1/16-12/31/16	
Legal and Professional Fees	375,815.71
Total Disbursements: 5/1/16-12/31/16	375,815.71
Balance in T.B.T.I., Inc. Segregated Account	\$4,416,093.38

My Gee Bo, Inc. – Receivership Estate Segregated Account as of December 31, 2016	
Beginning Balance: 12/31/16	\$931,612.57
Receipts: 5/1/16-12/31/16	
Litigation and Settlements	125,000.00
Total Receipts 5/1/16-12/31/16	125,000.00
Disbursements: 5/1/16-12/31/16	
Legal and Professional Fees	61,546.45
Total Disbursements: 5/1/16-12/31/16	61,546.45
Balance in My Gee Bo Inc. Segregated Account	\$995,066.12

JOLA Enterprises, Inc. – Receivership Estate Segregated Account as of December 31, 2016	
Beginning Balance: 5/1/16	\$618,689.22
Receipts: 5/1/16-12/31/16	
Total Receipts 5/1/16-12/31/16	
Disbursements: 5/1/16-12/31/16	
Legal and Professional Fees	36,037.93
Total Disbursements: 5/1/16-12/31/16	
Balance in JOLA Enterprises, Inc. Segregated	\$582,651.29

II. LITIGATION RELATING TO THE INSTANT SEC ACTION

The Receivership Order provides that I may initiate actions on behalf of the Receivership Entities against those individuals or entities who received transfers of monies or other proceeds directly or indirectly traceable from investors of the Receivership Entities. (DE 173). Such actions may include, but are not limited to, those for disgorgement of profits, unjust enrichment, impositions of constructive trusts, and recovery and/or avoidance of fraudulent transfers under Florida Statute § 726.101, *et seq. Id.* The Receivership Order also provides that I may “defend, compromise or settle legal actions” on behalf of the Receivership Entities. *Id.*

A. The Signore Lawsuit

As stated in my previous report, on September 10, 2015, I filed a lawsuit against Joseph and Laura Signore (n/k/a Laura Grande) (collectively, the “Signore Defendants”) in the U.S. District Court for the Southern District of Florida (Case No. 15-CV-80946-MIDDLEBROOKS/BRANNON) (hereinafter, referred to as “*Signore*, DE __”). As discussed below, on December 6, 2016, I obtained a final judgment against the Signore Defendants. However, as the Court is aware, Joseph Signore filed a notice of appeal and a motion to stay the judgment pending the appeal process. As stated in the Fourth Report, Laura Signore entered into a consent with me in early 2016 to resolve the claims against her.

After I filed motions for default against Mr. Signore, he filed his Answer to the Complaint on or about May 11, 2016. (*Signore*, DE 74). In his Answer, Mr. Signore denied, generally, my allegations and also asserted, among other things, that he was entitled to a setoff against any judgment against him based on the alleged salary the Receivership Entities owed him and “a no interest loan made to JCS for \$350,000.” (*Id.* at 2). In order to test these defenses, my counsel propounded requests for admission and interrogatories on Mr. Signore. Further, on July 19, 2016, my counsel took Mr. Signore’s deposition at the Federal Medical Center in Lexington, Kentucky, where he was incarcerated following his conviction in *United States v. Signore, et al.*, Case No. 14-80081-CR-DTKH (S.D. Fla. Judgment Mar. 22, 2016).

On September 12, 2016, my counsel moved the Court for summary judgment against Mr. Signore together with a Statement of Undisputed Facts. (*Signore*, DE 92, 93). Specifically, I moved the Court for summary judgment on four (4) bases: first, for the recovery of fraudulent transfers that Mr. Signore received or that were made for his benefit; second, for damages from Mr. Signore’s breach of fiduciary duty in causing transfers to Laura Signore; and third, for the

imposition of a constructive trust and/or equitable lien on the Signore Defendants' home. The fourth basis sought summary judgment against Mr. Signore's defense that he was entitled to a setoff.

The Court entered summary judgment in my favor on November 17, 2016. (*Signore*, DE 125). The Court found that Mr. Signore caused JCS to transfer approximately \$1.6 million for his and Laura Signore's benefit with actual intent to defraud the Receivership Entities and breached his fiduciary duties to JCS when he caused the transfer of another \$819,923 to Laura Signore. (*Signore*, DE 125 at 10-18.) The Court also granted summary judgment that Mr. Signore was not entitled to a setoff for a "salary" for operating JCS, a Ponzi scheme, or for his purported \$350,000 loan to JCS, which lacked documentation. Finally, the Court found that the Receivership is entitled to an equitable lien for the Signores' residence.

