

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

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

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

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

Defendants.

SECOND REPORT OF RECEIVER JAMES D. SALLAH, ESQ.

I, James D. Sallah, Esq., not individually, but solely in my capacity as the Court-appointed receiver (the “Receiver”) for JCS Enterprises Inc., d/b/a JCS Enterprises Services Inc. (“JCS”), T.B.T.I., Inc. (“TBTI”), My Gee Bo, Inc. (“Gee Bo”), JOLA Enterprise Inc. (“JOLA”), and PSCS Holdings, LLC (“PSCS”), their affiliates, subsidiaries, successors, and assigns (collectively, the “Receivership Entities” or “Estate”) submit this second report regarding the present status of the Estate (“Second Report”). Although neither the December 12, 2014 Order Reappointing me as Receiver nor the Amended Receivership Order dated April 7, 2014 (collectively, the “Receivership Order”) requires me to file status reports, I believe it is prudent at this time to submit this Second Report to apprise the Court and all interested parties of my ongoing efforts, and those of my professionals, in carrying out my court-ordered obligations.

IMPORTANT – PLEASE READ CAREFULLY

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

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

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

I. CURRENT BALANCES IN RECEIVERSHIP ESTATE ACCOUNTS

As of December 31, 2014, I have obtained the following net cash amounts, which are currently segregated into four primary Estate accounts:

Receivership Estate Account Balances as of Dec. 31, 2014	
JCS Enterprises Inc.	2,508,677.18
T.B.T.I., Inc.	634,082.33
My Gee Bo, Inc.	1,112,374.58
JOLA Enterprise Inc. ¹	746,698.09
Balances in Receivership Estate Accounts	5,001,832.18

The table above includes only the cash balances currently maintained in bank accounts under my control. It excludes, among other things, tangible assets, real property, personalty, and other liquid assets that are also currently under my control.

In accordance with the Receivership Order and/or this Court’s approval, I have also paid certain necessary expenses in carrying out my duties and responsibilities. Specifically, the following tables reflect amounts transferred to the Estate accounts and certain disbursements paid as of December 31, 2014:

¹ As explained below, the Receivership was expanded to include two other entities: JOLA Enterprise Inc. and PSCS Holdings, LLC.

JCS Enterprises Inc. – Receivership Estate Segregated Account as of Dec. 31, 2014	
Receipts	
Turnover of Funds from Frozen Accounts	2,514,453.03
A & K Electronic Turnover of funds (segregated)	175,580.00
Petty Cash Retrieved from JCS headquarters	102.79
Various Account Refunds Collected	9,711.49
Total Receipts	2,699,847.31
Disbursements	
Lease Payments	(123,877.63)
Contract Labor & Office Expenses	(39,866.09)
Other Expenses	(27,426.41)
Total Disbursements	(191,170.13)
Balance in JCS Enterprises Inc. Segregated Account	2,508,677.18

T.B.T.I., Inc. – Receivership Estate Segregated Account as of Dec. 31, 2014	
Receipts	
Turnover of ATM Profits Due from eGlobal	108,492.30
Sale of ATM Business to eGlobal	200,000.00
Vault Cash Recovered from ATM Machines	184,694.00
Lease Deposit Refund	2,836.38
Turnover of Funds from Frozen Accounts	19,011.29
Litigation and Settlements (segregated)	162,203.00
Total Receipts	677,236.97
Disbursements	
Lease Payments	(2,920.30)
Contract Labor & Office Expenses	(8,750.50)
Other Expenses	(3,160.78)
Coconut Creek Property Expenses	(28,323.06)
Total Disbursements	(43,154.64)
Balance in T.B.T.I., Inc. Segregated Account	634,082.33

My Gee Bo, Inc. – Receivership Estate Segregated Account as of Dec. 31, 2014	
Receipts	
Turnover of Funds From Frozen Account	1,116,881.34
Total Receipts	1,116,881.34
Disbursements	
Office Expenses	(4,506.76)
Total Disbursements	(4,506.76)
Balance in My Gee Bo Inc. Segregated Account	1,112,374.58

JOLA Enterprise Inc. – Receivership Estate Segregated Account as of Dec. 31, 2014	
Receipts	
Turnover of Funds From Frozen Account	746,698.09
Total Receipts	746,698.09
Balance in JOLA Enterprise Inc. Segregated Account	746,698.09

