

**UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

**KINETIC INVESTMENT GROUP, LLC and
MICHAEL SCOTT WILLIAMS,**

CASE NO.: 8:20-cv-394

Defendants, and

**KINETIC FUNDS I, LLC,
KCL SERVICES, LLC d/b/a LENDACY,
SCIPPIO, LLC, LF 42, LLC, EL MORRO
FINANCIAL GROUP, LLC, and KIH, INC.,
f/k/a KINETIC INTERNATIONAL, LLC,**

Relief Defendants.

RECEIVER'S SECOND INTERIM REPORT

Mark A. Kornfeld, Esq., in his capacity as the court-appointed Receiver (the “Receiver”) for Kinetic Investment Group, LLC (“KIG”), Kinetic Funds I, LLC (“Kinetic Funds”), KCL Services, LLC d/b/a Lendacy (“Lendacy”), Scipio, LLC (“Scipio”), LF 42, LLC (“LF42”), El Morro Financial Group, LLC (“El Morro”), and KIH Inc., f/k/a Kinetic International, LLC (“Kinetic International”) (collectively, the “Receivership Defendants”), respectfully files his Second Interim Report (the “Second Report”) covering information and activity occurring from April 1, 2020 to June 30, 2020. In addition to providing notice of the receivership to all known investors shortly after his appointment, the Receiver has also established an informational website at www.kineticreceivership.com, which is regularly

updated with important court filings (including previous and subsequent Interim Reports), announcements, and other news that might be relevant to interested parties.

TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	<u>Overview of Significant Activities During This Reporting Period</u>	1
II.	BACKGROUND	
A.	<u>Procedure and Chronology</u>	5
B.	<u>The Receiver's Role and Responsibilities</u>	6
C.	<u>Receivership Defendants</u>	7
IV.	OVERVIEW OF RECEIVER'S PRELIMINARY FINDINGS	8
A.	<u>Discrepancies Between Kinetic Funds' Actual And Reported Performance</u>	8
B.	<u>Kinetic Funds Management Fees</u>	11
C.	<u>Lendacy's Funding Source Was Kinetic Funds</u>	12
D.	<u>Significant Losses From Association With VTrader Pro, LLC</u>	13
E.	<u>Williams' Use Of Investor Funds For His Own Benefit</u>	14
V.	ACTIONS TAKEN BY RECEIVER DURING REPORTING PERIOD	15
A.	<u>Investigating and Obtaining Turnover Of Williams' Luxury Puerto Rico Apartment Multiplex</u>	15
B.	<u>Securing and Liquidating Physical Gold Holdings</u>	17
C.	<u>Marketing The El Banco Espanol Building In Puerto Rico</u>	17
D.	<u>Litigation Matters</u>	19
E.	<u>Investigation Of Brokerage Account Assets And Margin Debt</u>	20
F.	<u>Analysis Of Kinetic Funds and Lendacy Transactions And Formulation Of Framework For Claims Process To Be Submitted For Court Approval</u>	24
G.	<u>Ongoing Efforts to Obtain Documentation And Information From Parties And Non-Parties</u>	25
H.	<u>Securing And Vacating the Sarasota Office</u>	26
I.	<u>Continued Investor Outreach And Administration Of Website</u>	26
VI.	THE NEXT QUARTER	27
A.	<u>Investigation</u>	27
B.	<u>Formulation and Submission Of Claims Process For Court Approval</u>	27
C.	<u>Liquidation of Assets</u>	28
D.	<u>Potential Third-Party Claims</u>	29

I. INTRODUCTION

A. Overview of Significant Activities During This Reporting Period

During the time period covered by this Interim Report (April 1, 2020 to June 30, 2020), the Receiver and the team of retained professionals have engaged in significant activities including but not limited to:

1. Motion for Turnover

- The Receiver filed a Motion for Turnover of a Puerto Rico luxury apartment complex previously purchased by Defendant Williams in May 2017 for approximately \$1.7 million which he used as his personal residence and for his personal benefit. The Receiver determined that the complex was purchased with Kinetic Funds' investor monies (Doc. 72). Through a resolution reached by the Receiver and Williams' counsel that was memorialized in a stipulation filed on July 6, 2020, and approved by the Court on July 8, 2020 (Doc. 105), the Motion for Turnover was resolved by consent and resulted in the agreement to transfer title to the apartment complex and associated parking spaces from Williams to the Receiver. At some point in the future, the Receiver may seek to liquidate these assets to cash, which would then be part of monies he hopes to distribute back to investors.

2. Sale of Gold

- The Receiver secured and liquidated gold coins located in the Sarasota Office in a process that obtained bids from seven local and national businesses and ultimately resulted in the receipt of over \$200,000 in proceeds for the Receivership Estate.

3. Efforts to Market and Liquidate the El Banco Espanol Building in San Juan, Puerto Rico

- The Receiver undertook an analysis of a potential sale of the historic El Banco Espanol building located in San Juan Puerto Rico and purchased by Mr. Williams with monies directly traceable to Kinetic Funds investors. These efforts included obtaining several appraisals, interviewing potential real estate brokers, reviewing and soliciting offers, analyzing the commercial and general real estate market in Puerto Rico, and assessing the most cost-efficient method for liquidating the asset, and maximizing the recovery for investors. The Receiver's efforts are ongoing and his primary consideration is to liquidate the building in a manner that results in the highest possible proceeds to the Receivership Estate.

4. Successfully Opposed Mr. Williams' Motion for Emergency Relief

- The Receiver filed a Response to Defendant Williams' Emergency Motion for Clarification (Doc. 54) opposing Williams' efforts to unfreeze a significant amount of funds frozen pursuant to the Court's entry of asset freeze orders on March 6, 2020. The Court largely denied the Motion and left the freeze in place with respect to a majority of the funds sought to be unfrozen.

5. The First Interim Report

- The Receiver prepared and filed his First Interim Report (Doc. 60), which provided a comprehensive summary, analysis, and supporting documentation of the Receiver's initial investigation as well as the tracing of investor funds.

6. The Receiver's Liquidation Plan

- The Receiver prepared and filed his Liquidation Plan setting forth a plan for the fair, reasonable, and efficient recovery and liquidation of all remaining, recovered, and recoverable Receivership Property (Doc. 92).

7. Analysis of and Motion to Repay Margin Obligations at Interactive Brokers

- The Receiver and his professionals continued to research, review, and analyze nearly a decade worth of investor and bank statements, documents reflecting Kinetic Funds' brokerage account relationships with Bank of America/Merrill Lynch and subsequently Interactive Brokers, and certain separate assets purportedly managed by Mr. Williams outside of the Kinetics Funds for the benefit of specific investors. The Receiver's investigation has resulted in the (i) liquidation of Kinetic Funds sub-accounts resulting in cash proceeds of approximately \$13 million; (ii) identification of an additional approximately \$10 million in securities positions in two separate accounts apparently held on behalf of two investors; and (iii) approximately \$12 million in total margin debt across several sub-accounts including a sub-account containing a margin balance of nearly \$8 million.

The Receiver continued to analyze (among other things) the origin, source, and ultimate legal responsibilities for the repayment of the margin debt (in order to minimize ongoing and accruing interest payments) in order to be able to seek authorization to transfer the maximum net proceeds into the Receiver's fiduciary account for the benefit of investors.¹

¹ Shortly after the conclusion of this reporting period, the Receiver filed his Motion to (i) Approve Determination of Brokerage Account Margin Obligation; (ii) Partially Liquidate Investor Accounts to Satisfy Margin Obligations; (iii) Repay Remaining Margin Balance; and

8. Formulation and Determination of Equitable Claims Process and Procedures

- The Receiver and his professionals continued the forensic investigation of investor deposits and withdrawals in order to determine and formulate an equitable and efficient claims process for the Court's approval.

9. Lendacy

- The Receiver and his professionals continued their comprehensive analysis and tracing of loans, repayments, transfers, and outstanding balances for more than two dozen loans made to Kinetic investors and non-investor Kinetic employees and insiders, and assessed/analyzed the corresponding impact as part of the claims determination and methodologies processes being contemplated by the Receiver to ultimately be presented for the Court's approval.

10. Consent Judgment

- The Receiver entered into a Consent Judgment on behalf of the Receivership Entities in the underlying litigation which served to eliminate further expenditure of time and resources.

11. Administration of Monies in Response to Court Order

- The Receiver obtained Court approval for the transfer of approximately half a million dollars previously held in trust from Mr. Williams former law firm into the Receiver's separate, fiduciary bank account, for the purpose of administering Court-ordered monthly living expenses to Mr. Williams out of these proceeds instead of from current Receivership assets secured by the Receiver.

12. Litigation Claims

- The Receiver continued to analyze potential litigation claims against third parties that may have received funds from or otherwise provided services to or for the benefit of any Receivership Entities.

(iv) Transfer Majority of Remaining Receivership Cash Assets to Fiduciary Bank Accounts (Doc. 108). The Receiver filed that Motion seeking to have the Court approve the conclusions from his investigation and to potentially avoid spending nearly \$6 million in investor funds to cover non-receivership margin obligations. That Motion remains pending.

13. Continued Investigation And Review of Relevant Documentation and Information

- The Receiver and his professionals continued their investigation of the business operations of the various Receivership Entities. This included identifying, obtaining, and reviewing relevant documentation and information from the Receivership Entities' offices and interviewing various individuals, as well as securing three additional computers previously used by one or more Receivership Entities in Puerto Rico. The Receiver also served 12 non-parties with a copy of the Order Appointing Receiver and issued 11 subpoenas.

14. Terminated Lease At Sarasota Office And Stored Contents For Liquidation

- The Receiver determined to vacate and terminate the lease for the office used by Receivership Entity Kinetic Funds I, LLC in Sarasota, Florida to avoid incurring the monthly \$6,000 rent. The Receiver inventoried and transferred the office contents into storage units and is in the process of determining the appropriate disposition of those contents.

15. Continued Investor Outreach and Website Updates

- The Receiver responded to phone calls and written communications from Kinetic Funds investors and also continued to provide updates and announcements on the informational website at www.kineticreceivership.com for investors and other interested parties.

