

# **ATTACHMENT A**

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UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Case No. 3:16-cv-01386-EMC

Plaintiff,

**Proposed Joint Plan of Distribution**

v.

JOHN V. BIVONA; SADDLE RIVER  
ADVISORS, LLC; SRA MANAGEMENT  
ASSOCIATES, LLC; FRANK GREGORY  
MAZZOLA,

Defendants, and

SRA I LLC; SRA II LLC; SRA III LLC;  
FELIX INVESTMENTS, LLC; MICHELE  
J. MAZZOLA; ANNE BIVONA; CLEAR  
SAILING GROUP IV LLC; CLEAR  
SAILING GROUP V LLC,

Relief Defendants.

1     **A. Summary of Distribution Plan**

2     The Securities and Exchange Commission (“Commission” or “SEC”) and Sherwood Partners,  
 3     Inc., the court-appointed receiver or a court-approved successor (“Receiver”), respectfully submit this  
 4     proposed Joint Plan of Distribution (the “Plan” or “Distribution Plan”) to distribute funds to investors  
 5     and creditors harmed as a result of the violations alleged in the Commission’s complaint (DE 1).  
 6     Pursuant to the October 11, 2016 Order (DE 142, Stipulated Order Appointing Receiver), the Court  
 7     appointed the Receiver to take possession and control of the assets of certain Defendants<sup>1</sup> and Relief  
 8     Defendants<sup>2</sup> and third party affiliated entities<sup>3</sup> (the “Receivership Estate”) and to develop a plan for  
 9     the administration of the Receivership Estate.

10     This Plan provides for the determination of investor and creditor claims to assets in the  
 11     Receivership Estate (including assets that may be collected hereafter) and for the *pro rata* distribution  
 12     of assets as set forth herein. This Plan also provides for the orderly sale of the shares and financial  
 13     interests held by the entities in the Receivership Estate and the pro rata distribution of the proceeds to  
 14     investors based upon their net out-of-pocket investments and to creditors based on the debt owed. If  
 15     there are sufficient proceeds, investors will receive interest on the principal amount of their  
 16     investments to compensate investors for the time value of their money and creditors will receive  
 17     either the contractual rate of interest or the treasury rate for unpaid federal funds or such other  
 18     appropriate rate as determined by the Receiver and the Court. Investors who purchased securities  
 19     that are determined to have no value, either before or after the appointment of the Receiver on  
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21     <sup>1</sup> Saddle River Advisors LLC (“Saddle River”) and SRA Management, LLC (“SRA Management”),  
 22     Saddle River and SRA Management (collectively, the “Corporate Defendants”).

23     <sup>2</sup> SRA I LLC (“SRA I”), SRA II LLC (“SRA II”), SRA III LLC (“SRA III”) (together, “SRA Funds”) and  
 24     Clear Sailing Group IV LLC and Clear Sailing Group V LLC (together, “Clear Sailing”) (collectively the “Relief Defendant Entities”).

25     <sup>3</sup> By stipulation, Sherwood Partners also became the Receiver for third-party affiliated entities NYPA  
 26     Fund I LLC (“NYPA I”), NYPA II Fund LLC (“NYPA II”) (together, “NYPA Funds”) and NYPA  
 27     Management Associates LLC (collectively, “NYPA Entities”) and Felix Multi-Opportunity Funds I  
 28     and II, LLC (“FMOF I and II”) (together, “FMOF Funds”) and FMOF Management Associates, LLC  
 (collectively, “FMOF Entities”).

1 October 11, 2016, may share in the proceeds of other assets, but at a discount. These investors will  
2 receive their pro rata distribution which will be limited to 25 to 30 percent of the principal amount of  
3 their claim. In the event that the sale of shares or economic interests in a particular company,  
4 generates an excess recovery and the other investors have received the principal amount of their  
5 investments plus interest, then the Receiver will be authorized to propose a supplemental distribution  
6 to those investors who subscribed and/or invested in the shares of the particular company or contracts  
7 for shares of the particular company generating the excess recovery.

8 In addition, if the Court determines that the shares and financial interests held by the entities in  
9 the Receivership Estate are to be held for a period of time which could exceed 2 years, there will be a  
10 mechanism for investor and creditor claimants to elect an early payment of 25-30% on valid claims,  
11 if feasible. Such election will be by a date certain to be set by the Court.

