

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA**

CASE NO. 17-21033-CV-LENARD/GOODMAN

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

LOTTONET OPERATING CORP.,
DAVID GRAY,
JOSEPH VITALE A/K/A DONOVAN KELLY,

Defendants, and

ORACLE MARKETING GROUP INC.,
CRM INTERACTIVE LLC,
THE COUNCIL CLUB LLC,

Relief Defendants.

SECOND REPORT OF RECEIVER RYAN K. STUMPHAUZER, ESQ.

I, Ryan K. Stumphauzer, Esq., not individually, but solely in my capacity as the Court-appointed receiver (the “Receiver”) for LottoNet Operating Corp. (“LottoNet”), Oracle Marketing Group Inc., CRM Interactive LLC, and the Council Club LLC their affiliates, subsidiaries, successors and assigns (collectively, the “Receivership Entities” or “Estate”) submit this second report regarding the present status of the Estate (“Second Report”).

IMPORTANT – PLEASE READ CAREFULLY

THE STATEMENTS CONTAINED IN THIS REPORT ARE BASED ON THE INVESTIGATION CONDUCTED FOLLOWING MY APPOINTMENT AS RECEIVER, AND FOCUSES PRIMARILY ON EVENTS THAT OCCURRED SUBSEQUENT TO THE FILING OF MY FIRST REPORT OF RECEIVER. I HAVE COMPILED THIS SECOND REPORT BASED ON BOTH MY PROFESSIONALS’ AND/OR MY: (1) REVIEW OF THOUSANDS OF

PAGES OF DOCUMENTS, INCLUDING EXTENSIVE FINANCIAL RECORDS AND EMAIL COMMUNICATIONS; AND (2) INTERVIEWS WITH NUMEROUS INDIVIDUALS, INCLUDING FORMER EMPLOYEES, ACCOUNTANTS, LEGAL PROFESSIONALS, VENDORS, INVESTORS, FINANCIAL INSTITUTIONS, AND OTHER RELATED PERSONS. THE FACTS AND CONCLUSIONS HEREIN MAY BE SUBJECT TO CHANGE AS MY INVESTIGATION PROGRESSES DURING THE COURSE OF THE RECEIVERSHIP. OTHER THAN THE AMOUNTS CONTAINED IN BANK ACCOUNTS, THE VALUE OF MOST OTHER ASSETS HAS NOT YET BEEN DETERMINED DEFINITELY. AS ADDITIONAL INFORMATION IS DISCOVERED, I INTEND TO FILE ADDITIONAL REPORTS FROM TIME TO TIME.

I CAUTION INDIVIDUALS OR ENTITIES FROM INTENTIONALLY MISREPRESENTING THE INFORMATION CONTAINED HEREIN, DISPARAGING THE RECEIVERSHIP ENTITIES WITH THE INFORMATION, OR USING IT FOR ANY OTHER IMPROPER PURPOSE. ANY SUCH ACTION MAY HAVE SIGNIFICANT LEGAL CONSEQUENCES.

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

I. EXECUTIVE SUMMARY

Since being appointed Receiver on March 21, 2017, Adam Schwartz, Esq., Jeffrey Sloman, Esq., and members of my staff have established contact with LottoNet's investors via email and U.S. Mail, and have conducted numerous phone calls with them to provide updates and to address their questions and concerns, but have scrupulously avoided giving the investors any legal advice.

I have also performed countless other tasks, described in further detail below, including evaluating potential claims against certain individuals and corporate entities, negotiating the termination of LottoNet's sublease on its corporate office space, settling LottoNet's alleged liability to the sublessor for rent and property damage, disposing of LottoNet's corporate assets while avoiding storage and disposal costs, and investigating the potential value of licenses and other assets that are allegedly held by LottoNet Peru S.A.C. My ability to perform these tasks has been hampered, however, because the Receivership entities had extremely limited assets at the time of my appointment, and those assets have been further depleted because the Receivership entities have incurred reasonable and necessary expenses. Based on the lack of funds, we have been unable to hire financial professionals, foreign legal professionals, or other experts and consultants to aid us. Nonetheless, we have pressed forward and made significant progress.