In summary, as of the date of this Report, the Receiver has (i) secured and frozen cash and non-cash assets worth approximately \$21 million in bank and brokerage accounts; (ii) secured significant real property assets, which upon liquidation should result in an additional \$2+ million in proceeds deposited with the Receivership Estate; and (iii) investigated the over-\$12 million in margin debt sitting in Kinetic sub-accounts at Interactive Brokers and sought Court approval for his determination that Kinetic Funds should only be legally responsible for a small fraction of that balance.² Through these efforts, the Receiver has sought to and

² The Standardized Fund Accounting Report for the relevant period prepared by the Receiver's accountant is attached hereto as **Exhibit 1**.

continues to investigate the relevant issues in order to enforce the Estate's rights and protect and maximize the Kinetic Funds' assets available for future return to investors. The above-referenced activities are discussed in more detail in the pertinent sections of this Interim Report.

II. BACKGROUND

A. Procedure and Chronology

On February 20, 2020, the Commission filed a complaint (the "Complaint") (Doc. 1) in the United States District Court for the Middle District of Florida (the "Court") against Defendants and Relief Defendants alleging that Defendants violated the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Advisers Act of 1940 by making false or materially misleading representations to investors and that over \$6 million of investor funds was misappropriated to fund other business ventures and pay for other unauthorized expenses. Doc. 1 ¶¶ 4, 28-38.

The Complaint alleged that the scheme involved securities offerings made on behalf of Kinetic Funds, a purported hedge fund with a sub-fund structure managed by Kinetic Investment Group and Williams. *Id.* ¶ 2. Defendants represented to investors that the largest sub-fund, KFYield, invested all of its assets in income-producing U.S. listed financial products hedged by listed options. *Id.* Potential investors were told that KFYield was a liquid investment that would "maintain 90% principle [sic] protection" and that an investor could redeem their principal investment "100% . . . without penalties" with a 30-day written notice. *Id.* ¶¶ 2, 28. Investors in the KFYield fund, which attracted the near-entirety of investor funds entrusted to Kinetic Funds, were routinely provided with documentation from Bloomberg's

reporting service that claimed KFYield had achieved positive annual returns every year since inception. *Id.* ¶ 24. Many, but not all, investors were also attracted to the Kinetic Funds investment opportunity by the advertised ability to simultaneously obtain low-interest and unsecured loans from Lendacy based on their KFYield investment and with the understanding that 100% of their KFYield investment would continue earning dividends. *Id.* ¶ 28.

On March 6, 2020, the Court entered the Order Appointing Receiver. By separate Order, the Court also granted the Commission's Motion for Asset Freeze and granted other relief as to all Defendants (Doc. 33). Among other things, the Orders froze Defendants' assets and enjoined any further violations of federal securities laws.

On May 12, 2020, Defendant Williams filed his Answer and Affirmative Defenses to the Commission's Complaint in which he denied the Commission's substantive allegations and set forth 13 affirmative defenses (Doc. 56). On May 28, 2020, the Commission filed its Motion for Judgment of Permanent Injunction following the Receiver's execution of a Consent Judgment on behalf of the various Receivership Entities named in the Complaint. Doc. 86. The parties are scheduled to mediate this case on August 28, 2020 (Doc. 96).

B. The Receiver's Role and Responsibilities

As an independent agent of the Court, the Receiver's powers and responsibilities are set forth in the Order Appointing Receiver which provides, in relevant part, that the Receiver:

- “[S]hall have all powers, authorities, rights and privileges heretofore possessed by the officers, directors, managers and general and limited partners of the Receivership Defendants under applicable state and federal law...” and “shall assume and control the operation of the Receivership Defendants and shall pursue and preserve all of their claims.” Doc. 34 ¶¶ 4-5;
- Shall “take custody, control, and possession of all Receivership Property and records relevant thereto from the Receivership Defendants...” and “manage,

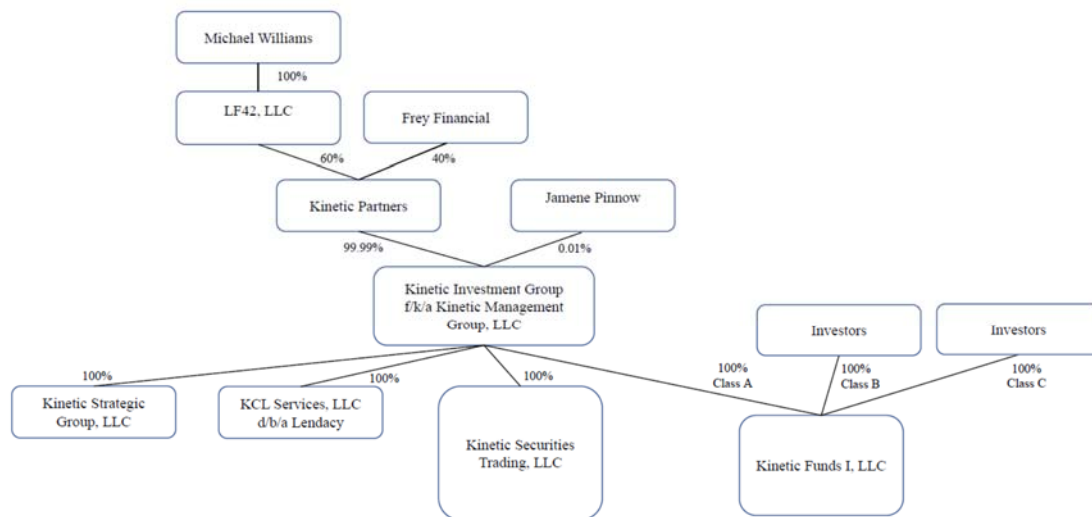
control, operate and maintain the Receivership Estates and hold in his possession, custody and control all Receivership Property pending further Order of this Court.” *Id.* ¶ 7(B);

- Is “authorized, empowered, and directed to investigate the manner in which the financial and business affairs of the Receivership Defendants were conducted and...to institute such actions and legal proceedings...as the Receiver deems necessary and appropriate...” *Id.* ¶ 37; and
- Is directed to “develop a plan for the fair, reasonable, and efficient recovery and liquidation of all remaining, recovered, and recoverable Receivership Property...and to “file and serve a full report and accounting of each Receivership Estate” for each calendar quarter. *Id.* ¶¶ 46, 48.

As contemplated by the Order Appointing Receiver, the Receiver anticipates seeking Court approval at a future point in time for the institution of an equitable claims process for the benefit of Kinetic Funds investors who have been victimized and suffered legitimate losses as a result of Defendants’ actions, as well as other third-party vendors and/or creditors.

C. Receivership Defendants

The Receiver incorporates by reference herein the descriptions of the various Receivership Defendants and Other Relevant Non-Parties set forth in the First Report. *See* Doc. 60 at pp. 12-16. A previous chart illustrating the relationship between these various entities is reproduced below:



Source: Tax Returns

Companies all used George V. Famiglio Jr. & Associates,
CPAs, 1634 Main Street, Sarasota FL 34236, 941-957-0775

All businesses use address: 1800 Second Street, Suite 955,
Sarasota

IV. OVERVIEW OF RECEIVER'S PRELIMINARY FINDINGS

In his First Report, the Receiver presented a detailed summary of various preliminary findings. Unless specifically indicated herein, those preliminary findings are incorporated herein and remain consistent with the Receiver's ongoing investigation. The Receiver reserves the right to revise, amend, and/or supplement these conclusions as the investigation progresses. The Receiver presents the following non-exclusive conclusions that he continues to supplement based on his preliminary review of the documents in his possession and with the assistance of his legal, accounting, and forensic professionals.

A. Discrepancies Between Kinetic Funds' Actual And Reported Performance

Many investors were attracted to KFYield through promises of consistent investment returns made possible through lower risk, "principle [sic] protection," and "maximum liquidity." KFYield's consistent investment performance was depicted in materials that were distributed to current and prospective investors, including documents from the Bloomberg

listing service displaying the fund's reported performance. The following chart lists KFYield's annual performance from 2013 to 2019 based on figures reported by Bloomberg and distributed to current and prospective investors:

<u>Year</u>	<u>Bloomberg Reported Performance For KFYield Fund</u>
2013	9.79%
2014	21.27%
2015	.21%
2016	2.24%
2017	1.04%
2018	7.09%
2019 (through June 28, 2019) ³	2.45%

Beginning in June 2014, Kinetic Funds maintained brokerage accounts for KFYield and other sub-accounts at Interactive Brokers.⁴ According to Interactive Brokers' Portfolio Analyst tool, KFYield's trading account performance (and change in net asset value) from 2015 to present is below:

<u>Year</u>	<u>Actual Interactive Brokers Performance For KFYield Fund Account</u>
2015	-8.8%
2016	-3.8%
2017	-27.5%
2018	12.8%%
2019	-1.2%

³ The Receiver has not seen any information indicating that Kinetic Funds updated the Fund's performance figures as reported by Bloomberg after September 2019.

⁴ Prior to June 2014, trading accounts for KFYield and other sub-funds were held at Bank of America/Merrill Lynch by Kinetic Securities Trading ("KST"), a predecessor to Kinetic Funds.

There are significant discrepancies between the figures reported by Bloomberg and calculated by Interactive Brokers.

For example, the 2017 annual statement produced by Interactive Brokers for KFYield's trading account showed the following:

Net Asset Value					
	December 31, 2016	December 31, 2017			
	Total	Long	Short	Total	Change
Cash	-11,437,677.94	0.00	-88,877,936.84	-88,877,936.84	-77,440,268.90
Stock	17,653,496.00	104,667,799.00	-219,768.00	104,438,041.00	86,784,646.00
Options	264,376.62	3,067,374.02	-13,927,674.86	-10,860,300.83	-11,124,677.35
Interest Accruals	-4,140.83	0.00	-99,942.86	-99,942.86	-95,802.03
Dividend Accruals	34,887.82	134,620.11	0.00	134,620.11	99,632.29
Total	6,510,940.67	107,869,693.13	-103,126,312.66	4,734,380.68	-1,776,659.99
Time Weighted Rate of Return					-27.62%

According to this statement, KFYield had a Net Asset Value ("NAV") of \$6,510,940.57 as of December 31, 2016. The statement shows that KFYield's NAV declined to \$4,734,380.58 as of December 31, 2017 - an annual change of -\$1,776,559.99 or -27.62% of the account's NAV. As of December 31, 2017, the account holdings consisted of over \$104 million in stock positions, -\$10.8 million in net options positions, and a cash balance of nearly -\$89 million.