12 The Plan will also provide for the retention by the Receivership, pursuant to Court order, of an  
13 Investment Banker to liquidate certain securities held by the Receivership to allow for an early  
14 payment, if elected and if feasible, and to monitor the securities held by the Receivership, file  
15 quarterly periodic reports regarding those securities, file recommendations for process and timing of  
16 sales and management of the securities.

## 17 **B. Background**

18 The Commission filed its complaint against John V. Bivona (“Bivona”), Frank Mazzola, the  
19 Corporate Defendants, and Relief Defendants in this action on March 22, 2016. It brought this action  
20 in order to stop Bivona, Frank Mazzola and the companies they currently control or previously  
21 controlled from continuing to defraud investors, from which Bivona, Frank Mazzola and their  
22 companies raised over \$53 million in the SRA Funds. Bivona, Frank Mazzola, Saddle River  
23 Advisors (“Saddle River”) and SRA Management Associates, LLC (“SRA Management”), marketed  
24 investments in early-to-late stage, pre-IPO technology companies, however Bivona, Saddle River and  
25 SRA Management lied to investors and used their money to purchase shares promised to earlier  
26 investors in other unrelated funds. Bivona, Saddle River and SRA Management also used the SRA  
27 Funds’ bank accounts to pay for personal expenses for John Bivona and his family. (DE 1, Complaint  
28 at ¶¶ 2, 3)

1 Among other things, the Commission alleged that Bivona, Saddle River and SRA Management  
2 disguised their misconduct by continually transferring money in and out of multiple bank accounts  
3 associated with more than a dozen different funds and entities. Millions of dollars have been  
4 funneled to pay for the expenses of earlier funds that Bivona and Saddle River also manage, while at  
5 least \$5.7 million has been diverted to family members to pay, among other things, credit card bills,  
6 income taxes, a car loan, unrelated defense attorney fees, and the mortgage on a Jersey Shore  
7 vacation home. Bivona, Saddle River and SRA Management failed to provide investors with the  
8 promised financial statements that should have revealed their fraud. Bivona steered the lion's share  
9 of the misappropriated money to benefit Bivona's nephew, Frank Mazzola, who faced SEC fraud  
10 charges for an earlier investment scheme, which resulted in the March 2014 entry of permanent  
11 injunctions by this Court and the institution of an administrative SEC order barring Mazzola from the  
12 securities industry for at least three years. (DE 1, Complaint at ¶¶ 4, 5)

13 On March 25, 2016, on the basis of the allegations in the Complaint, the SEC's Motion for a  
14 Temporary Restraining Order (DE 4) and the documentation filed by the SEC in support of the SEC's  
15 Motion (DE 5-20), the Court entered an Order Granting Temporary Restraining Order, Appointment  
16 of Independent Monitor, and other Preliminary Relief (DE 36). On October 11, 2016, on consent,  
17 Judge Chen appointed the Independent Monitor, Sherwood Partners, Inc., as the Receiver for  
18 defendant SRA Management and relief defendants SRA Funds and Clear Sailing. By stipulation,  
19 Sherwood Partners, Inc. also became the Receiver for third-party affiliated entities NYPA Fund I  
20 LLC ("NYPA I"), NYPA II Fund LLC ("NYPA II") and NYPA Management Associates LLC  
21 (collectively, "NYPA Entities") and Felix Multi-Opportunity Funds I and II, LLC ("FMOF I and II")  
22 and FMOF Management Associates, LLC (collectively, "FMOF Entities"). Like the SRA Funds,  
23 those third-party affiliates held their pre-IPO shares and interests through Clear Sailing. (DE 142)

24 The Receivership Defendants<sup>4</sup> do not currently have any permanent employees, and have ceased  
25 operations. The shares of private companies beneficially owned by the SRA Funds and other  
26 investment funds, such as the NYPA Funds and Felix Multi-Opportunity Funds, are held centrally at

27 \_\_\_\_\_  
28 <sup>4</sup> SRA Management, SRA Funds and Clear Sailing.