On December 7, 2016, the Court entered final judgment against Joseph Signore and Laura Signore, with the judgment against the latter entered by her consent. (*Signore*, DE 131). Among other things, the final judgment provides that Joseph Signore is liable to the Receivership for more than \$2.7 million and Laura Signore is liable for more than \$2.8 million. Of those amounts, Joseph Signore and Laura Signore are jointly and severally liable for approximately \$1.6 million and may seek contribution against each other for any amounts up to \$819,000 paid over and above that amount. The final judgment also provides that the Receivership is entitled to an equitable lien for the Signores' residence in the amount of \$552,695.03 and that the homestead exemption under Article X, Section 4 of the Constitution of the State of Florida shall not be available to them as a defense in any action taken by me to enforce the lien. (*Id.* at ¶7). Finally, the final judgment

transfers the deed to their former residence from the Signores to me in my capacity as Court-Appointed Receiver.²

Joseph Signore filed a Notice of Appeal to the United States Circuit Court for the Eleventh Circuit, which was docketed by the Clerk of the Court on December 14, 2016. (*Signore*, DE 135). He also moved for a stay of execution of the final judgment pending his appeal in the *Sallah v. Signore* case. (*Id.*, DE 139). My counsel filed papers in opposition to his motion, and the Court denied Mr. Signore's Motion for Stay on January 9, 2017. (*Id.*, DE 140, 143). For purposes of the appeal, I am utilizing the services of Akerman LLP, which the Court has already approved as counsel on behalf of the Receivership Estate, at a reduced rate.

B. The Schumack Lawsuit

In my Fourth Report, I stated that I had filed a lawsuit against Paul and Christine Schumack (collectively, the "Schumack Defendants") on March 2, 2016, in the U.S. District Court for the Southern District of Florida (Case No. 16-CV-80303-MIDDLEBROOKS/BRANNON) (hereinafter referred to as "*Schumack*, DE __"). On or about March 16, 2016, Paul Schumack signed a consent to a final judgment in the amount of \$5,129,806.94 without admitting or denying any liability. Shortly thereafter, on or about March 18, 2016, Christine Schumack consented to a final judgment as to Count I of the Complaint, jointly and severally with Paul Schumack, in the amount of \$5,129,806.94, without admitting or denying any liability. On March 24, 2016, the Court approved these consents and ordered Final Judgments against both Paul and Christine Schumack, jointly and severally, in the amount of \$5,129,806.94. (*Schumack*, DE 12, 13).

² To preserve the status quo, and what I consider to be a valuable asset of the Estate, I have continued to maintain the Signore house since it has been unoccupied.

Notably, as discussed in my previous reports, the Schumacks voluntarily turned over the bulk of their personal assets to the Estate in September of 2014 through an approved Assignment and Assumption Agreement. One such asset was a pension plan for TBTI with assets of approximately \$400,000 presently held with a third-party custodian. I anticipate moving the Court to obtain such funds held in the plan in the near future.

Another asset turned over to the Receivership Estate in the Schumack Assignment and Assumption Agreement was an annuity issued by Aviva Life and Annuity Company, n/k/a Athene Annuity and Life Company (“Athene”) (the “Athene Annuity”). The Athene Annuity carried a surrender penalty that declined on the anniversary date of the purchase of the Athene Annuity. On November 23, 2016, I moved the Court for an Order of Sale of the Athene Annuity, and the Court granted my Motion on November 29, 2016. (DE 359). My counsel immediately contacted Athene in order to surrender the Athene Annuity and instructed Athene to deliver the proceeds transferred to the Receivership Estate. On or about December 14, 2016, Athene issued a check to the Receivership in the amount of \$90,706.00.

C. Resolution with the Securities and Exchange Commission on Behalf of JCS and TBTI

As the Court is aware, both JCS and TBTI were named as defendants in the instant action brought by the SEC. In order to resolve the case *as to these entities*, I agreed that they should be liable for disgorgement of ill-gotten gains of approximately \$31 million, together with prejudgment interest of approximately \$3.4 million. However, the SEC and I agreed, and recommended to this Court, that the final judgment shall be fully satisfied “by any Court-approved distributions” that I make to approved investors and/or creditors pursuant to a future

claims process that is approved by the Court. The Court entered a final judgment adopting these terms on October 18, 2016. (DE 353).

Following the entry of the final judgment against JCS and TBTI, the Court issued an Order closing the instant case on October 27, 2016. The Court's Order provides that "as the Court-appointed Receiver's work continues in marshalling assets and distributing recovered funds to approved investors and creditors, the Receiver shall continue to carry out his duties and responsibilities, and this matter will remain open for the Receiver and under the Court's jurisdiction until further notice...." (DE 356).³

III. LITIGATION WITH THIRD-PARTIES AND RELATED SETTLEMENTS

As of December 2016, I have initiated multiple lawsuits against a total of seventy-eight (78) individuals and/or entities, including those identified Section II, above, seeking to recover monies that they received in excess of their contributions. While many of these claims have been settled, I describe them for the Court in summary fashion below.