Another portion of that statement entitled "Change in NAV" showed a break-down of the annual change in the NAV during that period:

Change in NAV	Total
Starting Value	6,510,940.67
Mark-to-Market	-3,164,606.38
Position Transfers	16,684.00
Dividends	1,923,148.82
Withholding Tax	-2,036.76
Change in Dividend Accruals	99,632.29
Interest	-439,632.20
Change in Interest Accruals	-95,802.03
Other Fees	-253.30
Commissions	-120,842.30
Transaction Fees	-2,953.13
Ending Value	4,734,380.68

As the statement shows, the KFYield account generated nearly \$2 million in dividends during this period but also incurred mark-to-market losses of over -\$3.1 million and paid over \$500,000 in commissions and margin interest charges.

These figures contrast with representations made to investors in a quarterly report distributed by Kinetic Investment Group and in the fund's reported performance data on Bloomberg. For example, the 2017 Q4 Quarterly Report's "4th Quarter Review" authored by Williams stated that "Last year maintained a conservative approach of over-hedging against potential market volatility." The Bloomberg report included with that Quarterly Report showed that the fund had total assets of \$31.78 million and that its year-to-date performance (as of December 29, 2017) was 1.04%. The Receiver has made requests to Williams' counsel for more information and clarification regarding the calculation of investment performance for KFYield but has, to date, not received any formal response.

B. Kinetic Funds Management Fees

The Receiver's investigation shows Kinetic Funds and Lendacy made total transfers of nearly \$5 million to Kinetic Investment Group over the relevant period. Although the agreements between Kinetic Funds and its investors specified that Kinetic Funds would pay Kinetic Investment Group a management fee of 1% of assets under management as well as 20% of any profits realized from trading of investor assets, the total transfers of nearly \$5 million appear to be significantly larger than what the 1% "expense ratio" for assets under management would have been even using the numbers reported to investors at the end of each calendar year.⁵ Based on the Receiver's investigation, it appears that at least a portion of these

⁵ This also assumes that Kinetic Investment Group was entitled to receive this "expense ratio"

transfers were used by Kinetic Investment Group for other unauthorized expenses that did not benefit investors. For example, El Morro Financial received nearly \$1 million in transfers from Kinetic Investment Group during the period of March 2017 to December 2019. *See* First Report pp. 47-53.⁶ The Receiver continues to investigate these discrepancies.

C. Lendacy's Funding Source Was Kinetic Funds

Lendacy received approximately \$16.2 million into its bank accounts from February 2013 to March 2020, including nearly \$13 million in transfers of investor funds from Kinetic Funds' bank account. Lendacy used these transfers to fund at least 28 loans to various individuals and entities during that time period. These loans often featured significantly below-market rates, were not typically collateralized, and contained little recourse in the event of default. Of those 28 loans, at least four were made to insiders (such as Williams, his related entities, and employees) and non-KFYield investors.⁷

D. Significant Losses From Association With VTrader Pro, LLC

At the March 6, 2020 hearing, Williams' counsel disclosed that part of the Kinetic Funds asset shortfall identified by the Court was attributable to losses suffered in connection with Kinetic Funds' previous relationship with a failed broker-dealer named VTrader Pro,

fee even if a majority of investor funds were never deposited into brokerage accounts as represented.

⁶ The vast majority of these transfers appear to have been made pursuant to monthly invoices ranging from \$25,000 to \$50,000 generated by El Morro for purported services relating to "Statement Reporting" and other various expenses apparently for Kinetic Funds investors. El Morro also funded a lavish Kinetic Financial Summit in San Juan, Puerto Rico in early 2019 that had no discernible benefit to Kinetic Funds investors.

⁷ With the exception of Williams, none of those loan recipients had an underlying investment with KFYield, which means that their loan would have likely been funded with other investor funds.

LLC (“VTrader”). The Receiver has seen evidence that Kinetic Funds’ predecessor, KST, was a Class B, “Entrepreneurial Member Trader” of VTrader before VTrader’s registration was terminated in January 2013.⁸ As an “Entrepreneurial Member Trader,” KST shared in the profits and losses of VTrader and received distributions based on the percentage of profits in its individual trading accounts. Additionally, KST’s trading accounts were assets of VTrader and subject to VTrader’s obligations and third party claims.

At some point in 2011, VTrader suffered heavy losses and needed a capital infusion to remain viable. To this end, Williams agreed to exchange \$1 million from the KST Class B investment in VTrader and convert it to Class A stock. The Receiver is also investigating evidence that KST leveraged its margin capabilities at its then-current broker-dealer to generate sufficient funds for a separate entity to make a multi-million dollar Class A investment in VTrader. VTrader subsequently collapsed, resulting in the loss of both KST’s \$1 million investment as well as the multi-million dollar loan extended on behalf of the similarly-situated party. It appears those losses were satisfied by (and depleted) investor assets.⁹ The Receiver’s investigation into these events has been hampered by the passage of nearly ten years from these events and the unavailability of sufficient documentation, but it appears that investor funds were adversely affected by these events.

⁸ See <https://brokercheck.finra.org/firm/summary/131920>.

⁹ In January 2012, VTrader informed Williams that most of the \$1 million that KST had converted to Class A stock had been used to pay down debt balances owed by Class B members and was gone. With respect to the \$1 million Williams converted into a Class A investment, it appears that KST received only \$5,000 in the liquidation. Thus, in addition to any trading losses KST incurred on its subaccounts, it also seemingly lost nearly \$1,000,000 as a result of its Class A investment in VTrader.

E. Williams' Use Of Investor Funds For His Own Benefit

The Receiver's review of the financial transactions among the various Receivership Entities has allowed him to trace millions of dollars in investor funds that were transferred to or for the benefit of Defendant Williams and without any discernible authorized purpose or benefit to Kinetic Funds. As further detailed in the First Report, these transfers include:

- The use of \$1.7 million in investor funds, later classified as a Lendacy loan, to purchase a luxury apartment multiplex in Puerto Rico and corresponding parking spaces. In addition to using one of the apartments as his primary residence, Williams also rented out one of the units to a tenant for which he received monthly rental income not turned over to Kinetic Funds (*See First Report pp. 43-44*);
- The use of \$2.7 million in investor funds, later classified as a Lendacy loan, to purchase a historic commercial bank building in San Juan, Puerto Rico on behalf of Receivership Entity Scipio, LLC (*See First Report pp. 45-46*);
- The use of \$2 million in investor funds, later classified as a Lendacy loan on behalf of Receivership Entity LF42, for various expenses relating to several Receivership Entities located and operating in San Juan, Puerto Rico, including the funding of the "Kinetic Summit" in February 2019 (*See First Report p. 47*);
- The payment of nearly \$1 million in investor funds to Receivership Entity El Morro Financial purportedly for statement preparation and other services and the payment of more than \$50,000 in salary to Williams from mid-2017 to mid-2019. Several \$10,000 checks were also written payable to (and signed by) Williams in late 2019 that contained the notation "Consulting Fee" in the memo portion:

1207

EL MORRO FINANCIAL
83 PALMERAS ST, SUITE 803
SAN JUAN, PR 00901

SCOTIABANK DE PUERTO RICO
WWW.SCOTIABANKPR.COM

101-286215

DATE August 23, 2019

PAY TO THE ORDER OF Michael Williams \$ 10,000.00

Ten Thousand 00/100****

MEMO May 2019 - backpay - Consulting Fee (El Morro)

001207 021502804 987 00055388 1

1208

EL MORRO FINANCIAL
83 PALMERAS ST, SUITE 803
SAN JUAN, PR 00901

SCOTIABANK DE PUERTO RICO
WWW.SCOTIABANKPR.COM

101-286215

DATE August 23, 2019

PAY TO THE ORDER OF Michael Williams \$ 10,000.00

Ten Thousand 00/100****

MEMO Aug 2019 - backpay - Consulting Fee (El Morro)

001208 021502804 987 00055388 1

(See First Report pp. 47-53);

- The structuring of at least one “Consulting Agreement” between Kinetic Investment Group and LF42, Williams’ entity, including an agreement in September 2019 - after Williams was on notice of the Commission’s investigation - pursuant to which Kinetic Investment Group transferred \$10,000 per month to LF42 from September 2019 to February 2020 for Williams’ benefit (See First Report p. 47);
- The sale of Williams’ car to an employee in the Sarasota, Florida Kinetic Funds office for which the employee signed a Lendacy loan for \$18,000 and the same sum was wired to Williams (See First Report p. 47); and
- Arranging for who the Receiver understands to be Williams’ girlfriend to be on the payroll of Kinetic Investment Group despite the lack of any justifiable business purpose or services for value (See First Report pp. 47).

V. ACTIONS TAKEN BY RECEIVER DURING REPORTING PERIOD

During the period covered by this Interim Report, the Receiver took a number of steps to fulfill his duties under the Order Appointing Receiver.

A. Investigating and Obtaining Turnover Of Williams' Luxury Puerto Rico Apartment Multiplex

The Commission's Complaint alleged that Williams "used KFYield funds" to purchase "three luxury apartments and two parking spaces for himself in San Juan, Puerto Rico." Doc. 1 ¶ 34. The Receiver's investigation revealed evidence supporting these allegations. *See, e.g.*, First Report pp. 43-44. On March 6, 2020, Williams' counsel informed the Receiver's counsel of their position that the Villa Gabriella property was not subject to the Receiver's reach since it was held and owned by Williams individually. The Receiver agreed temporarily not to seek possession of the Villa Gabriella property in which Williams (and his girlfriend) were allegedly living.