1 Clear Sailing, through ownership interests in the Clear Sailing entities. Because these private  
2 company shares are not held within the SRA Funds, or other investment funds, claiming an  
3 ownership interest over the shares, it is appropriate to have these entities in the Receivership Estate to  
4 be administered pursuant to this Distribution Plan. (DE 142)

5 On December 22, 2017, the Court entered Final Judgments on consent against defendants John  
6 Bivona and Frank Mazzola and relief defendants Anne Bivona and Michele Mazzola.

7 On February 12, 2018, the Court entered a Final Judgment on consent against Saddle River  
8 Advisors LLC.

9 On March 22, 2018, the Court entered a Final Judgment on consent against defendants SRA  
10 Management Associates LLC and Relief Defendants SRA I, LLC, SRA II, LLC, Clear Sailing Group  
11 IV, LLC and Clear Sailing Group V, LLC.

12 **1. Current Financial Status of Receivership Estate**

13 The Receiver has taken steps necessary to preserve the status quo as to the Corporate Defendants  
14 and Relief Defendant Entities and to allow the investigation of the nature, location and rightful  
15 allocation of their assets. To date, the Receiver, on behalf of the Corporate Defendants and Relief  
16 Defendant Entities, and related entities in the Receivership Estate has marshalled the following assets  
17 (the “Current Assets”) in the Receivership Estate:

- 18 a. \$1,665,219.77 in proceeds from the sale of shares of Square, Inc. after the start of the  
19 receivership (some of which has been used to pay Court approved fees and expenses).  
20 b. \$500,000 payment from Anne Bivona pursuant to Final Judgment.<sup>5</sup>  
21 c. securities (or forward contracts on securities) including, but not limited to, Addepar, Airbnb,  
22 Badgeville, Bloom Energy, Candi Controls, Cloudera, Dropbox, Evernote, Glam, Jawbone, Lookout,  
23 Lyft, Mongo DB, Palantir, Pinterest, Practice Fusion, Snapchat, Uber, Twitter, Box, oDesk, Check,  
24 Flurry, and Virtual Instruments. The Receiver will provide a report to the Court with the number of  
25 shares held by the Receivership Estate.

26 \_\_\_\_\_  
27 <sup>5</sup> The current amount held in the Receivership Estate is \$1,100,597. Total funds disbursed to date is  
28 \$1,199,861.

1 d. any and all intangibles, including but not limited to, funds received or reasonably expected to  
2 be received from potential claims from Avoidance Actions and other Causes of Action in favor of  
3 the Receivership Estate.

4 **2. Substantive Consolidation due to Commingling**

5 Based on the Commission's accounting investigation and the Receiver's investigation into the  
6 shortfall of the investments, and its' marshalling of assets of the Corporate Defendants and Relief  
7 Defendant Entities, it has been determined that:

- 8 a. Bivona and the Corporate Defendants commingled and transferred funds among the Relief  
9 Defendant Entities and Receivership Entities;
- 10 b. Bivona and the Corporate Defendants expended amounts in excess of the management fees  
11 permitted under the management agreements;

12 The Receiver is terminating all management agreements with SRA Management, NYPA  
13 Management and FMOF Management and the advisory agreements with defendant Saddle River so  
14 that no further management or advisory fees will be paid or owed to SRA Management, NYPA  
15 Management, FMOF Management and/or Saddle River.

16 The Receiver consented to a Final Judgment for full injunctive relief, and disgorgement sought by  
17 the Commission in its Complaint. The Final Judgment provided that the monetary judgment against  
18 SRA Management and the Relief Defendant entities will be deemed satisfied by the payments  
19 contemplated to investors and creditors under this Distribution Plan.

20 Due to the extensive commingling of funds among the Corporate Defendants and Relief  
21 Defendant Entities and misappropriation of investor money by Bivona and the Corporate Defendants,  
22 the Commission and the Receiver propose to consolidate the assets and liabilities of the Corporate  
23 Defendants, Relief Defendants Entities and affiliated third party entities, including the dissolution of  
24 all of the Corporate Defendant, Relief Defendant Entities and affiliated third party entities, and to  
25 distribute the assets pursuant to the following plan of distribution to investors and creditors on a pro  
26 rata basis. In addition, to unwind the transactions supporting the Unsecured Claims and Unsecured  
27 Creditor Claims would be unduly burdensome, prohibitively expensive and administratively  
28 unfeasible.