A. *Sallah v. Davis, et al.*, Case No. 15-CV-81584-MIDDLEBROOKS/BRANNON

On November 19, 2015, I filed a lawsuit against Lascelles Davis ("Davis"), Cash Express Services, LLC ("CES"), and Alfred Tracy ("Tracy") (the "Davis Defendants") in the U.S. District Court for the Southern District of Florida (Case No. 15-CV-81584-MIDDLEBROOKS/BRANNON). My complaint alleged that Davis, CES, and Tracy, respectively, invested in VCM contracts and received payments for those investments in excess of their investment ("Net Profit").

³ As the Court is aware, it also entered judgments in favor of the SEC against Defendants Joseph Signore and Paul Schumack on February 10, 2016 and May 6, 2016, respectfully. (DE 289, 318).

I brought claims against the Davis Defendants under various provisions of Florida's Uniform Fraudulent Transfer Act ("FUFTA") and for unjust enrichment. These were essentially clawback claims, in which I was attempting to obtain a judgment against the Davis Defendants for the monies that they received from the Receivership Entities. I propounded discovery on the Davis Defendants, and the parties exchanged documents. I amicably resolved the disputes with CES and Tracy through mediation on March 4, 2016, and the Court approved my settlements with CES and Tracy, and ultimately Davis.

B. *Sallah v. Paquette, et al.*, Case No. 15-CV-81716-BLOOM

On December 16, 2015, I filed a lawsuit against Darren Paquette, Ronald and Pennie Paquette, Richard Paquette, Anthony and Denyelle Mehfoud, and Thomas Klatt (the "Paquette Defendants") in the U.S. District Court for the Southern District of Florida (Case No. 15-CV-81716-BLOOM). My complaint alleged that the Paquette Defendants, other than Richard Paquette, respectively, received commission payments from TBTI, which were made as compensation for their efforts in selling investments. My complaint also alleged that the Paquette Defendants received payments from the Receivership Entities representing net profits.

I brought claims against the Paquette Defendants under various provisions of FUFTA and for unjust enrichment. These were essentially clawback claims, in which I was attempting to obtain a judgment against the Paquette Defendants for the monies that they received from the Receivership Entities. After exchanging documents with the Paquette Defendants, I amicably resolved the disputes with the Paquette Defendants through mediation on March 18, 2016, and the Court approved my settlements with the Paquette Defendants.

C. *Sallah v. Flansburg, et al.*, Case No. 16-CV-80032-ROSENBERG/BRANNON

On January 7, 2016, I filed a lawsuit against Jon Drew Flansburg (“Drew Flansburg”), Maria Flansburg, Jon Flansburg, Michael Dickey, D&L Investment Group, LLC (“D&L”), Dickey Enterprises, LLC (“DELLC”), Brian Dickey, James Kelly (“Kelly”), Ryan Lawrence (“Lawrence”), Clarence Martin (“Martin”), Ernst and Judith Raffaele (the “Raffaeles”), Jorge Bustamante, Jr. (“Bustamante”), and Andrew Wright (“Wright”) in the U.S. District Court for the Southern District of Florida (Case No. 16-CV-80032-ROSENBERG/BRANNON) (all references herein shall be cited as “*Flansburg*, DE __”). On January 23, 2016, I filed an Amended Complaint to add Jesse Arocha (“Arocha”), Janice Pacheco (“Pacheco”), and CYB Investment Company, Inc. (“CYB”) as Defendants (collectively, the “Flansburg Defendants”). On April 11, 2016, this action was transferred to this Court and listed as Case No. 16-CV-80032-MIDDLEBROOKS/BRANNON. The Amended Complaint alleged that the Flansburg Defendants received payments that represented net profits and that Defendants Jon Flansburg and Wright received commission payments from TBTI, which were made as compensation for their efforts in selling investments.

I brought claims against the Flansburg Defendants under various provisions of FUFTA and for unjust enrichment. These were essentially clawback claims, in which I was attempting to obtain a judgment against the Flansburg Defendants for the monies that they received from the Receivership Entities.

After exchanging documents, I amicably resolved the disputes with Drew and Maria Flansburg, Jon Flansburg, and Kelly. The Court approved the Settlement Agreements with Drew and Maria Flansburg, Jon Flansburg, and Kelly. (*Flansburg*, DE 52, 54).

As previously reported, I also exchanged documents with Wright and agreed to mediate with him on June 14, 2016. At mediation, I amicably resolved the dispute with Wright, and the Court approved the Settlement Agreement with Wright on June 27, 2016. (*Flansburg*, DE 74). As a means to reduce costs, I also mediated claims with Michael Dickey and his companies, D&L and DELLC, on June 14, 2016,⁴ after having moved for an order to show cause against him and his companies. (*Flansburg*, DE 40). The Court approved the Settlement Agreement with Dickey and his companies on June 27, 2016. (*Flansburg*, DE 72).