The Receiver's investigation showed that funds from Kinetic Funds' bank account were directly traceable to the purchase of Villa Gabriella. On May 15, 2020, the Receiver filed his Motion for Possession of and Title to Residential Real Property (the "Motion for Turnover") (Doc. 72) seeking turnover of Villa Gabriella in order to secure and liquidate the property to generate additional funds to be used to compensate Kinetic Funds investors. After the Motion for Turnover was filed, the Receiver was approached by Defendant Williams' counsel and subsequently entered into an agreement to resolve the Motion for Turnover which, in relevant part, provided for the transfer of title of Villa Gabriella to the Receiver and permitted the Receiver to take steps to market and sell the property in the event the scheduled mediation on August 28, 2020 was unsuccessful. This agreement was set forth in the Joint

Stipulation filed on July 6, 2020, and later adopted by the Court on July 8, 2020 (Doc. 105). The Receiver believes the Stipulation was a successful and cost-effective resolution of the Motion for Turnover as it avoided any further expense and uncertainty in litigating and arguing the Motion for Turnover and also resulted in the agreement to transfer title to (and possession of in the event that mediation is unsuccessful) the property to the Receiver.

Since the entry of the Order approving the Stipulation, the Receiver has been involved in discussions with potential real estate professionals regarding the appraisal and sale of the property in order to allow him to be in the position to market and sell the property if the scheduled mediation results in an impasse.

B. Securing and Liquidating Physical Gold Holdings

During the process of securing the Sarasota Office, the Receiver discovered a safe containing a significant number of gold coins. After obtaining the safe code, the Receiver took possession of the gold coins. Pursuant to the authority under Paragraph 31 of the Order Appointing Receiver, which permits the Receiver to dispose of any Receivership Property (except real estate) without further Order of the Court and in the ordinary course of business, the Receiver subsequently marketed the gold coin holdings to various local and national purchasers. The Receiver received seven bids, consisting of offers to purchase the gold based on a percentage of the prevailing spot price, and ultimately selected the highest bid which offered 100% of the current spot price. This resulted in net proceeds of \$223,877.75, which were received and deposited into the Receiver's fiduciary bank account.

C. Marketing The El Banco Espanol Building In Puerto Rico

In or around May 2018, Receivership Entity Scipio, LLC entered into an agreement to purchase the historic Banco Espanol building located at 152 Tetuan Avenue, San Juan, Puerto Rico (the “Bank Building”). The Receiver’s investigation showed that approximately \$2.75 million of funds from Kinetic Funds’ bank account were used to purchase the Bank Building and that Scipio was listed as the buyer on the purchase agreement. Like the Villa Gabriella purchase, Williams apparently created documents after the sale to make the transaction look like a Lendacy loan even though there was no application or approval for any loan. And while Lendacy loans were traditionally extended to Kinetic Funds investors based on a percentage of that underlying investor’s Kinetic Funds investment, Scipio was not and had never been a Kinetic Funds investor. According to Lendacy’s former President, Williams sought to purchase the building to create a private club for billionaires, among other uses. This purchase was not for the benefit of investors in Kinetic Funds.

The Receiver’s counsel traveled to Puerto Rico to secure and take possession of the Bank Building on March 7, 2020. With the exception of a small art school occupying a portion of the ground floor, the building was vacant, and no substantive work appears to have occurred at the building for some time, if ever. Following Williams’ representation at the hearing on March 6, 2020, that a recent appraisal valued the building at \$5 million, the Receiver obtained that appraisal and determined that the \$5 million figure was valid only assuming that more than \$2 million in construction-related expenses were undertaken and completed. Otherwise, the building was appraised at a \$2.9 million “as-is” value. That appraisal was also completed in September 2019 - six months prior to the March 2020 hearing.

The Receiver obtained two additional appraisals for the Bank Building which valued the building at \$1.86 million and \$2.33 million, respectively. Each of the appraisals obtained by the Receiver references the significant repairs likely needed for any contemplated use of the Bank Building, with one appraisal observing that the building “requires a complete interior renovation” and the other noting that the “general physical condition of interior areas can be rate [sic] as poor.”

The Receiver has been evaluating the steps and process to liquidate the Bank Building given the unique nature of the property and the current global environment. As set forth in the Liquidation Plan (Doc. 92), the Receiver has given consideration to: (i) whether a public or private sale is most appropriate given the property’s individual characteristics and likelihood of generating the optimal recovery for the receivership estate; (ii) input and recommendations from real estate professionals as to the potential market and marketability of any property; and (iii) the need to seek Court approval to modify or deviate from the statutory procedures set forth in 28 U.S.C. §§ 2001 and 2004. The Receiver has spoken with and received proposals from real estate professionals about both a private and public sale mechanism and currently believes that a private sale will likely be the most efficient and cost-effective method for the Receivership Estate. To the extent the Receiver receives an offer which he believes is appropriate to accept, he will then seek approval from the Court of the proposed purchase agreement and sale. Any net proceeds from the sale will then be deposited into the appropriate Receivership Entity bank account.

D. Litigation Matters

The Receiver has also, as necessary, tended to various pending litigation matters in this case including pleadings filed by Williams, resolution of the Commission's charges against the Receivership Entities, and providing regular updates to the Court. This included the Receiver's filing of an Opposition to Defendant Williams' Emergency Motion for Clarification in which the Receiver opposed efforts to unfreeze a significant amount of funds which Williams contended were not subject to the Court's asset freeze orders (Docs. 49, 51, 54). The Receiver also worked with counsel for Williams and the Commission to obtain possession of over \$500,000 in funds then being held in trust by Williams' former law firm, and those funds were transferred to a separate fiduciary account established by the Receiver. At the Receiver's request, those funds - and not investor funds seized from the various Receivership Entities - are being used to pay Court-ordered monthly living expenses to Williams (Doc. 95). The Receiver also entered into a Consent Judgment on behalf of the Receivership Entities in May 2020, which served to resolve any further participation by the Receivership Entities in the ongoing litigation.

Pursuant to the Order Appointing Receiver, the Receiver has also updated the Court and interested parties of his continuing progress in this case through the preparation of the First Report (Doc. 60) and the Liquidation Plan (Doc. 92). The First Report presented a detailed summary of the status of the investigation performed by the Receiver and his professionals, while the Liquidation Plan detailed the Receiver's proposed plan for disposing and liquidating of various assets. Both of those reports are available on the Receiver's information website established at www.kineticreceivership.com.

E. Investigation Of Brokerage Account Assets And Margin Debt

Following his appointment, the Receiver took immediate steps to identify, secure, and review Kinetic Funds' brokerage accounts at Interactive Brokers. Notwithstanding Defendant Williams' representations about a separate account relationship at Dash Financial, the Receiver understands that Interactive Brokers held all of Kinetic Funds' brokerage accounts.¹⁰ Through continuing discussions with Interactive Brokers and Kinetic Funds' head trader in the Sarasota Office, the Receiver was able to successfully liquidate all positions in the various sub-fund trading accounts for Kinetic Funds at Interactive Brokers as of March 20, 2020.

The Receiver's investigation also revealed the presence of a significant -\$7.7 million margin balance in a Kinetic Funds sub-account at Interactive Brokers with an account number ending in x2028 (the "2028 Account"). The 2028 Account had not been previously disclosed in any pleadings or during the March 6, 2020 hearing. Rather than immediately repay the margin debt in the 2028 Account, which would have significantly depleted a large portion of the available assets held in the Kinetic Funds account structure, the Receiver determined that an investigation was necessary to determine the origin and history of that margin balance and whether or not Kinetic Funds was obligated to pay the entire (or any portion of the) balance.

¹⁰ Shortly after the hearing where the Court verbally granted the Commission's pending motions, the Receiver received phone calls and correspondence from Williams' then-current counsel seeking urgent approval of a "pending wire that needs to be approved today of \$1.5 million to the brokerage account with Dash in order to continue to facilitate hedging and trading operations." The Receiver's counsel later learned that Williams had been attempting to open a new brokerage account for the KFYield Fund at Dash following Interactive Brokers' decision to freeze the Kinetic Funds accounts in mid-to-late January 2020. Dash later confirmed to the Receiver's counsel that the Williams was still in the initial account setup process and that no funds ever were transferred to those accounts. Thus, Williams' indication that the "time sensitive" \$1.5 million transfer was needed to "facilitate hedging and trading operations" does not appear to be accurate. The Receiver did not transfer any monies to Dash.

The Receiver also noted that two other Kinetic Funds sub-accounts ending in x4167 (the “4167 Account”) and x4170 (the “4170 Account”) appeared to be distinct from those sub-accounts used for Kinetic Funds’ securities trading and that the 4167 Account had a large holding of Johnson & Johnson (“J&J”) shares and correspondingly large margin balance. The Receiver and his professionals have made considerable progress investigating these issues.

Kinetic Funds has maintained sub-accounts at Interactive Brokers since June 2014. During June 2014, Kinetic Funds’ transferred in securities positions totaling \$14.6 million and a net cash balance (margin loan) of -\$11.89 million to an Interactive Brokers account ending in 8796 that served as a clearing account for assets moved into specific hedge funds (the “8796 Account”). These positions and margin balance came from accounts held by Kinetic Funds’ predecessor KST at Bank of America/Merrill Lynch (“BOA/ML”). Although Kinetic Funds’ account statements from Interactive Brokers provide information about the assets and margin balances after the June 2014 transfers by KST, little was known about the account relationships and balances at the prior brokerage BOA/ML.

The Receiver recently obtained brokerage statements for KST’s sub-accounts at BOA/ML during 2013 and 2014. In addition to showing the various sub-accounts representing KF Yield, KF Gold, and other sub-funds offered by Kinetic Funds, those statements also show two separate sub-accounts which appeared to be the predecessors of the 4167 Account and the 4170 Account (the “BOA Accounts”) which were owned by two Kinetic Funds investors who also had a separate management arrangement with Williams. Although a review of the BOA Accounts show that they appeared to have been separately maintained and not otherwise commingled with any other KST sub-accounts, it also revealed

the existence of margin balances in each of the BOA Accounts that collectively totaled approximately \$5.7 million as of June 4, 2014. The underlying account statements showed that the sub-account holding the large J&J position accrued the vast majority of that margin balance, which increased from roughly -\$4.63 million as of January 1, 2013 to -\$5.66 million as of June 4, 2014, and that the increase during that period was nearly entirely attributable to significant options purchases as part of a hedging strategy on the large J&J position that was the subject of a separate arrangement between Williams and that investor.