1       **C. Definitions**

2       “Administrative Claims” means accrued and unpaid Receiver’s fees and expenses and those of  
3 Receiver’s counsel, accountants and other professionals’ fees and expenses, through distribution.  
4 Employee salaries for those retained by the Receiver, and Trust Fund Taxes incurred during  
5 receivership, i.e. payroll taxes and income taxes for the period covered by the Receivership.

6       “Administrative Reserve” means the amount of funds, the Receiver upon consultation with the  
7 SEC Staff shall calculate an administrative reserve sufficient to complete distributions and wind  
8 down the Receivership Estate.

9       “Avoidance Action” means any cause of action, or defense against an action, to avoid or recover  
10 a transfer of property of the Receivership Estate or interest of the Receivership Entities in property,  
11 including actions, or defenses arising under applicable federal, state or common law.

12       “Bivona Bankruptcy Case” the Chapter 7 Bankruptcy Proceeding of John Vincent Bivona, Case  
13 No. 16-12961-SCC, in the United States Bankruptcy Court for the Southern District of New York.

14       “Cause of Action” means a claim, right, action, chose in action, suit, cause of action, judgment,  
15 belonging to the Receivership Estate and any and all liabilities, obligations, and debts owing to the  
16 Receivership Estate, whether arising prior to or after October 11, 2016.

17       “Claims Agent” means JND Corporate Restructuring (“JND”) of Denver Colorado.

18       “Claim Objection” means an objection served by the SEC and or the Receiver prior to a claim  
19 objection cutoff date on any person or entity for which the SEC and or the Receiver disputes the  
20 claim filed. The SEC and or the Receiver will then schedule a hearing for the Claim Objection to be  
21 heard by the Court. These claims, include, but are not limited to, claims filed for confessions of  
22 judgment against Receivership Entities; and any claims listed on Exhibit A. Exhibit A may be  
23 supplemented and amended.

24       “Corporate Defendants” means Saddle River and SRA Management.

25       “Disallowed Claims” include claims belonging to or asserted by or on behalf of (i) John V.  
26 Bivona; (ii) Frank Mazzola; (iii) Anne Bivona; (iv) Michele Mazzola; (v) David Jurist; (vi) Alice  
27 Jurist; (vii) former agents or employees of Saddle River Advisors, Felix Investments, FMOF  
28 Management, NYPA Management, SRA Management, Clear Sailing IV and Clear Sailing V and the



1 Fortuna Fund Management; (viii) other insiders (including Emilio DiSanluciano); (ix) Management  
2 fees; (x) Inter-company claims; and (xi) and any claim for the guarantee of a debt or financial  
3 obligation for the benefit of insiders, including but not limited to John V. Bivona, Frank Mazzola,  
4 Anne Bivona, Michele Mazzola, David Jurist, and Alice Jurist, by FMOF Management, or NYPA  
5 Management or any other of the Receivership Entities.

6 “Disgorgement Funds” or “Fair Fund” means monies collected by the Commission that are  
7 ordered paid to the Commission or the Receivership pursuant to a Final Judgement entered in this  
8 case.

9 “Distributable Funds” means assets determined by the Receiver, as approved by the Court,  
10 available for distribution in accordance with the Plan. This includes the proceeds of any sales of  
11 securities after the date of the appointment of the Receiver, on October 11, 2016, including the  
12 proceeds from the sale of securities of Square, Inc.

13 “Distribution” means the disbursement of money from the Distribution Account or a Corporate  
14 Defendant account to Eligible Claimants pursuant to the Plan.

15 “Distribution Account” means a checking account or accounts established by the Receiver to  
16 receive the monies from the Corporate Defendants, Relief Defendant Entities and affiliated third  
17 party entities that are scheduled to be disbursed in accordance with the Plan. “Distribution Account”  
18 shall also mean a checking account established by the Receiver to accept disgorgement or Fair Fund  
19 monies from the Commission, subject to any limitations on disbursement required by the  
20 Commission. Multiple such accounts may be necessary to ensure that the entire amount deposited is  
21 insured by the Federal Deposit Insurance Corporation.