Lawrence filed an answer to the Complaint, which included a motion to dismiss. I filed my Response in Opposition to Lawrence's Motion to Dismiss. (*Flansburg*, DE 49). While the Motion to Dismiss was pending, Lawrence exchanged documents with me and agreed to mediate my claims on August 28, 2016, as part of a mediation involving several other defendants in another action. I resolved the claims with Lawrence, and the Court approved the Settlement Agreement on September 2, 2016. (*Flansburg*, DE 93).

I also exchanged documents with Defendant Pacheco and her company, CYB. I mediated with Pacheco and CYB on August 16, 2016, where we resolved the claims. The Court approved the Settlement Agreement on September 2, 2016. (*Flansburg*, DE 91).

In August 2016, I reached an agreement with the Raffaeles, who have paid most of the proposed consideration for the settlement. However, Mrs. Raffaele had not yet signed the proposed settlement agreement, and I could not move the Court for approval of the Settlement Agreement. On November 15, 2016, the Raffaeles faxed a copy of the Settlement Agreement with

⁴ As discussed below, I also mediated claims on June 14, 2016, against James Purdy, who was a defendant in another action, *Sallah v. Insurance and Fin'l Health Svcs., Inc.*, 16-CV-80035 (S.D. Fla. Jan. 7, 2016).

their signatures. On November 18, 2016, I moved the Court to approve the Settlement Agreement. (*Flansburg*, DE 98). The Court approved the Settlement Agreement on November 23, 2016. (*Flansburg*, DE 102).

I have also obtained the entry of Clerk's Defaults against Bustamante, Martin, and Arocha. (*Flansburg*, DE 38, 42, 71). On November 14, 2016, I moved the Court for entry of default judgment. (*Flansburg*, DE 97). On December 15, 2016, the Court entered final judgment against Bustamante, Martin, and Arocha. (*Flansburg*, DE 107, 108, 109). Thereafter, the Court closed the Flansburg case. (*Flansburg*, DE 110). As of December 31, 2016, I am in the process of recording and executing judgments against Bustamante, Martin, and Arocha.

**D. *Sallah v. Insurance and Financial Health Services, Inc., et al.*,
Case No. 16-CV-80035-MARRA**

On January 7, 2016, I filed a lawsuit against John Marshall ("Marshall"), Insurance and Financial Health Services, Inc. ("IFHS"), Tracy Spaeth ("Spaeth"), James Christian Purdy ("Purdy"), Purdy Heritage, LLC ("Heritage"), Richard Kaufman ("Kaufman"), Diane Kaufman, Stewart Joshua Schlinsky ("J. Schlinsky"), Marc Alexander Schlinsky ("A. Schlinsky"), Producer's Edge, Inc. ("PEI"), Trevor and Heather Harbour (the "Harbours"), AKL Financial Services, Inc. ("AKL"), Alan Kaplan ("Kaplan"), and Darryl Demarco ("Demarco") (collectively, the "Marshall Defendants") in the U.S. District Court for the Southern District of Florida (Case No. 16-CV-80035-MARRA) (hereinafter referred to as "*Marshall*, DE __"). The Complaint alleged that the Marshall Defendants received commission payments from the Receivership Entities, directly or indirectly, which were made as compensation for their efforts in selling investments and that Defendants Purdy, Heritage, Harbour, PEI, and Spaeth received payments from the Receivership Entities for their investments in VCM contracts.

I brought claims against the Marshall Defendants under various provisions of FUFTA and for unjust enrichment. These were essentially clawback claims, in which I was attempting to obtain a judgment against the Marshall Defendants for the monies that they received from the Receivership Entities. I amicably resolved my dispute with PEI and the Harbours and moved the Court for approval of the Settlement Agreement with them. The Court approved the Settlement Agreement on March 10, 2016. (*Marshall*, DE 15, 16). I also amicably resolved my dispute with Spaeth and moved the Court for approval of the Settlement Agreement with him. The Court approved the Settlement Agreement with Spaeth on May 9, 2016. (*Marshall*, DE 30, 29). On June 14, 2016, I mediated the dispute with James Purdy and Heritage, and the case was resolved at mediation. On June 20, 2016, the Court approved the Settlement Agreement. (*Marshall*, DE 43).

I obtained the entry of Clerk's Defaults against IFHS, Marshall, Kaufman, J. Schlinsky, A. Schlinsky, Demarco, AKL, and Kaplan. (*Marshall*, DE 14, 18, 45). After obtaining a Clerk's Default against Marshall, Marshall notified me that he had filed for bankruptcy under Chapter 7 in Case No. 6:26-bk-11748 pending in the U.S. Bankruptcy Court for the Central District of California. As a result, the case against Marshall is stayed. On June 28, 2016, I moved the Court for entry of default judgments against IFHS, Kaufman, J. Schlinsky, A. Schlinsky, and Demarco, and the Court entered judgment against them, respectively, on July 18, 2016. (*Marshall*, DE 46, 48). I have served the judgments on IFHS, Kaufman, J. Schlinsky, A. Schlinsky, and Demarco. As discussed below, I have negotiated a resolution with J. Schlinsky and A. Schlinsky.