Based on this review as well as other evidence showing that the J&J position appears to have been used as collateral for significant loans benefitting the account owner dating back to the mid-2000's, the Receiver now believes that the total margin balance of roughly -\$5.7 million accrued in and for the benefit of the BOA Accounts as of June 4, 2014 was included in the roughly -\$11.8 million margin balance transferred by Kinetic to the 8796 Account in June 2014 (the "2014 Margin"). Yet, following that June 2014 transfer to Interactive Brokers, the 2014 Margin was never re-allocated to the respective sub-accounts (i.e., the 4167 Account and the 4170 Account) as had been done at BOA/ML. Rather, the entire balance (including the balance attributable to the BOA Accounts) remained in the 8796 Accounts for several years. On or around December 29, 2016, the KF Bank Account transferred \$5 million to the 8796 Account which served to reduce the outstanding balance of the 2014 Margin. The funds used to make this payment were investor dollars that were supposed to be invested in the KFYield fund, not to pay down Kinetic Funds' existing margin balance.

The 2014 Margin remained in the 8796 Account until June 25, 2018. On that date, the 2028 Account apparently generated a separate margin loan and transferred the proceeds to the

8796 Account to pay off the 2014 Margin. The 2028 Account's margin loan balance as a result of that transaction continued to grow until the Court's entry of the Order Appointing Receiver and is currently approximately -\$7.7 million.

Following discussions with counsel for the owners of the BOA Accounts, the Receiver filed his Motion to (i) Approve Determination of Brokerage Account Margin Obligations; (ii) Partially Liquidate Investor Accounts to Satisfy Margin Obligations; (iii) Repay Remaining Margin Balance; and (iv) Transfer Majority of Remaining Receivership Cash Assets to Fiduciary Bank Accounts on July 22, 2020 (Doc. 108). In the event the Court agrees with the Receiver that the owners of the BOA Accounts are responsible for at least a portion (or all) of the roughly -\$5.7 million margin balance accrued in the BOA Accounts, this would result in a corresponding increase in the amount of net proceeds the Receiver is able to transfer from Interactive Brokers to his fiduciary accounts for the benefit of all investors. The Receiver is also evaluating options to at least partially repay the margin balance to avoid the continuing accrual of interest.

F. Analysis Of Kinetic Funds and Lendacy Transactions And Formulation Of Framework For Claims Process To Be Submitted For Court Approval

Roughly half of the KFYield investors during the relevant period also elected to obtain a Lendacy loan based on a percentage of their KFYield investment. Despite the Receiver's preliminary conclusion that Lendacy was dependent on Kinetic Funds as a funding source, Lendacy took significant steps to appear to investors as a separate and independent "partner" of Kinetic Funds including the generation of separate monthly loan statements and maintaining separate bank accounts through which Kinetic Funds investor funds flowed. This

required the Receiver's forensic professionals to analyze the flow of funds and associated transactions among these various entities over a period of more than seven years for which bank statements were available.

The Receiver's forensic professionals have completed an initial analysis of each investor's transactions with both Kinetic Funds and, where applicable, Lendacy. This analysis has allowed the Receiver to determine the most equitable and efficient framework for a claims process through which recovered funds can be distributed to parties with approved claims. The Receiver anticipates filing a motion seeking Court approval for a claims process framework in the subsequent weeks. If approved, the Receiver will then distribute Proof of Claim Forms to all interested parties and investors, review all received claims, and seek Court approval of those determinations and an interim distribution to parties with approved claims.¹¹ Relevant information will also be posted on the Receiver's informational website at www.kineticreceivership.com.

G. Ongoing Efforts to Obtain Documentation And Information From Parties And Non-Parties

In addition to the computers and various documents located at the Sarasota Office, the Receiver and his professionals have continued to seek the production of relevant documentation and information from other parties. During the period covered by this report, the Receiver served 12 third parties with a copy of the Order Appointing Receiver and also served 11 subpoenas.

¹¹ In addition to investors in Kinetic Funds, the Receiver is aware of at least two potential non-investor claimants who will also receive notice of any claims process.

The Receiver was also previously informed by Williams' counsel that Williams was in possession of three computers that had apparently been used at an office in Puerto Rico by one or more Receivership Entities. The Receiver arranged to have his local professionals retrieve those computers and send them to E-Hounds for investigation and preservation. The Receiver and his professionals are in the process of reviewing those computers but have been informed that one of the computers was missing a hard drive. In discussions with Williams' current counsel, the Receiver was informed that Williams does not have any information as to the reason for or location of the missing hard drive.

H. Securing And Vacating the Sarasota Office

Following his appointment, the Receiver visited and secured Kinetic Funds' headquarters at an office located in Sarasota, Florida (the "Sarasota Office"). The Receiver learned that there were three full-time employees and an intern that worked out of the Sarasota Office and that Williams rarely was present in the office since his move to Puerto Rico in 2016. With the assistance of his forensic technology professionals, the Receiver inventoried and secured various documentation and computers on site. After learning of the \$6,000 monthly rent obligation, the Receiver determined to vacate and turn the Sarasota Office back over to the landlord. The Receiver transferred the contents of the Sarasota Office to two storage units in Sarasota and is in the process of determining the most efficient method of disposing of the contents. The Receiver envisions attempting to sell any of these contents that have resale value and that may be sold at this time and returning or otherwise disposing of any other equipment.

I. Continued Investor Outreach And Administration Of Website

Throughout the relevant period, the Receiver continued to communicate with investors and other interested parties regarding the status of his efforts and any particular questions or issues brought to the Receiver's attention. The Receiver also continued to administer his informational website located at www.kineticreceivership.com which is regularly updated with court filings and reports and also allows interested parties to contact the Receiver.

VI. THE NEXT QUARTER

A. Investigation

The Receiver believes he has identified and, if applicable, frozen or secured all known assets attributable to investor funds, and he continues to investigate the Receivership Defendants' business operations and underlying financial transactions between those operations.¹² These investigative efforts remain ongoing through the review of additional documents from (and, where necessary, interviews with) third parties. The Receiver continues to work diligently and efficiently on this task, which includes a substantial amount of documentation and financial records. The Receiver will continue to attempt to locate additional funds and other assets and will likely institute proceedings to recover assets on behalf of the Receivership Defendants. In an effort to more fully understand the conduct at issue and in an attempt to locate more assets, the Receiver will continue to conduct interviews and/or depositions of parties and third parties who may have knowledge of the fraudulent scheme. The Receiver believes that continuation of the Receivership (and employment of the

¹² A further description of these assets and the Receiver's intended liquidation plan is set forth in the Receiver's Liquidation Plan attached hereto as **Exhibit 2** and incorporated herein.

retained professionals) is necessary and imperative for the continued marshaling, liquidation, and distribution of assets.

B. Formulation and Submission Of Claims Process For Court Approval

The Receiver has prioritized the process of returning investor funds as soon as possible through a Court-approved claims process. As referenced above in Section V.F, the Receiver and his professionals have completed an initial analysis of individual investor accounts both with Kinetic Funds and, where applicable, Lendacy. With the benefit of these analyses, the Receiver has been working on formulating a claims process that will provide the most equitable determination of investor claims and distribution of Receivership assets. The Receiver anticipates submitting the proposed claims framework for Court approval within the coming weeks.

C. Liquidation of Assets

The Receiver intends to continue his marketing efforts for the Bank Building with the goal to liquidate the property for net proceeds expected to be in excess of seven figures. To the extent the Receiver accepts a bid for the property that he believes is in the best interests of the Receivership Estate, he will present that bid to the Court for approval. With respect to Villa Gabriella, the terms of the Receiver's agreement with Defendant Williams provide that the Receiver may commence efforts to sell the building on August 29, 2020 provided that the parties' mediation scheduled for the preceding day is unsuccessful. The Receiver intends to take the necessary steps prior to this deadline to analyze the potential market, obtain any necessary appraisal(s) of the property, and interview potential listing agents so that he is in position to list the property for sale on or after August 29, 2020. As with the Bank Building,

the Receiver will present any bid for Villa Gabriella he deems in the best interests of the Receivership Estate for the Court's approval.

As further discussed above in Section V.E, the Receiver also hopes to obtain clarity about the current margin issues in the Interactive Brokers accounts to allow him to transfer the maximum potential proceeds belonging to Kinetic Funds to his fiduciary accounts.

D. Potential Third-Party Claims

The Receiver has started to analyze the existence and viability of potential claims against third parties that may have received payments or transfers to which they were not entitled to receive or persons or entities that provided services to or otherwise improperly benefitted from their affiliation with the Receivership Entities. It is too early to estimate whether or not the Receiver will bring any such claims or whether any claims will result in any recovery to the Receivership Estate. In proceeding with these determinations, the Receiver intends to consider a number of factors including the cost-benefit analysis of any potential claim. Thus, the Receiver is not yet able to predict the likelihood, amount or effectiveness of any particular claim or the claims as a whole. The Receiver may, however, plan to first offer those who are required to return money to the Receivership Estate the opportunity to do so cooperatively in an effort to avoid costly litigation for all involved. The Receiver intends to seek Court approval before instituting any such third-party actions.

QUARLES & BRADY LLP

/s/ Jordan D. Maglich

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 30th day of July, 2020, I electronically filed the foregoing with the Clerk of the Court by using the CM/ECF system which will send a Notice of Electronic Filing to the following counsel of record:

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/s/ Jordan D. Maglich
Attorney

EXHIBIT 1



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REPORT OF STANDARDIZED FUND ACCOUNTING REPORT

Mark A. Kornfeld, As Receiver for Kinetic Investment Group, LLC et al.
Tampa, FL

We have compiled the standardized fund accounting report for the period April 1, 2020 to June 30, 2020, and from Inception March 6, 2020 to June 30, 2020, included in the accompanying prescribed form (Civil Court Docket No. 8:20-cv-00394-WFJ-SPF). We have not audited or reviewed the accompanying standardized fund accounting report and accordingly, do not express an opinion or any assurance about whether the standardized fund accounting report is in accordance with the form prescribed by the Civil Court Docket No. 8:20-cv-00394-WFJ-SPF).