22 “Distribution Agent” means JND Corporate Restructuring (“JND”) of Denver Colorado, or such  
23 other professional hired by the Receiver pursuant to Court order.

24 “Distribution Plan” or “Plan” means this proposed joint plan of distribution for the resolution and  
25 distribution of funds on claims to investors and creditors harmed as a result of the violations alleged  
26 in the Commission’s complaint.

27 “Distribution Plan Notice” means the notice to investors and creditors that the Plan is approved  
28 and they are eligible for a distribution pursuant to this Distribution Plan, unless they receive a Claim

1 Objection. The Distribution Plan Notice will include an Early Election Claim form. The Distribution  
2 Plan Notice will be subject to Court approval.

3 “Eligible Claimant” means any investor or creditor with Valid Claims.

4 “Early Election Claim” means the claim of a creditor or investor that seeks an early percent  
5 distribution of 25 - 30 % on their Valid Claim by submitting an Early Election Claim form by a date  
6 to be set by the Court. (These creditors and investors shall be referred to as “Early Election  
7 Claimants”).

8 “Investment Banker” means such investment banker hired by the Receiver pursuant to Court  
9 order.

10 “Other Recoveries” means any investor or creditor recovery for capital, profit, claims or damages,  
11 other than through the Plan, including but not limited to any funds received or reasonably expected to  
12 be received in the Bivona Bankruptcy Case, other litigation or from third party sources, included but  
13 not limited to payment on personal guarantees.

14 “Receivership Claims” means any legal claims the Corporate Defendants or Relief Defendant  
15 Entities or affiliated third party entities have against third parties.

16 “Receivership Defendants” means SRA Management, SRA Funds and Clear Sailing.

17 “Receivership Entities” means SRA Management, SRA Funds, Clear Sailing, the NYPA Entities,  
18 and FMOF Entities.

19 “Receivership Estate” means the assets and property, in whatever form, of the Receivership  
20 Entities.

21 “Record Date” means the date set by the Distribution Agent in consultation with the Receiver and  
22 the SEC Staff, prior to any distributions of funds under the Plan.

23 “Rescission Claim” means an Unsecured Claim that is based on an investment in securities that  
24 have been determined to have no value by the Record Date. The Rescission Claim will be 25 - 30%  
25 of the principal amount of the Unsecured Claim.

26 “Rescission Claimant” means an investor with only Rescission Claims as of the Record Date. A  
27 Rescission Claimant may include as part of his or her claim, those investments that had no value  
28 before the receivership began on October 11, 2016.

1 “Relief Defendant Entities” means SRA Funds and Clear Sailing.

2 “Subordinated Claim” means a claim for guarantees, broker fees, management fees, advisory  
3 fees, or for transactions that lacked adequate consideration or value, or in the case of claims by  
4 money judgment creditors, including, but not limited to, claims by Global Generation and Progresso  
5 Ventures, that include a portion of the money judgment that is for interest (other than the treasury rate  
6 for unpaid federal funds or such amount approved by the Court), attorney’s fees, and costs, which  
7 shall include arbitration costs, and any claim listed on Exhibit B. Exhibit B may be supplemented  
8 and amended.

9 “Unsecured Claims” means investor claims. Investor claims are the principal amount invested  
10 in or through Clear Sailing or related entities in securities for which there has been no distribution  
11 including: (i) Clear Sailing holdings began in mid-2011, (ii) investor claims in Fortuna Fund LLC I  
12 and Fortuna Fund LLC II (collectively, the “Fortuna Fund”) to the extent the Fortuna Fund invested  
13 in Clear Sailing, as identified by the SEC Staff, Receiver or Distribution Agent, if any, (iii) all  
14 investor claims for principal are calculated by reducing claims by any redemptions paid excluding  
15 redemptions or distributions on account of the purchase of any pre-IPO shares; (iv) All investor  
16 claims for principal are calculated by offsetting/reducing claims by amounts received or reasonably  
17 expected to be received in the Bivona Bankruptcy Case, other litigation or from third party sources,  
18 including but not limited to payment on personal guarantees.