The judgment required completion, under oath, of a form fact information sheet requiring disclosure of pertinent financial information within forty-five (45) days of service of the judgment. Demarco, Kaufman, and IFHS did not comply. On October 28, 2016, I moved the Court to compel Demarco to comply with the judgment. (*Marshall*, DE 55). On November 16, 2016, I moved the

Court to compel Kaufman and IFHS to comply with the judgment. (*Marshall*, DE 56, 57). Those motions are pending before the Court.

On September 2, 2016, I moved the Court for default judgment against Kaplan and AKL. (*Marshall*, DE 54). That motion is pending before the Court.

On December 9, 2016, I entered into a Confidential Stipulation and Agreement with Stewart Joshua Schlinsky and Marc Alexander Schlinsky. In exchange for monetary payments, I have agreed to abstain from executing judgment. The agreement is subject to Court approval, and I moved the Court to approve the Confidential Stipulation and Agreement with the Schlinskys because I believed that it is in the best interests of the Receivership. (*Marshall*, DE 59). On January 4, 2017, the Court approved the settlement. (*Id.*, DE 62, 63.)

On December 29, 2016, I received notice from John Marshall that he had voted to wind up and dissolve IFHS. My counsel is considering all legal options and anticipates responding to this notice in the near future.

E. *Sallah v. Tanney, et al.*, Case No. 16-CV-80399-ZLOCH

On March 15, 2016, I filed a lawsuit against Ligia Tanney (“Tanney”), Erich Henley (“Henley”), Gregory Lowe (“G. Lowe”), and AHD Investments, LLC (“AHD”) (collectively, the “Tanney Defendants”) in the U.S. District Court for the Southern District of Florida (Case No. 16-CV-80399-ZLOCH) (hereinafter referred to as “*Tanney*, DE __”). On April 6, 2016, I filed an Amended Complaint, adding Janet Johnson (“J. Johnson”), Wroten Enterprises, Inc. (“Wroten”), Joy Lundstrom (“J. Lundstrom”), Vanlyn LLC, d/b/a Expert ATM (“Vanlyn”), and Thomas Episcopo (“Episcopo”) as Defendants. The Amended Complaint alleges that Henley, G. Lowe, AHD, J. Johnson, Wroten, J. Lundstrom, Vanlyn, and Episcopo received commission payments from the Receivership Entities, directly or indirectly, which were made as compensation for their

efforts in selling investments and that the Tanney Defendants received payments, respectively, from the Receivership Entities for their investments in VCM contracts.

I brought claims against the Tanney Defendants under various provisions of FUFTA and for unjust enrichment. These are essentially clawback claims, through which I am attempting to obtain a judgment against the Tanney Defendants for the monies that they received from the Receivership Entities.

I mediated claims against Henley, G. Lowe, AHD, J. Johnson, Wroten, and Episcopo on August 16 and 28, 2016, and organized the mediations in order to conserve the costs involved in mediation. Those claims were resolved at mediation. On August 24, 2016, I moved the Court to approve the Episcopo Settlement Agreement (*Tanney*, DE 49). On August 31, 2016, I moved the Court to approve the Settlement Agreements with Henley, G. Lowe, AHD, J. Johnson, and Wroten. (*Tanney*, DE 52, 55, 59). Both of these motions are pending before the Court.⁵

I obtained Clerk's Defaults against Ligia Tanney, Vanlyn, and Lundstrom. (*Tanney*, DE 29, 40). On August 31, 2016, I moved the Court to enter Default Judgment against Vanlyn and Lundstrom and against Ligia Tanney. (*Tanney*, DE 58, 62). On November 9, 2016, I filed an amended motion for default judgment against Ligia Tanney. (*Tanney*, DE 65). On November 16, 2016, I filed an amended motion for default judgment against Lundstrom and Vanlyn. (*Tanney*, DE 66). Those motions are pending before the Court.

⁵ On December 1, 2016, Defendant Episcopo filed an Unopposed Motion for a Case Management Conference to Address Approval of his Settlement Agreement. (*Tanney*, DE 67). To date, the Court has not addressed the Motion.

F. *Sallah v. National Strategic Corp., et al., 16-CV-80611-MARRA*

On April 19, 2016, I filed a lawsuit against National Strategic Corporation, LLC, RBS Investment Group, LLC, S Management, LLC, DAS Funding Group, LLC, Eric Chen, Longview Pediatrics, PLLC, Reservoir Acquisitions, LLC, Jerome Lahlou, Jason Ellis, Christiana Loiacano, Done Rite Roofing, Inc., Nina Campagna, Emmett Batten, Kathy Batten, Amanda Altizer, David Altizer, Derek Altizer, Harold Louis, Joseph Eastwood, Eastwood Enterprises USA, Inc., Marangely Vazquez, Grant Toney, Patrice Toney, O.T., and Todd Grant (collectively, the “National Strategic Defendants”) in the U.S. District Court for the Southern District of Florida (Case No. 16-CV-80611-MARRA) (hereinafter referred to as “*National Strategic*, DE __”). The Complaint alleges that the National Strategic Defendants received payments, respectively, from the Receivership Entities for their investments in VCM contracts. The Complaint also alleges that Defendant Grant Toney received commission payments from the Receivership Entities, directly or indirectly, which were made as compensation for his efforts in selling investments.