II. ACTIVITIES RELATED TO OFFICES AND ASSETS

A. Estate Financial Information

As indicated in the First Report of Receiver, D.E. 61, the vast majority of the accounts of the Receivership Entities are maintained at Bank of America ("BOA"). Thus, Mr. Sloman and I personally met with the BOA branch manager located at 1 SE Third Avenue, Miami, Florida to identify all of the accounts associated with the Receivership Entities and to transfer control of

those accounts to me as the Receiver. As of June 1, 2017, the following net cash amounts were located in the following Estate accounts:

Account	Financial Institution	Net Cash Amount
LottoNet Operating Corp.	BOA	\$35,425.40 ¹
CRM Edge LLC	BOA	\$68.74 ²
Global Refund Corporation	BOA	\$3,551.30 ³
CRM Interactive Technologies LLC	BOA	\$8,223.06 ⁴
LN Concierge LLC	BOA	\$65.00
Total Cash Amount		\$47,333.50

Recently, we asked Bank of America to provide us with updated bank account balances for each of the Receivership entities. As of October 10, 2017, BOA reported that those same Estate accounts have the following net cash amounts:

Account	Financial Institution	Net Cash Amount
LottoNet Operating Corp.	BOA	\$32,925.40
CRM Edge LLC	BOA	\$68.74
Global Refund Corporation	BOA	\$3,551.30
CRM Interactive Technologies LLC	BOA	\$12,558.07
LN Concierge LLC	BOA	\$65.00
Total Cash Amount		\$49,168.51

Thus, it appears the net cash amount in those Estate accounts increased by \$1,835.01 due mainly to an increase of \$4,335.01 in the account of CRM Interactive Technologies LLC. We are working with Bank of America to ascertain the cause of this increase.

On the liability side, I have continued the process of reviewing invoices to identify the Receivership Entities' creditors and the debts owed. In accordance with the Order, I have also paid certain necessary expenses in carrying out my duties and responsibilities as Receiver.

¹ This net cash amount is deposited in eight (8) separate LottoNet Operating Corp. accounts.

² This net cash amount is deposited in two (2) separate CRM Edge LLC accounts.

³ This net cash amount is deposited in two (2) separate accounts under the name "Global Fefund [sic] Corporation" accounts.

⁴ This net cash amount is deposited in two (2) separate CRM Interactive Technologies LLC accounts.

Specifically, the following tables⁵ reflect the Receivership Estate's outstanding vendor invoices, as well as expenses that were paid based on my instruction after being appointed as Receiver⁶:

Identified Outstanding Vendor Invoices⁷

<u>Vendor</u>	<u>Amount</u>	<u>Invoice Date</u>
MegaPath ⁸	\$0	7/19/2017
Comcast Business	\$1,252.42	5/1/2017
Amscot	\$1,130.00	3/23/2017
FedEx	\$8.71	4/3/2017
FedEx	\$50.20	3/24/2017
FedEx	\$9.75	3/27/2017
T-Mobile	\$3,315.34	5/3/2017
IT Nguyễn Nhật Hoá	\$1,920.00	3/27/2017
IT Nguyễn Nhật Hoá	\$1,920	3/20/2017
IT Nguyễn Nhật Hoá	\$1,920	3/13/2017
IT Nguyễn Nhật Hoá	\$5,760.00	10/31/2016

⁵ Due to limited nature of the Estate's assets, the financial information available to me, and the disbursements made by the Estate this quarter, I believe that the Standard Fund Accounting Report would be of no benefit to the Court or investors, and have therefore decided to present the Estate's limited finances in a format better suited to detail the Estate's finances.

⁶ To date, my firm Stumphauzer & Sloman has advanced the expenses paid. I will seek reimbursement from the Court in my forthcoming application to approve payment of fees and expenses.