19 “Unsecured Creditor Claims” means principal amount owed on loans, business debt, money  
20 judgments, if any including: (i) vendors; (ii) Progresso Ventures, (iii) Benchmark Capital, (iv) Global  
21 Generation; (v) business debts; (v) Other claims of taxing authorities, such as non-trust fund taxes,  
22 state income taxes, franchise type taxes. All creditor claims for principal amounts are calculated by  
23 reducing claims by amounts received or reasonably expected to be received in the Bivona Bankruptcy  
24 Case or other litigation or from third party sources, including but not limited to payment on personal  
25 guarantees. Contractual rate of interest will be used for trade and financial institutional lenders,  
26 default rate of interest will be excluded. Otherwise, the treasury rate for unpaid federal funds or such  
27 other appropriate rate as determined by the Receiver and the Court will be used.

1 “Valid Claim” means an investor or creditor claim that the Receiver and the SEC Staff have  
2 determined is represented by a valid invoice, receivable, or debt against the Corporate Defendants,  
3 Relief Defendant Entities and/or Receivership Entities supported by the submissions of the investor  
4 or creditor claimant, the books and records of the Corporate Defendants and Relief Defendant  
5 Entities, or other sources of information reasonably available to the Receiver. Investor or creditor  
6 claimant submissions will include a sworn declaration, affidavit or attestation, and all claims will be  
7 subject to the jurisdiction of the District Court for the Northern District of California.

8 **D. Proposed Plan Notice**

9 Upon entry of an appropriate scheduling order to approve the Plan,

- 10 a. The Receiver and/or SEC Staff will file by ECF and serve pursuant to ECF those parties  
11 that have an account on the District Court’s website and mail to known Unsecured Claims  
12 and Unsecured Creditor Claimants that do not have an account on the District Court’s  
13 website a copy of the Plan, together with the information the Receiver will have  
14 determined is necessary to inform the Unsecured Claims and Unsecured Creditor  
15 Claimants of their potential right to receive funds from the Distributable Funds pursuant to  
16 the approved Plan.
- 17 b. The Receiver shall post a Proposed Plan Notice on the Receiver’s website at:  
18 <http://www.shrwood.com/saddleriver> to alert Unsecured Claims and Unsecured Creditor  
19 Claimants of their potential rights to receive funds from the Distributable Funds and to file  
20 an Objection to the Plan. The Receiver’s website shall include a link to a copy of the  
21 Distribution Plan.
- 22 c. The SEC Staff will also post a link to the Distribution Plan on [www.sec.gov](http://www.sec.gov)
- 23 d. The Receiver and the SEC Staff working with the Distribution Agent will serve a notice of  
24 hearing to approve the Distribution Plan. An objection date will be set in the Proposed  
25 Plan Notice, the Notice will be approved by the Court.
- 26 e. Upon approval of the Plan, The Receiver and/or SEC Staff working with the Distribution  
27 Agent will serve a notice of possible distribution and optional request for an Early  
28

1 Election Claim on Valid Claim holders. The Early Election Claim form will be due by a  
2 date set in the scheduling order.

3 **E. Marshalling and Liquidation of the Assets and Liabilities of the Corporate and Relief**  
4 **Defendants**

5 In anticipation of implementing the Distribution Plan upon approval of the Court, the Receiver in  
6 consultation with SEC Staff shall:

- 7 a. Determine the amounts of any Valid Claims, as set forth below;
- 8 b. Consolidate the existing Corporate and Relief Defendant accounts into the Distribution  
9 Account;
- 10 c. In accordance with a proposed further Order of the Court, liquidate or manage the non-  
11 cash assets in the Receivership Estate and upon liquidation deposit cash receipts for the  
12 non-cash assets in the Distribution Account;
- 13 d. Hire an Investment Banker pursuant to Court order to assist with the liquidation and  
14 management of non-cash assets; to monitor securities held by the Receivership, file  
15 periodic reports regarding those securities, file recommendations for process and timing  
16 of sales and management of the securities; and to determine if partial portfolio sales are  
17 feasible;
- 18 e. To the extent the non-cash assets in the Receivership Estate are securities, the Receiver  
19 shall liquidate or resell the securities in a manner consistent with state and federal  
20 corporate and securities laws. The Receiver anticipates that such resale shall be done in  
21 accordance with Section 5 of the Securities Act of 1933 (“Securities Act”) or in  
22 accordance with exemptions from registration provided in the Rules promulgated by the  
23 Commission pursuant to the Securities Act; and is authorized to seek the retention of  
24 such professionals necessary to assist the Receiver with such transactions;
- 25 f. In accordance with its authority and powers under Section X of the October 11, 2016  
26 Order Appointing Receiver, the Receiver may pursue Receivership Claims in  
27 consultation with the SEC Staff and as authorized by the Court.
- 28

1 g. To the extent that any purported outstanding agreements have not already been  
2 cancelled, such agreements will be reviewed by the Receiver for possible termination,  
3 cancellation or amendment.