I brought claims against the National Strategic Defendants under various provisions of FUFTA and for unjust enrichment. These are essentially clawback claims, through which I am attempting to obtain a judgment against the National Strategic Defendants for the monies that they received from the Receivership Entities.

I resolved the claims with Eric Chen, Longview Pediatrics, PLLC, Reservoir Acquisitions, LLC, and Marangely Vazquez and, on August 24, 2016, moved the Court to approve the Settlement Agreements with them. (*National Strategic*, DE 36, 39). The Court approved the Settlement Agreements on August 30, 2016. (*National Strategic*, DE 43, 44). I also resolved the claims with Emmett Batten, Kathy Batten, Amanda Altizer, David Altizer, and Derek Altizer. On December 28, 2016, I moved the Court for approval of the settlement agreement with them.

(*National Strategic*, DE 56). The Court approved the settlement on January 3, 2017. (*Id.*, DE 62, 63.)

On October 5, 2016, Defendants Grant Toney, Patrice Toney, O.T. and (b) National Strategic Corporation, LLC, RBS Investment Group, LLC, and S Management, LLC moved the Court to dismiss the action. (*National Strategic*, DE 50, 51). I strongly oppose these Defendants' position and motion. My counsel has discussed the potential for resolving this action with Defendants' counsel, and settlement discussions are ongoing. In the meantime, my counsel has obtained an enlargement of time until January 23, 2017 in which to respond to the Motion. (*Id.*, DE 61).

I am also in the process of discussing a possible resolution of the claims against Jerome Lahlou, Harold Louis, Joseph Eastwood, and Eastwood Enterprises USA, Inc., either directly or through counsel.

I have been unable to locate Defendants Jason Ellis and Todd Grant for purposes of service of process. I voluntarily dismissed claims against them pursuant, without prejudice, and intend to pursue claims against them in the event they can be located for service of process. (*National Strategic*, DE 60). The Court ordered that these claims dismissed without prejudice on January 3, 2017. (*Id.*, DE 64.)

G. *Sallah v. Barnes, et al.*, 16-CV-80781-MARRA

As stated in my previous report, I entered into a Confidential Stipulation with Damon and Cathy Barnes and C&D Enterprise, Inc., wherein I agreed to release them from any claims that I could have advanced against them in return for a monetary settlement, subject to Court approval. (hereinafter referred to as "*Barnes*, DE ___".) The Court in this action approved the Settlement Agreement on May 6, 2016. (*Barnes*, DE 320, 321).

On May 18, 2016, I filed an action seeking declaratory relief that the Receivership is entitled to an equitable lien for assets held for the benefit of Damon and Cathy Barnes in two (2) qualified accounts, a 401k plan and a defined benefits plan, held at a brokerage firm (the “Qualified Accounts”). I then filed a Motion for Declaratory Judgment asking the Court to impose an equitable lien on such Qualified Accounts. (*Barnes*, DE 11, 12). On November 16, 2016, the Court entered Declaratory Judgment finding that the Receivership is entitled to an equitable lien for the funds held such accounts. (*Barnes*, DE 15). I immediately contacted the broker-dealer holding these funds in order to ensure their delivery to the Receivership Estate, and in December 2016 the broker-dealer transferred approximately \$400,000 held in the Qualified Accounts to the Receivership Estate.

H. *Sallah v. Leo Miller, et al.*, 16-CV-81235-ROSENBERG

On July 11, 2016, I filed a lawsuit against Leo Miller, the Estate of Curtis Tanney, Trident Title, LLC (“Trident Title”), Realty Premier Inc. d/b/a Exit Realty Premier (“Exit Realty”), Ligia Tanney, and PNC Bank, N.A. (“PNC Bank”) (hereinafter referred to as “*Miller*, DE __”). That lawsuit seeks to recover \$400,000 in funds that were improperly transferred from certain of the Receivership Entities (and for which the Receivership Entities received nothing in return). On October 10, 2016, I filed an Amended Complaint, pursuant to which I asserted a total of twelve (12) causes of action, alleging claims for civil conspiracy, fraudulent transfer, conversion, unjust enrichment, forgery, conversion, negligent supervision, breach of contract, negligence, and breach of fiduciary duty.

Defendants Leo Miller, the Estate of Curtis Tanney, and Ligia Tanney have not responded to the Amended Complaint. I expect that all of those parties will be proceeding *pro se*. I am in

the process of confirming that they all were served properly. Once I have done so, I plan to move to default those Defendants.