⁷ By including vendor invoice information in this table, I do not take any position regarding the validity of these invoices, or whether there are legal means to reduce or avoid these debts. Instead, this table is merely intended to convey the amounts that vendors claim they are owed.

⁸ In the First Report of Receiver, I identified an outstanding vendor invoice pertaining to Megapath. It appears that Megapath issued an invoice on July 19, 2017 that reflects a balance of \$0 as a result of "Miscellaneous Adjustments/Credits" applied to the previous balance of \$5,361.19 reflected on the June 20, 2017 invoice.

AnswerConnect	\$248.00	4/18/2017
Affinity Resources, LLC	\$1,014.80	11/15/2016
Affinity Resources, LLC	\$913.32	11/22/2016
Affinity Resources, LLC	\$1,014.80	11/29/2016
Affinity Resources, LLC	\$811.84	12/6/2016
Affinity Resources, LLC	\$1,014.80	12/13/2016
Affinity Resources, LLC	\$1,014.80	12/20/2016
Affinity Resources, LLC	\$926.01	12/27/2016
Affinity Resources, LLC	\$1,796.01	12/27/2016
Affinity Resources, LLC	\$870.00	1/03/2017
Affinity Resources, LLC	\$123.20	1/3/2017
Affinity Resources, LLC	\$870.00	1/10/2017
Affinity Resources, LLC	\$870.00	1/17/2017
Affinity Resources, LLC	2,094.00	1/31/2017
Affinity Resources, LLC	\$731.00	1/24/2017
Affinity Resources, LLC	\$2,094.00	2/07/2017
Affinity Resources, LLC	\$1,115.20	2/21/2017
Affinity Resources, LLC	\$1,746.00	2/28/2017
Affinity Resources, LLC	\$1,224.00	3/7/2017
Savage Global Marketing	\$3,000	2/15/2017
My Simple Techs	\$250	1/18/2017
My Simple Techs	\$250	1/4/2017
Clean Space	\$1,365	3/6/2017
Clean Space	\$1,365	4/5/2017

Total: \$43,008.2

Vendor Payments Made by Receiver

<u>Vendor</u>	<u>Amount</u>	<u>Invoice Date</u>
Office Supplies	\$250.26	3/22/2017
Locksmith	\$1,524.00	3/21/2017
Amazon Web Services	\$1,906.89	4/3/2017
Computer IT programmer	\$715.00	4/20/2017
PaperStreet Receivership Website	\$350.00	5/3/2017
Google G Suite Account	\$177.00	5/24/2017
UPS Store Mailbox	\$34.00	6/22/2017
Forensic Computer Expert	\$1,200	8/31/2017

Total: \$6,157.15

Vendor Payments Made by Receiver's Counsel

<u>Vendor</u>	<u>Amount</u>
Filing Fee for the District Court of Delaware	\$47.00
Filing Fee for the District Court of Arizona	\$47.00
Filing Fee for the District Court of New York	\$47.00
Filing Fee for the Northern District Court of Florida	\$47.00
Filing Fee for the Middle District Court of Florida	\$47.00
Express Mail (FedEx)	\$145.63
Photocopies	\$495.25
Postage	\$17.58
Long Distance Telephone Calls	\$70.75
Pacer/Westlaw Research	\$100.18
Parking Fees	\$52.00
Subtotal:	\$1,116.39

In addition, on June 16, 2017, I submitted the Receiver's First Interim Joint Application for Allowance and Payment of Compensation and Reimbursement of Expenses for Receiver and

his Counsel (the “Interim Application”). ECF No. 67. In the Interim Application, I requested authorization to pay compensation and reimburse expenses for myself and the Receiver’s counsel. Taking into account a holdback of 20%, the Receiver’s and his legal counsel’s fees totaled \$57,956.80 and their joint costs totaled \$5,512.54 at that time; however, given the Receivership Estate’s limited assets, the Receiver requested that the Court authorize payment of the \$4,412.54 in costs and \$6,000 in fees to the Receiver and \$5,000 in fees to the Receiver’s legal counsel. The Interim Application remains pending before the Court.