Mark A. Kornfeld, As Receiver for Kinetic Investment Group, LLC et al, is responsible for the preparation and fair presentation of the standardized fund account report in accordance with requirements prescribed by the Civil Court Docket No 8:20-cv-00394-WFJ-SPF, and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the standardized fund accounting report.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist Mark A. Kornfeld, As Receiver for Kinetic Investment Group, LLC et al, in presenting financial information in the form of a standardized fund accounting report without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the standardized fund accounting report.

This standardized fund accounting report is presented in accordance with the requirements of the Civil Court Docket No. 8:20-cv-00394-WFJ-SPF , which differ from accounting principles generally accepted in the United States of America. This report is intended solely for the information and use of the Civil Court Docket No 8:20-cv-00394-WFJ-SPF and is not intended and should not be used by anyone other than this specified party.

Oldsmar, Florida
July 14, 2020

Standardized Fund Accounting Report for
Mark A. Kornfeld as Receiver for Kinetic Investment Group, LLC et al. - Cash Basis
Receivership; Civil Court Docket No. 8:20-cv-00394-WFJ-SPF
Reporting Period 04/01/2020 to 06/30/2020

FUND ACCOUNTING (See Instructions):		Detail	Subtotal	Grand Total
Line 1	Beginning Balance (As of 04/01/2020): <i>Increases in Fund Balance:</i>			\$ 13,137,912.03
Line 2	Business Income			
Line 3	Cash and Securities**	506,505.29		
Line 4	Interest/Dividend Income	27,726.32		
Line 5	Business Asset Liquidation			
Line 6	Personal Asset Liquidation			
Line 7	Third-Party Litigation Income			
Line 8	Miscellaneous - Other	223,877.75		
	Total Funds Available (Line 1 - 8):		758,109.36	13,896,021.39
	<i>Decreases in Fund Balance:</i>			
Line 9	Disbursements to Investors			
Line 10	Disbursements for Receivership Operations			
Line 10a	Disbursements to Receiver or Other Professionals			
Line 10b	Business Asset Expenses	294.41		
Line 10c	Personal Asset Expenses			
Line 10d	Investment Expenses	18,239.32		
Line 10e	Third-Party Litigation Expenses			
	1. Attorney Fees			
	2. Litigation Expenses			
	Total Third-Party Litigation Expenses			
Line 10f	Tax Administrator Fees and Bonds			
Line 10g	Federal and State Tax Payments			
	Total Disbursements for Receivership Operations		18,533.73	18,533.73
Line 11	Disbursements for Distribution Expenses Paid by the Fund			
Line 11a	Distribution Plan Development Expenses:			
	1. Fees:			
	Fund Administrator			
	Independent Distribution Consultant (IDC)			
	Distribution Agent			
	Consultants			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses			
	3. Miscellaneous			
	Total Plan Development Expenses			
Line 11b	Distribution Plan Implementation Expenses:			
	1. Fees:			
	Fund Administrator			
	IDC			
	Distribution Agent			
	Consultants			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses			
	3. Investor Identification:			
	Notice/Publishing Approved Plan			
	Claimant Identification			
	Claims Processing			
	Web Site Maintenance/Call Center			
	4. Fund Administrator Bond			
	5. Miscellaneous			
	6. Federal Account for Investor Restitution (FAIR) Reporting Expenses			
	Total Plan Implementation Expenses			
	Total Disbursements for Distribution Expenses Paid by the Fund			
Line 12	Disbursements to Court/Other:			
Line 12a	Investment Expenses/Court Registry Investment System (CRIS) Fees			
Line 12b	Federal Tax Payments			
	Total Disbursements to Court/Other:			
	Total Funds Disbursed (Lines 9 - 11)			18,533.73
Line 13	Ending Balance (As of 06/30/2020)			13,877,487.66

Standardized Fund Accounting Report for
Mark A. Kornfeld as Receiver for Kinetic Investment Group, LLC et al. - Cash Basis
Receivership; Civil Court Docket No. 8:20-cv-00394-WFJ-SPF
Reporting Period 04/01/2020 to 06/30/2020

FUND ACCOUNTING (See Instructions):		Detail	Subtotal	Grand Total
Line 14	Ending Balance of Fund - Net Assets:			13,877,487.66
Line 14a	Cash & Cash Equivalents		*	13,877,487.66
Line 14b	Investments			
Line 14c	Other Assets or Uncleared Funds			
	Total Ending Balance of Fund - Net Assets			13,877,487.66
OTHER SUPPLEMENTAL INFORMATION:		Detail	Subtotal	Grand Total
Report of Items Not To Be Paid by the Fund				
Line 15	Disbursements for Plan Administration Expenses Not Paid by the Fund:			
Line 15a	Plan Development Expenses Not Paid by the Fund			
	1. Fees:			
	Fund Administrator			
	IDC			
	Distribution Agent			
	Consultants			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses			
	3. Miscellaneous			
	Total Plan Development Expenses Not Paid by the Fund		-	
Line 15b	Plan Implementation Expenses Not Paid by the Fund			
	1. Fees:			
	Fund Administrator			
	IDC			
	Distribution Agent			
	Consultants			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses			
	3. Investor Identification:			
	Notice/Publishing Approved Plan			
	Claimant Identification			
	Claims Processing			
	Web Site Maintenance/Call Center			
	4. Fund Administrator Bond			
	5. Miscellaneous			
	6. Federal Account for Investor Restitution (FAIR) Reporting Expenses			
	Total Plan Implementation Expenses Not Paid by the Fund		-	
Line 15c	Tax Administrator Fees & Bonds Not Paid by the Fund:			
	Total Disbursements for Plan Administration Expenses Not Paid by the Fund			-
Line 16	Disbursements to Court/Other Not Paid by the Fund:			
Line 16a	Investment Expenses/CRIS Fees			
Line 16b	Federal Tax Payments			
	Total Disbursements to Court/Other Not Paid by the Fund		-	
Line 17	DC & State Tax Payments			
Line 18	No of Claims			
	# of Claims Received This Reporting Period _____			
	# of Claims Received Since Inception of Fund _____			
Line 19	No of Claimants/Investors:			
Line 19a	# of Claimants/Investors Paid This Reporting Period _____			
	# of Claimants/Investors Paid Since Inception of Fund _____			

*NOTE Per receiver excluded Balances in IB Account # 4167 and 4170 Pending Investigation

**NOTE \$506,466.88 transferred in per court order from GreenburgTraurig for Michael William personal expenses. First expense was paid July and will reflect on next Report.

Receiver:
By: _____
Title _____
Date _____

Misc Items

Sale of gold coins \$ 223,877.75

Total \$ 223,877.75

Standardized Fund Accounting Report for
Mark A. Kornfeld as Receiver for Kinetic Investment Group, LLC et al. - Cash Basis
Receivership; Civil Court Docket No. 8:20-cv-00394-WFJ-SPF
Reporting Period From Inception 3/6/20 to 06/30/2020

FUND ACCOUNTING (See Instructions):		Detail	Subtotal	Grand Total
Line 1	Beginning Balance (As of 03/06/2020):			\$ -
	Increases in Fund Balance:			
Line 2	Business Income			
Line 3	Cash and Securities*	13,652,912.06		
Line 4	Interest/Dividend Income	27,727.78		
Line 5	Business Asset Liquidation			
Line 6	Personal Asset Liquidation			
Line 7	Third-Party Litigation Income			
Line 8	Miscellaneous - Other	223,877.75		
	Total Funds Available (Line 1 - 8):		13,904,517.59	13,904,517.59
	Decreases in Fund Balance:			
Line 9	Disbursements to Investors			
Line 10	Disbursements for Receivership Operations			
Line 10a	Disbursements to Receiver or Other Professionals			
Line 10b	Business Asset Expenses	8,790.61		
Line 10c	Personal Asset Expenses			
Line 10d	Investment Expenses	18,239.32		
Line 10e	Third-Party Litigation Expenses			
	1. Attorney Fees			
	2. Litigation Expenses			
	Total Third-Party Litigation Expenses			
Line 10f	Tax Administrator Fees and Bonds			
Line 10g	Federal and State Tax Payments			
	Total Disbursements for Receivership Operations		27,029.93	27,029.93
Line 11	Disbursements for Distribution Expenses Paid by the Fund			
Line 11a	Distribution Plan Development Expenses:			
	1. Fees:			
	Fund Administrator			
	Independent Distribution Consultant (IDC)			
	Distribution Agent			
	Consultants			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses			
	3. Miscellaneous			
	Total Plan Development Expenses			
Line 11b	Distribution Plan Implementation Expenses:			
	1. Fees:			
	Fund Administrator			
	IDC			
	Distribution Agent			
	Consultants			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses			
	3. Investor Identification:			
	Notice/Publishing Approved Plan			
	Claimant Identification			
	Claims Processing			
	Web Site Maintenance/Call Center			
	4. Fund Administrator Bond			
	5. Miscellaneous			
	6. Federal Account for Investor Restitution (FAIR) Reporting Expenses			
	Total Plan Implementation Expenses			
	Total Disbursements for Distribution Expenses Paid by the Fund			
Line 12	Disbursements to Court/Other:			
Line 12a	Investment Expenses/Court Registry Investment System (CRIS) Fees			
Line 12b	Federal Tax Payments			
	Total Disbursements to Court/Other:			
	Total Funds Disbursed (Lines 9 - 11)			27,029.93
Line 13	Ending Balance (As of 06/30/2020)			13,877,487.66

Standardized Fund Accounting Report for
Mark A. Kornfeld as Receiver for Kinetic Investment Group, LLC et al. - Cash Basis
Receivership; Civil Court Docket No. 8:20-cv-00394-WFJ-SPF
Reporting Period From Inception 3/6/20 to 06/30/2020