4 **F. Determination of Eligible Claims**

5 The Receiver and the SEC Staff will determine which Unsecured Claims and Unsecured Creditor  
6 Claims are Valid Claims based upon the Corporate Defendants' and Relief Defendants existing  
7 records, submissions of the Claimants to the Receiver, and other sources of information reasonably  
8 available to the Receiver or the SEC Staff.

9 Within 90 days of approval of the Plan, the SEC or the Receiver shall file any objections to  
10 claims.<sup>6</sup> If the SEC and or the Receiver are not able to settle or resolve the objection to claim, the  
11 SEC and or the Receiver will schedule a hearing at which point the Claim Objection shall be heard by  
12 the Court. If there is a settlement of the objection to claim the SEC and or the Receiver will file a  
13 motion to have the settlement approved by the court. As of the Record Date, the Distribution Agent  
14 will send all Valid Claimants their claim amount, and the amount of the distribution they are to  
15 receive.

16 **G. Tax Claims**

17 During the second quarter of 2018, the Receiver engaged an accounting firm to prepare tax  
18 returns for the entities in the receivership for the tax years of 2015 and 2016. Based on the returns  
19 filed to date for certain receivership entities, the IRS and NYS have assessed penalties against the  
20 receivership estate. The SEC and the Receiver are reviewing the amounts owed and the basis for the  
21 liability. A plan supplement to be filed at a later date will provide for the treatment of the IRS and  
22 NYS claims and/or a method to resolve any disputes.

23 **H. Distributions**

24 The distribution methodology in this Plan seeks to achieve the prompt, fair, and efficient  
25 distribution of the Distributable Funds to those victims who suffered a loss as a result of the  
26 violations alleged in the Complaint, as well as the creditors of the Corporate Defendants, Relief

27 \_\_\_\_\_  
28 <sup>6</sup> The SEC or the Receiver can request an extension of the 90 day time period.

1 Defendants and affiliated third party entities. The amount of the Distributable Funds is unknown and  
2 may be less than the total Valid Claims.

3 **1. First Distribution**

4 Upon the liquidation of assets by the Investment Banker or otherwise, to make the pro rata  
5 distribution to the Early Election Claimants, these investors and creditors will be paid a pro rata 25-  
6 30% of their Valid Claims, if feasible. There will be sufficient funds heldback in order to pay  
7 necessary administrative expenses related to the sale of any assets and distribution of funds in this  
8 first distribution. If claimants receive a distribution pursuant to their Early Election Claim, they are  
9 not eligible for the Second Distribution described below.

10 **2. Second Distribution**

11 Upon the sale of the remaining assets, including securities and financial interests held by the  
12 entities in the Receivership Estate, payments will be made as follows: First, pay accrued  
13 Administrative Claims in full and satisfy or partially satisfy Administrative Reserve; Second, pay pro  
14 rata all Unsecured Claims for principal amount outstanding, Rescission Claimants, all Unsecured  
15 Creditor Claims for loans or business debt up to principal amount owed plus contractual rate of  
16 interest for business debt or loans accrued as of October 11, 2016 (For purposes of distributions on  
17 Unsecured Creditor Claims and Unsecured Claims, these claims shall be paid on a par or pari passu);  
18 Third, pay pro rata interest at the treasury rate of unpaid federal funds or such other appropriate rate  
19 as determined by the Receiver and the Court, accrued as of October 11, 2016, to investors that  
20 purported to purchase securities or a series of securities from the FMOF Funds, NYPA Funds, SRA  
21 Funds and/or Clear Sailing, and those securities have been sold by the Receiver or have been  
22 determined to be of limited value by the retained financial professionals. These are investors who are  
23 not eligible for the Third Distribution described below and their claims are deemed satisfied to the  
24 extent they are paid in full on their principal and interest claim in this distribution.