B. Termination of the Sublease and Sale of Certain Private Property.

As stated in my First Report of Receiver, upon my appointment, I learned that at least one of the Receivership Entities, LottoNet, operated out of an office located at 3195 N. Powerline Rd., Suites 103 and 105, Pompano Beach, Florida, 33069 (the “Office”), under a sub-lease from SNE Investments, LLC.. In the First Report of Receiver, I noted that I was negotiating with SNE for a favorable settlement of any sublease payments due and owing, and that I would explore whether I could offset the sublease obligation by selling LottoNet assets that remained in the Office to SNE Investments.. I further indicated that I would explore whether there were any legal means to reduce or avoid the sublease obligation .

Subsequent to the filing of the First Report of Receiver, I filed a Receiver’s Motion for Approval of Agreement with Landlord of Certain Personal Property on June 28, 2017. D.E. 69. As set forth in the motion, LottoNet failed to pay any rent for April, May, or June, 2017, which amounted to at least \$11,400 in past-due sublease obligations. Furthermore, I noted that the Receivership Entities did not have a use for the Office because they were no longer operational. Moreover, counsel for SNE Investments advised that there was up to \$12,850 in physical damage to the Office, which exceeded LottoNet’s \$5,700 security deposit. Considering these facts,

together with the mounting monthly rent obligations and the remaining sublease term, the Receiver determined that it was in the best interest of the Receivership Entities to terminate the month-to-month lease and vacate the Office. Further, because the Receivership no longer required use of the Office and intended to terminate the Lease, the Receiver had to either remove or sell to the Landlord all personal property of the Receivership Entities at the Office as soon as possible.

Accordingly, SNE Investments offered to waive all remaining liability—*i.e.*, outstanding rent and the cost of repairs—in exchange for LottoNet’s personal property (the “Settlement Agreement”). As a result of the proposed Settlement Agreement, the Receiver would forego all of the above-described expenses, including any expense associated with moving out of the Office (*i.e.*, moving, storage, and cleaning expenses), as well as numerous man-hours of work by the Receiver.

Based on this offer, and in recognition of the Receivership’s limited resources, the Receiver filed the aforementioned motion seeking the Court’s approval of the Settlement Agreement to alleviate the Receivership Estate of its outstanding rent and repair obligations, and to preserve assets for the benefit of investors and creditors. On August 3, 2017, the Court approved the Settlement Agreement.

To facilitate the transfer of LottoNet’s property to SNE Investments, the Receiver hired a forensic computer expert to properly erase all data from the Receivership Entities’ computers. Upon completion of that process, the terms of the Settlement Agreement were fulfilled, the sublease terminated, and LottoNet’s property sold to SNE Investments.

C. Investigating LottoNet Peru S.A.C.’s Assets.

As stated in the First Report of Receiver, upon my appointment as Receiver, I learned that LottoNet’s sales agents were actively soliciting investors to purchase shares of LottoNet Peru

S.A.C. (“LottoNet Peru”), and the paper records in LottoNet’s office showed that LottoNet transferred \$72,000 of investor money to an account in LottoNet Peru’s name at Banco Internacional del Peru (“InterBank”) on February 24, 2017.

Moreover, LottoNet had prepared and provided to potential LottoNet Peru investors a “shareholder discovery” packet and subscription agreement that stated that the government of Peru granted LottoNet, through LottoNet Peru, described as its subsidiary, “an exclusive ten-year lottery and gaming license, with unlimited options to renew every five years thereafter.” LottoNet further represented to investors that the license authorized it to operate its own lottery in Peru as well as sell U.S. lottery tickets to Peruvian nationals.