Defendant Trident Title has filed an Answer and Affirmative Defenses. (*Miller*, DE 65). Discovery is proceeding vis-à-vis that Defendant. Trident also has filed a Notice of Serving Proposal for Settlement / Offer of Judgment. (*Id.*, DE 81).

Defendant Exit Realty has filed an Answer and Affirmative Defenses (*Miller*, DE 69), and discovery is proceeding vis-à-vis that Defendant.

Defendant PNC Bank has filed not only an Answer and Affirmative Defenses (*Miller*, DE 68), but also (pursuant to the trial court's protocol that requires the simultaneous filing of an answer along with any responsive motion) a Motion to Dismiss that is now fully briefed (*Miller*, DE 67, 75, and 78) and remains pending. More recently, PNC Bank sought to stay all discovery pending disposition of its Motion to Dismiss. (*Miller*, DE 82). My counsel was ordered to file an expedited response and did so on my behalf. (*Id.*, DE 84). The Court just recently denied PNC's Bank's motion to stay (*Miller*, DE 85), and discovery is now proceeding against it too.

The parties are in the process of attempting to clear dates to mediate this matter before The Honorable Joseph P. Farina and hope to secure a date in February or March 2017.

IV. PRE-SUIT DEMANDS AND SETTLEMENTS

Since the submission of my Fourth Report, the Court has approved settlement agreements with individuals or entities whom I contended were profiteers. During the same time period, I entered into negotiations with additional individuals and entities that I allege profited from their investments and am currently in various stages of settlement discussions with them.

A. John M. Hood, John Seth Hood, and W. Kyle Green

On or about March 1, 2016, I sent a demand letter to John M. Hood, seeking the monies he received from the Receivership Entities, directly or indirectly, in excess of the monies he paid to the Receivership Entities. After receiving the demand letter, John M. Hood and two other of his acquaintances, John Seth Hood and W. Kyle Green, who had invested in the Receivership Entities, agreed to settle with the Receivership Estate prior to the commencement of litigation. On or about May 6, 2016, I entered into Confidential Stipulations with John M. Hood, John Seth Hood, and W. Kyle Green wherein I agreed to release them from any claims that I could advance against them in return for a monetary settlement and a waiver of claims against the Receivership, subject to Court approval. On August 3, 2016, the Court approved the settlements with John M. Hood, John Seth Hood, and W. Kyle Green. (DE 342).

B. Richard Gerundo

I also sent a demand letter to Richard Gerundo, seeking the monies he received from the Receivership Entities, directly or indirectly, in excess of the monies he paid to the Receivership Entities. On July 6, 2016, I entered into a Confidential Stipulation with Mr. Gerundo wherein I agreed to release him from any claims that I could advance against him in return for a monetary settlement and a waiver of claims against the Receivership, subject to Court approval. On August 3, 2016, the Court approved the settlement with Mr. Gerundo. (DE 341).

C. Joseph Stovall

I also sent a demand letter to Joseph Stovall, seeking the monies he received from the Receivership Entities, directly or indirectly, in excess of the monies he paid to the Receivership Entities. I entered into a Confidential Stipulation with Mr. Stovall on or about August 24, 2016 wherein I agreed to release him from any claims that I could advance against him in return for a

monetary settlement and a waiver of claims against the Receivership, subject to Court approval. On December 29, 2016, I moved the Court to approve the settlement with Mr. Stovall, along with the approval of the settlement with Steve Robison, discussed below. (DE 360). On January 4, 2017, the Court approved the settlement. (DE 366).

D. Steve Robison

On or about October 3, 2016, I entered into a Confidential Stipulation with Mr. Robison wherein I agreed to release him from any claims that I could advance against him in return for a waiver of claims against the Receivership from Mr. Robison and certain of his family members, subject to Court approval. I determined that the value of the claims waived were worth approximately the same as the value of the claims that could have been asserted against Mr. Robison. As stated above, I have moved the Court to approve this settlement, which the Court granted on January 4, 2017. (DE 360, 366).

E. Leslie and Richard Flocker

On December 20, 2016, I entered into a Confidential Stipulation with Leslie and Richard Flocker wherein I agreed to release them from any claims that I could advance against them in return for a monetary settlement and a waiver of claims against the Receivership Estate, subject to Court approval. On December 29, 2016, I moved the Court to approve the settlement with the Flockers, and that motion was granted on January 4, 2017. (DE 363, 367).

F. Future Anticipated Litigation

I am in the process of sending out dozens more demand letters to be sent to individuals and/or entities that I believe received more monies back from the Receivership entities than the amount they invested, and/or should return funds to the Receivership Estate. Accordingly, I am

making demands for such monies under FUFTA, unjust enrichment, and other related theories.⁶ While I hope to be able to resolve such demands without the need for any legal proceedings, I anticipate future litigation.