25 Pay pro rata interest, as defined above, on all other Unsecured Creditor Claims which are not  
26 entitled to a contract rate of interest. (Note that all claims for interest shall be paid on a par or pari  
27 passu)

1       **3. Third Distribution**

2       A Third Distribution will only be made if securities remain to be sold or proceeds remain to be  
3 distributed after the Second Distribution. This can occur if an issuer goes public, or either another  
4 liquidity event occurs, or the Receiver and his financial professionals in their business judgment  
5 determine to liquidate the remaining positions. In the event securities are sold and there is enough to  
6 fund a third distribution, claims will be paid as follows: First, pay all accrued but unpaid  
7 Administrative Claims; Second, satisfy unpaid amounts from the Second Distribution; Third, pay  
8 remaining investors as follows:

9       The Receiver will determine who is eligible to participate in the Third Distribution based on the  
10 documentation provided to the Receiver and the Claims Agent. Those eligible will be paid a  
11 distribution pro rata based on the amount of securities they purported to have purchased less the  
12 principal repayment they received in the First or Second Distributions.

13       Prior to making the Third Distribution, the Receiver will file a motion with the Court seeking  
14 approval of the Third Distribution which will include a list of those eligible to receive a distribution  
15 based on the documentation reviewed by the Receiver. These claimants may include those investors  
16 and creditors that received an early payment and have an Early Election Claim deficiency amount.  
17 The Receiver or the SEC Staff will also make a recommendation with respect to payment of some or  
18 all of the Subordinated Claims.

19       **4. Subsequent Distributions**

20       From time to time, and in the event additional monies are received by the Receivership, the  
21 Receiver shall first pay accrued and unpaid Administrative Claims and taxes if any and then to satisfy  
22 unpaid amounts from previous distributions.

23       **I. Reports to the Court and to Claimants**

24       The Receiver shall file a written report with the Court no less than every 120 days regarding  
25 the status of efforts to implement this Distribution Plan. The Receiver shall post a copy of its written  
26 report, which may be part of the quarterly report, on its website in order to provide notice to  
27 claimants.



1           **J. Adjustments and Amendments**

2           To carry out the purposes of the Distribution Plan, the Receiver may make adjustments to the  
3 Distribution Plan, consistent with the purposes and intent of the Distribution Plan, as may be agreed  
4 upon between the Receiver and the Commission and approved by the Court.

5           The Commission reserves the right to propose amendments to the Distribution Plan at the request  
6 of the Receiver, or on its own initiative. The Court retains jurisdiction over this matter for the  
7 purpose of ruling on any such proposed amendments and for any and all other matters that may arise  
8 under or relate to the Distribution Plan.

9           **K. Possible Avoidance Actions and Retained Claims**

10          All Causes of Action, including possible Avoidance Actions, are to be preserved by and for the  
11 Receivership Estate and the Receiver for the Receivership Estate expressly preserves such Causes of  
12 Action for later adjudication and nothing herein waives the right to bring such Causes of Action  
13 unless the Cause of Action has been settled in this Distribution Plan.

14          **L. Completion of Plan**

15          The Receiver will complete the distributions required by the Plan within five years from date the  
16 Plan is approved by the Court, unless, an application is filed with and approved by the Court to  
17 extend the time to complete the distributions.

18          If the Receiver or the SEC Staff shall determine that the Receiver has concluded his duties and  
19 obligations under the Receivership appointment orders issued by the Court, as may have been  
20 amended, either the Receiver or the SEC Staff may apply to the Court for an Order terminating the  
21 Receivership.

22          Any Order terminating the Receivership shall provide for the Receiver to file a final accounting  
23 providing schedules identifying: (i) all assets, their source and value; and (ii) all liabilities, the nature  
24 and amount of such claims.

25          The Receiver shall preserve all records and documents obtained during the Receivership until a  
26 date that is 1 year following the close of the Receivership.

1 To the extent that it is not expressly superceded by, or clearly contrary to, the provisions of this  
2 distribution plan, the Order Appointing the Receiver dated October 11, 2016 shall remain in full force  
3 and effect.

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