Based on this information, I began to investigate whether LottoNet Peru actually owned a license in Peru, the value of the license, if any, and what assets could be recovered to benefit the Receivership Entities. In pursuit of this information, I held a teleconference on April 3, 2017 with Peruvian counsel, Ever Santillan. Mr. Santillan initially advised that LottoNet Peru did obtain a license from the Government of Peru to operate a lottery, and that LottoNet Peru was required to maintain a bank account in Peru with a certain minimum balance to demonstrate its financial wherewithal to pay out winnings. As a result, Mr. Santillan indicated that LottoNet Peru maintained an account at InterBank, which he stated held a balance of \$90,000, which was \$18,000 more than the identified transfer of funds from a LottoNet Bank of America account to the InterBank account. According to Mr. Santillan, the withdrawal of those deposited funds at Interbank would result in the forfeiture of LottoNet Peru’s license.

Based upon Mr. Santillan’s initial representations, and at the time of filing of the First Report of Receiver, I decided not to seek repatriation of LottoNet Peru’s InterBank funds until I

could ascertain whether the license was legitimate, whether the license could be sold or transferred to a third-party, and whether the license had substantial value.

Subsequent to the filing of the First Report of Receiver, I made continuing efforts to evaluate the legitimacy, nature and value of the LottoNet Peru license. Given the lack of funds, however, we were unable to hire any attorneys, experts or consultants in Peru to assist us with this difficult and specialized analysis. Nonetheless, Adam Schwartz, Esq., Jorge Perez Santiago, Esq. and members of my staff made extensive efforts to reestablish contact with Ever Santillan, LottoNet Peru's Peruvian lawyer, to gather additional details and ask additional questions about the license. These efforts consisted of multiple phone calls over several weeks to Mr. Santillan's law firm, his cellular phone, and his law partner's cellular phone, and a call to what we believed to be his previous employer. After these calls proved unsuccessful due to disconnected cellular phones or incorrect numbers listed on LottoNet Peru documents, my staff was finally able to establish contact with Mr. Santillan's law partner who had Mr. Santillan activate his cellular phone.

On or about September 14, 2017, my staff held a teleconference with Mr. Santillan. Mr. Santillan provided information that seems to conflict with his prior communications with my staff and LottoNet Peru's "shareholder discovery" packet. He indicated that LottoNet Peru is a Peruvian entity independent of LottoNet, and that he holds 40% of LottoNet Peru's shares while David Gray, in his individual capacity, holds the remaining 60% of the shares. Furthermore, Mr. Santillan stated that LottoNet Peru did not obtain a license from the Government of Peru to operate a lottery. Rather, Mr. Santillan stated that LottoNet Peru paid initial startup costs of less than \$1,000 and a bond of no more than \$15,000 to receive a "fianza" or guarantee to participate in the Peruvian government's solicitation process. Mr. Santillan explained, however, that because Mr. Gray reportedly holds 60% of the shares in his individual capacity, LottoNet Peru was non-operational

and could not continue its efforts to obtain a license from the Government of Peru to operate a lottery. Thus, Mr. Santillan expressed interest in purchasing the remaining 60% of LottoNet Peru's shares so that he could proceed with obtaining such a license and operate a lottery.

The Receiver is continuing to assess this fluid situation, but may initiate the process to repatriate the \$90,000 of funds purportedly located in LottoNet Peru's InterBank account, or further investigate the possibility of selling LottoNet's interests in LottoNet Peru.

III. CONCLUSION

In conclusion, I am continuing to carry out my directives under the Receivership Order. The facts and conclusions in the First Report and this Second Report are subject to change as my investigation progresses during the course of the Receivership.

Dated: November 3, 2017.

Respectfully submitted,

s/ Ryan K. Stumphauzer

Ryan K. Stumphauzer, Esq.

Not individually, but solely in my capacity
as Receiver for LottoNet Operating Corp.,
Oracle Marketing Corp., CRM Interactive
LLC, and The Council Club LLC

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on November 3, 2017, I electronically filed the above document using CM/ECF. I also certify that the foregoing document is being served this day on all parties, witnesses, and counsel of records identified on the attached Service List in the manner specified, either via transmission of Notices of Electronic Filing generated by CM/ECF or in some other authorized manner for those who are not authorized to receive electronically Notices of Electronic Filing.

s/ Adam L. Schwartz
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