V. SALE OF HIPP PROPERTIES

After arm's length negotiations and subject to Court approval, I entered into sales contracts to sell two pieces of real property free and clear of liens, claims, encumbrances and other interests, which were assigned to the Receiver by Craig Hipp. Specifically, I received offers from private citizens to purchase residential real estate located at 3049 SW Longleaf Court, Port St. Lucie, Florida 34953 and 3001 SW Longleaf Court, Port St. Lucie, Florida 34953 for gross amounts of \$135,000 and \$93,000, respectively. On August 3, 2016, following the Court's approval to sell these properties subject to notice, overbid, auction, and other procedures in accordance with Title 28, United States Code, Sections 2001 and 2002, the sales were finalized.

VI. OTHER SIGNIFICANT EVENTS

A. Efforts to Recover Monies from Taxing Authorities

Shortly after my appointment as Receiver, I learned that during 2013, TBTI remitted \$500,000 to the Department of the Treasury for the benefit of Paul and Christine Schumacks' purported federal income tax liability. The purported tax liability was a result of TBTI reporting income to the Shumacks that was subject to federal income tax.

⁶ I will be continuing to send demand letters to additional individuals and entities and, if in the best interests of the Estate, initiating legal actions against them for monies they received in excess of their principal investment.

I also discovered that TBTI remitted \$173,353.60 in federal and state payroll taxes to the various taxing authorities associated with the monies that were paid to the Schumacks which TBTI had previously reported as “wages.”

1. Federal and State Payroll Taxes

As I advised the Court in my last report, I filed amended 2013 and 2014 tax returns for TBTI that corrected the inaccurate portrayal of the monies received by the Schumacks as wages. In addition, I instructed my tax accounting professionals to file the necessary forms with the various taxing authorities to attempt to secure a refund of the federal and state payroll taxes previously paid by TBTI. To date, I have received \$176,772.30, which is comprised of \$175,353.60 in refunds that I requested as well as interest.

2. Schumacks’ Federal Income Tax

As a result of the amended 2013 and 2014 TBTI tax returns, the Schumacks have filed individual federal income tax returns for 2013 and 2014 that corrected the inaccurate portrayal of the monies received by the Schumacks from TBTI as income subject to federal income tax. The Schumacks have agreed to turn over any refund they receive as a result of these tax filings to the Receiver for the benefit of the Receivership Estate. To date, I am unaware of any refunds that have been issued yet concerning these filings. The Schumacks have permitted the Internal Revenue Service to send any refunds directly to my professionals as part of their continued cooperation and the Assignment and Assumption Agreement.

3. Florida Department of Revenue – Request for Refund of “Sales” Tax

Following the Florida Department of Revenue’s (“FDOR”) denial of my request that it refund monies that JCS paid as purported “sales” taxes in 2013, my counsel submitted a Petition

for Reconsideration of Refund Denial to FDOR pursuant to the Florida Administrative Code. My counsel and I had subsequent conversations with FDOR, as well as with the Florida Office of Financial Regulation, in an attempt to obtain a refund prior to commencing legal action in state circuit court against FDOR.

Ultimately, the matter was amicably resolved without the need for litigation. In or about October 2016, FDOR remitted a full refund of the alleged sales tax in the amount of \$54,604.03 to the Receivership Estate.

VII. THE CLAIMS PROCESS

I am continuing to work to complete and file a motion asking the Court to pool the assets among the various Receivership Entities and approve a claims process and plan of distribution, among other things (“Claims Motion”). While in my Fourth Report I informed the Court that I anticipated filing such a motion by the end of the summer, my plans were delayed as a result of the recent litigation and settlements set forth above, which infused significant assets into the Estate. I am confident that I will be filing the Claims Motion by no later than February 28, 2017. The Claims Motion will contain, among other things, my recommended schedule for the claims process and initial distribution plan to approved investors and third-party creditors.

The Court should be aware that since the Receivership’s inception, I have spoken with hundreds of investors and creditors, who are curious when I will be making a distribution of monies. I have explained to them that the first step in such a process is the filing of the Claims Motion. I have also explained that after I file the Claims Motion, I am unable predict a future timeframe for an initial distribution because such a motion will be subject to objections, possible litigation, and this Court’s consideration. I update the Court with this information so that it is aware that the Claims Motion is currently one of my highest priorities.

VIII. CONCLUSION

In conclusion, I am continuing to carry out my directives under the Receivership Order. I plan to submit additional status reports from time to time, and the facts and conclusions in this Fifth Report are subject to change as my investigation and litigation progresses during the course of the Receivership.

Executed on this 11th day of January, 2017.

Respectfully submitted,

/s/ James D. Sallah

James D. Sallah, Esq.,
Not individually, but solely in my capacity as
Receiver of JCS Enterprises, Inc. d/b/a JCS
Enterprises Services, Inc., T.B.T.I., Inc., JOLA
Enterprise, Inc., PSCS Holdings, LLC, and My Gee
Bo, Inc.