FUND ACCOUNTING (See Instructions):		Detail	Subtotal	Grand Total
Line 14	Ending Balance of Fund - Net Assets:			13,877,487.66
Line 14a	Cash & Cash Equivalents		*	13,877,487.66
Line 14b	Investments			
Line 14c	Other Assets or Uncleared Funds			
	Total Ending Balance of Fund - Net Assets			13,877,487.66
OTHER SUPPLEMENTAL INFORMATION:		Detail	Subtotal	Grand Total
	Report of Items Not To Be Paid by the Fund			
Line 15	Disbursements for Plan Administration Expenses Not Paid by the Fund:			
Line 15a	Plan Development Expenses Not Paid by the Fund			
	1. Fees:			
	Fund Administrator			
	IDC			
	Distribution Agent			
	Consultants			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses			
	3. Miscellaneous			
	Total Plan Development Expenses Not Paid by the Fund		-	
Line 15b	Plan Implementation Expenses Not Paid by the Fund			
	1. Fees:			
	Fund Administrator			
	IDC			
	Distribution Agent			
	Consultants			
	Legal Advisors			
	Tax Advisors			
	2. Administrative Expenses			
	3. Investor Identification:			
	Notice/Publishing Approved Plan			
	Claimant Identification			
	Claims Processing			
	Web Site Maintenance/Call Center			
	4. Fund Administrator Bond			
	5. Miscellaneous			
	6. Federal Account for Investor Restitution (FAIR) Reporting Expenses			
	Total Plan Implementation Expenses Not Paid by the Fund		-	
Line 15c	Tax Administrator Fees & Bonds Not Paid by the Fund:			
	Total Disbursements for Plan Administration Expenses Not Paid by the Fund			-
Line 16	Disbursements to Court/Other Not Paid by the Fund:			
Line 16a	Investment Expenses/CRIS Fees			
Line 16b	Federal Tax Payments			
	Total Disbursements to Court/Other Not Paid by the Fund		-	
Line 17	DC & State Tax Payments			
Line 18	No of Claims			
	# of Claims Received This Reporting Period _____			
	# of Claims Received Since Inception of Fund _____			
Line 19	No of Claimants/Investors:			
Line 19a	# of Claimants/Investors Paid This Reporting Period _____			
	# of Claimants/Investors Paid Since Inception of Fund _____			

*NOTE Per receiver excluded Balances in IB Account # 4167 and 4170 Pending Investigation

*NOTE \$506,466.88 transferred in per court order from GreenburgTraurig for Michael William personal expenses. First expense was paid July and will reflect on next Report.

Receiver: _____

By: _____

Title _____

Date _____

EXHIBIT 2

**UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

**KINETIC INVESTMENT GROUP, LLC and
MICHAEL SCOTT WILLIAMS,**

CASE NO.: 8:20-cv-394

Defendants, and

**KINETIC FUNDS I, LLC,
KCL SERVICES, LLC d/b/a LENDACY,
SCPIO, LLC, LF 42, LLC, EL MORRO
FINANCIAL GROUP, LLC, and KIH, INC.,
f/k/a KINETIC INTERNATIONAL, LLC,**

Relief Defendants.

_____ /

THE RECEIVER'S LIQUIDATION PLAN

Mark A. Kornfeld, Esq., through undersigned counsel and in his capacity as the court-appointed Receiver (the "Receiver") for Defendant Kinetic Investment Group, LLC and Relief Defendants Kinetic Funds I, LLC, KCL Services, LLC d/b/a Lendacy, Scpio, LLC, LF 42, LLC, El Morro Financial Group, LLC, and KIH Inc., f/k/a Kinetic International, LLC, submits this Liquidation Plan (the "Plan") in accordance with Paragraph 47 of the Order Granting Plaintiff Securities and Exchange Commission's Motion for Appointment of Receiver, dated March 6, 2020 (the "Order Appointing Receiver") (Doc. 34). The Plan is based on the work of the Receiver and his counsel, agents, and other retained professionals (the "Professionals") and their investigation and findings to date. The Receiver reserves the

right to modify, supplement, or otherwise revise the recommendations presented in this Plan based on his continuing investigation.

I. INTRODUCTION

On February 20, 2020, the Commission filed a complaint (the “Complaint”) (Doc. 1) in the United States District Court for the Middle District of Florida (the “Court”) alleging violations of federal securities laws against Defendants Kinetic Investment Group, LLC (“Kinetic Investment Group”) and Michael S. Williams (“Williams”) and Relief Defendants Kinetic Funds I, LLC (“Kinetic Funds”), KCL Services, LLC d/b/a Lendacy (“Lendacy”), Scipio, LLC (“Scipio”), LF 42, LLC, El Morro Financial Group, LLC, and KIH Inc., f/k/a Kinetic International, LLC (“Kinetic International”) (collectively, the “Receivership Entities”).

The Complaint alleged that the scheme involved securities offerings made on behalf of Kinetic Funds, a purported hedge fund with a sub-fund structure managed by Kinetic Investment Group and Williams. *Id.* ¶ 2. Defendants represented to investors that Kinetic Funds’ largest sub-fund, KFYield, invested all of its assets in income-producing U.S. listed financial products hedged by listed options. *Id.* Potential investors were told that KFYield was a liquid investment that would “maintain 90% principle [sic] protection” and that an investor could redeem their principal investment “100% . . . without penalties” with a 30-day written notice. *Id.* ¶¶ 2, 28. Investors in the KFYield fund, which attracted the near-entirety of investor funds entrusted to Kinetic Funds, were routinely provided with documentation from Bloomberg’s reporting service that claimed KFYield had achieved positive annual returns every year since inception. *Id.* ¶ 24. Many, but not all, investors were apparently

drawn to the Kinetic Funds investment opportunity by the solicitations and advertised opportunity to also obtain low-interest and unsecured loans from Lendacy based on the dollar amount of any KFYield investment and with the understanding that 100% of their KFYield investment would continue earning dividends. *Id.* ¶ 28.

On March 6, 2020, the Court entered the Order Appointing Receiver. By separate Order, the Court also granted the Commission's Motion for Asset Freeze and granted other relief as to all Defendants (Doc. 33). Among other things, the Orders froze Defendants' assets and enjoined any further violations of federal securities laws. Upon his appointment, the Receiver immediately began his efforts to marshal and secure assets pursuant to the Order Appointing Receiver. As of the date of this Plan, the Receiver has successfully frozen approximately \$13.1 million in net cash proceeds in bank and brokerage accounts belonging to the Receivership Entities. Pursuant to the Order Appointing Receiver, the Receiver established fiduciary bank accounts at ServisFirst Bank for each Receivership Entity.

The Receiver also successfully secured other valuable real property and personal property belonging to or in the possession of Receivership Entities. For example, Receivership Entity Scipio previously purchased a historic bank building located at 152 Tetuan Street, San Juan, Puerto Rico (the "Bank Building") using funds directly traceable to investor deposits. The Receiver changed the locks to the Bank Building on March 8, 2020. The Receiver also discovered a safe in the office maintained by Kinetic Investment Group in Sarasota, Florida which contained gold coins of various weights totaling 120.1 ounces. Finally, the Receiver learned that Kinetic International used investor funds to make an investment in an aerospace start-up company and to develop a cryptocurrency software

trading platform. The Receiver obtained possession of both of those items.

Further information on the Receiver's efforts to date is available in the Receiver's Interim Report filed on April 30, 2020 (Doc. 60) and available on the Receiver's website at www.kineticreceivership.com.

II. LIQUIDATION PLAN

The Order Appointing Receiver directs the Receiver to “develop a plan for the fair, reasonable, and efficient recovery and liquidation of all remaining, recovered, and recoverable Receivership Property” and to file his Liquidation Plan within 90 days of the entry of the Order Appointing Receiver. Doc. 34 ¶¶ 46-47. The Receiver presents the following Liquidation Plan.

A. Recovered, Remaining, and Recoverable Receivership Real Property

i. Assets On Hand And Potentially Recoverable

As set forth above, the Receivership Estate currently contains the Bank Building which is a historic and unique parcel of real property located in Old San Juan, Puerto Rico that was purchased in May 2018 using investor funds. The Receiver's professionals visited the building on March 8, 2020 to secure the property and observed that the building appeared to have been in a state of disrepair for some time. *See* Doc. 60 Ex. H. The Receiver has obtained two additional appraisals estimating the building's current value as \$1.86 million and \$2.33 million, respectively.¹ Each of the appraisals obtained by the Receiver references

¹ Defendant Williams also apparently obtained an appraisal of the Bank Building in September 2019 which estimated the building's “as-is” value to be \$2.9 million. Of course, the Receiver is mindful that this appraisal took place before the ongoing COVID-19 pandemic.

the significant repairs likely needed for any contemplated use of the Bank Building.²

The Receiver's investigation also revealed that Defendant Williams used investor funds to purchase a luxury apartment multiplex and associated parking spaces in San Juan, Puerto Rico (the "Apartment"). As further detailed in the Receiver's Motion for Possession of and Title to Residential Real Property (Doc. 72), Defendant Williams was not entitled or authorized to use investor funds to purchase a luxury apartment for his primary residence and the Receiver is seeking turnover of that Apartment so that it may be liquidated for the benefit of Williams' defrauded victims. If and when the Court grants the Receiver's requested relief, the Receiver intends to obtain appraisals of the Apartment to understand the possible proceeds any sale of the property would yield.

Other than the real property discussed above, the Receiver's initial investigation has not uncovered any other potential instances where real property was purchased with or otherwise traceable to investor funds. The Receiver will update the Court as his investigation continues.

ii. Contemplated Liquidation Procedure

Paragraphs 32 and 33 of the Order Appointing Receiver govern the Receiver's sale of any real property:

32. Subject to Paragraph 33 immediately below, the Receiver is authorized to locate, list for sale or lease, engage a broker for sale or lease, cause the sale or lease, and take all necessary and reasonable actions to cause the sale or lease of all real property in the Receivership Estates, either at public or private sale, on terms and in the manner the Receiver deems most beneficial to the

² One appraisal concludes that the building "requires a complete interior renovation" while the other indicates that the "general physical condition of interior areas can be rate [sic] as poor."

Receivership Estate, and with due regard to the realization of the true and proper value of such real property.

33. Upon further Order of this Court, pursuant to such procedures as may be required by this Court and additional authority such as 28 U.S.C. §§ 2001 and 2004, the Receiver will be authorized to sell, and transfer clear title to, all real property in the Receivership Estates.

Doc. 34 ¶¶ 32-33. As referenced by Paragraph 33, public and private sales of real property in a receivership are governed by 28 U.S.C. § 2001 (“**Section 2001**”). Section 2001(a) sets forth procedures applicable to public sales of receivership real property (such as auctions), while Section 2001(b) provides procedures for private sales of receivership real estate. Both public and private sales of receivership real estate are subject to various marketing, notice, and appraisal requirements. *See, e.g.*, 28 U.S.C. § 2001. Although the Receiver presently intends to comply with these requirements, he also notes that courts (including courts in this district) have recognized their authority to deviate from or otherwise modify these requirements as necessary. *See, e.g., SEC v. Billion Coupons, Inc.*, 2009 WL 2143531 at *3 (D. Hawaii 2009) (authorizing private sale without any appraisals); *SEC v. Patrick Kirkland et al.*, 2009 WL 1439087 (M.D. Fla. 2009) (authorizing private sale based on one appraisal).

Pursuant to the Order Appointing Receiver and relevant statutory guidance, the Receiver intends to consider several factors in determining the feasibility and procedure for the disposition of any Receivership real property, including (i) whether a public or private sale is most appropriate given the property’s individual characteristics and likelihood of generating the optimal recovery for the receivership estate; (ii) input and recommendations from real estate professionals as to the potential market and marketability of any property; and (iii) the

need to seek Court approval to modify or deviate from the statutory procedures set forth in 28 U.S.C. §§ 2001 and 2004.

The Receiver will use commercially reasonable efforts to market each property to as many potential buyers as possible and will also include any relevant information on his website at www.kineticreceivership.com. While it is the Receiver's experience that a private sale is typically the most efficient and cost-effective way to liquidate real property and generate the maximum net proceeds for the Receivership Estate, he will work with his professionals to determine a liquidation method for each parcel of real property designed to generate the greatest return for the Receivership Estate. It is the Receiver's understanding that both the Bank Building and the Apartment are free and clear of any liens or encumbrances. To the extent the Receiver receives an offer which he believes is appropriate to accept, he will then seek approval from the Court of the proposed purchase agreement and sale. Any net proceeds from the sale will then be deposited into the appropriate Receivership Entity bank account.

B. Recovered, Remaining, and Recoverable Receivership Personal Property

i. Assets On Hand And Potentially Recoverable

The Receiver has recovered and secured various personal property pursuant to the Order Appointing Receiver which includes (i) office furniture and equipment retrieved from the Sarasota, Florida office used by Kinetic Investment Group (the "Sarasota Office") and the San Juan, Puerto Rico office previously used by multiple Receivership Entities (the "Puerto Rico Office"); (ii) physical gold holdings stored in a safe at the Sarasota Office; (iii) software source code; and (iv) a \$500,000 investment in an aerospace start-up company.

The Sarasota Office contained various office equipment, furniture, electronics, and various other furnishings. The Receiver has arranged for this property to be temporarily stored in a storage unit and is in the process of determining whether any of the property may have resalable value or should be donated or otherwise disposed of. The Receiver was also notified by Defendant Williams' counsel of the existence of three computers that were located in the Puerto Rico Office, and the Receiver is in the process of obtaining possession of, and analyzing, those computers.

The Receiver also secured a large safe in the Sarasota Office which contained approximately 120.1 ounces of gold coins in the following denominations:

- 111 1-ounce coins;
- 9 1/2-ounce coins;
- 14 1/4-ounce coins; and
- 11 1/10-ounce coins (collectively, the "Gold Holdings").

It is the Receiver's understanding that the Gold Holdings were purchased on behalf of investors in the Kinetic Funds KF Gold sub-fund. The Gold Holdings are currently being held at a secure and access-restricted location until they are liquidated.

The Receiver has also recovered two intangible assets that were purchased and/or generated by Kinetic International using funds traceable to investor deposits. One of these assets is the apparently-unfinished computer source code for a cryptocurrency trading platform that was being developed by Kinetic International but which apparently was not finished following Williams' resignation from Kinetic International in May 2019. As further detailed in the Receiver's Interim Report, a technological professional retained by Kinetic International following Williams' resignation determined that the software likely had little value and could not be improved or otherwise completed. *See* Doc. 60 at 65, fn. 40.

Kinetic International also made an investment of approximately \$500,000 into Zephyr Aerospace, LLC (the “Zephyr Investment”) on or around March 31, 2019. The Zephyr Investment is memorialized by a Simple Agreement for Future Equity signed by Zephyr and by Defendant Williams on behalf of Kinetic International, and the agreement provides for Kinetic International’s ability to receive shares in Zephyr Aerospace upon the future occurrence of certain events.

The Receiver continues to investigate whether any other personal property was purchased with assets of the Receivership Estate but has not yet been turned over to the Receiver.

ii. Contemplated Liquidation Procedure

Paragraph 31 of the Order Appointing Receiver provides the Receiver with authority to sell any personal property without obtaining Court approval:

The Receiver may, without further Order of the Court, transfer, compromise, or otherwise dispose of any Receivership Property, other than real estate, in the ordinary course of business, on terms and in the manner the Receiver deems most beneficial to the Receivership Estate, and with due regard to the realization of the true and proper value of such Receivership Property.

Doc. 60 ¶ 31. For personal property in the Receivership Estate that does not appear to have any potential material value after analyzing the true and proper value, such as recovered office furniture or equipment from the Sarasota office, the Receiver intends to proceed under Paragraph 31 in attempting to sell or otherwise dispose of that property.

For the Gold Holdings, the Receiver intends to obtain at least **five** quotes from various businesses specializing in the purchase and sale of precious metals and to also list the coins for sale on his website at www.kineticreceivership.com and to accept the highest bid

received. The Receiver believes that Paragraph 31 of the Order Appointing Receiver allows him to liquidate the Gold Holdings without further Order of the Court.

The Receiver is in the process of evaluating whether any recoverable value may be obtained or generated by either the Software or the Zephyr Investment. For the Software, the Receiver intends to seek Court approval to retain a consultant to evaluate the status and completeness of the current source code and whether there could be any benefit by attempting to sell the Software in its current state. For the Zephyr Investment, the Receiver has been in contact with the principal of Zephyr and is seeking additional information about the company and its prospects. At this stage, the Receiver is not optimistic that either asset will prove to generate any material value for investors.

iii. Donation, Disposal, or Abandonment of Assets

The Receiver understands the necessity of managing the Receivership Estate in an efficient and cost-effective matter. For example, certain assets such as the office equipment or furniture from the Sarasota Office could have little to no commercial value or could be worth less than the required cost of securing and/or storing those assets. If the Receiver determines those assets would not result in any material sale proceeds and would be cost-prohibitive to maintain or store, he will likely abandon the assets or donate them to an appropriate charity pursuant to the authority set forth in Paragraph 31 of the Order Appointing Receiver. The Receiver might also seek the Court's approval to abandon or donate such assets if the circumstances warrant.

C. Potential Litigation Claims

The Receiver's primary focus since his appointment has been on securing known assets and investigating the various business operations of the Receivership Entities. In carrying out his initial investigation, the Receiver has also started to analyze the existence and viability of potential claims against third parties that may have received payments or transfers to which they were not entitled to receive or persons or entities that provided services to or otherwise improperly benefitted from their affiliation with the Receivership Entities.

It is too early to estimate whether or not the Receiver will bring any such claims or whether any claims will result in any recovery to the Receivership Estate. In proceeding with these determinations, the Receiver intends to consider a number of factors including the cost-benefit analysis of any potential claim. Thus, the Receiver is not yet able to predict the likelihood, amount or effectiveness of any particular claim or the claims as a whole. The Receiver may, however, plan to first offer those who are required to return money to the Receivership Estate the opportunity to do so cooperatively in an effort to avoid costly litigation for all involved. The Receiver intends to seek Court approval before instituting any such third-party actions.

D. Claims Proceedings And Distribution Of Proceeds

In the short time since his appointment, the Receiver and his Professionals have made significant progress in understanding the complex businesses operated by the various Receivership Entities that were both financially and organizationally intertwined. In addition to Kinetic Funds, Defendant Williams also managed and directed the operations of Receivership Entities Lendacy, Kinetic International, and El Morro which appear to have been

solely or primarily funded with investor funds. In particular, Lendacy described itself as a “partner” of Kinetic Funds and touted its ability to provide below-market-rate lines of credit to Kinetic Funds investors. A majority of investors with Kinetic Funds appear to have received a loan from Lendacy based on the amount of their Kinetic Funds investment. The Receiver is still in the process of determining how a Kinetic Funds investor’s receipt of a loan from Lendacy will be treated in the overall claims process. The Receiver has been in communication with many of Kinetic Funds investors and has appreciated their cooperation and assistance.

The Receiver has worked with his legal and forensic professionals to investigate and understand the claims of potential creditors. The Receiver anticipates that there will be two general categories of potential creditors: (1) individuals that invested in Kinetic Funds and/or received a loan from Lendacy; and (2) employees and other general trade creditors of the Receivership Entities. At this preliminary stage, it appears unlikely that the Receiver will recover sufficient assets to cover the universe of claims that are expected to be filed. Given these factors, the Receiver is currently in the process of formulating a claims process and procedure that will allow for the orderly, efficient and equitable distribution of assets while also minimizing any delays and administrative costs.

The Receiver anticipates presenting the proposed claims process for the Court’s approval within the next 45 days (the “Claims Motion”). The Claims Motion will seek (i) approval of the claims submission process, (ii) approval of the noticing procedures to be used in providing notice of the date by which claims must be filed against the Receivership Entities (the “Bar Date”) and the claims submission process; and (iii) to establish the Bar Date. As

soon as practicable following entry of an order approving the Claims Motion, the Receiver plans to provide electronic and written notice of the Bar Date and the claims submission process to all interested parties.

III. CONCLUSION

The Receiver continues to finalize his plan for liquidating all remaining, recovered and recoverable Receivership Property and urges all interested parties, including any parties interested in purchasing any assets, to visit the Receiver's website at www.kineticreceivership.com for further information.

QUARLES & BRADY LLP

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 4th day of June, 2020, I electronically filed the foregoing with the Clerk of the Court by using the CM/ECF system which will send a Notice of Electronic Filing to the following counsel of record:

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