II. CONCLUSIONS FROM THE FINANCIAL RECONSTRUCTION TO DATE

A. JCS, TBTI, and GEE BO were Operated as Part of a Ponzi Scheme

I have concluded that from approximately December 2011 to my appointment in April 2014, JCS, TBTI, and Gee Bo were utilized to operate an approximately \$80.8 million Ponzi scheme that involved over 1,800 investors nationwide. This conclusion is based on data and reports compiled and provided to me by my forensic accountants, documents and information my professionals have received in response to dozens of subpoenas that have been issued to financial institutions, entities, individuals, and other third-parties, along with my own investigation. As explained in the First Report of Receiver James D. Sallah, Esq. (“First Report”), my professionals are engaged in an extensive and complex financial reconstruction of numerous financial accounts belonging to the Receivership Entities and related third parties. The reconstruction has involved more than forty-five thousand (45,000) transactions that spanned a period from December 2011

through April 30, 2014 (the “relevant time period”). It has included reviewing statements from seventy-seven (77) related financial accounts, including fifty-six (56) bank accounts, eight (8) brokerage accounts, six (6) credit card accounts, and at least seven (7) merchant accounts.

The reconstruction, which is a work in progress, established that during the relevant time period, the Receivership Entities received approximately \$80.8 million from investors by “selling” them over 22,500 virtual kiosk machines (“VCMs” or “machines”). The VCM sales to investors were documented through contracts with either JCS or TBTI, and those contracts represented that advertising revenue would provide investors with a return of \$300 per month for thirty-six (36) to forty-eight (48) months. Thus, according to the contracts, each machine would generate at least \$10,800 over a thirty-six (36) month period.

Of the VCMs sold, JCS and TBTI actually placed fewer than 100 VCMs at fewer than 50 different locations. During the relevant time period, JCS and TBTI earned a total of approximately \$21,000 in advertising revenue from these machines.² To put things into perspective, the advertising revenue actually generated by VCMs would not even have supported the obligations for *two* VCMs that were sold under the shorter, thirty-six (36) month contracts.

JCS and TBTI generated no other meaningful source of revenue or cash inflows from which to pay investors.³ My ongoing investigation indicates that repayments to investors from the

² This amount includes \$10,836 in transactions in which my professionals are unable to identify the payor due to insufficient data provided by the financial institution. My accountants made the assumption that the transaction related to advertising revenue.

³ While not advertising revenue, JCS appears to have collected through VCMs an immaterial amount of \$13,588 from casino gaming related transactions. JCS also received deposits totaling \$9,449 from a merchant processor referenced as “Geebo Sales.” Assuming *arguendo* that these deposits were also included as advertising revenue, the total amount would be approximately \$44,000.

Receivership Entities totaled approximately \$49.7 million. The only source of funds available to the Receivership Entities from which to make these investor payments were funds received from subsequent investors, the hallmark of a Ponzi scheme.⁴ A copy of a redacted, expert report completed by my forensic accountants, Melissa Davis and KapilaMukamel, LLP, as of January 21, 2015 is attached hereto as Exhibit “A.”⁵ This report provides further details concerning the sources and uses of funds, investor liability, and cash flows, among other things.

A. Calculating Total Losses From the Ponzi Scheme

As explained above, of the approximately \$80.8 million raised, the financial reconstruction shows currently that during the relevant time period the Receivership Entities returned approximately \$49.7 million to investors. However, given the information available to date, it is too premature to draw the conclusion that investors’ losses result in a total of approximately \$31.1 million without additional analysis because of two primary factors discussed below.

First, certain investors profited from their purchase of VCMs (*i.e.*, those investors who received a return in excess of their principal investment). The total amount of excess or “false profit” payments to this group of investors must be added to the approximately \$30.1 million in potential losses in order to finalize the total amount investors lost as a result of the Ponzi scheme. This analysis is ongoing.

⁴ A Ponzi scheme “uses the principal investments of newer investors, who are promised large returns, to pay older investors what appear to be higher returns, but which are in reality a return of their own principal or that of other investors.” *In re Fin. Federated Title & Trust, Inc.*, 309 F. 3d 1325, 1327 n.1 (11th Cir. 2002).

⁵ Exhibit “A” was redacted to remove portions of account numbers and the full names of certain third-party individuals. Notably, Exhibit A is based on the reconstruction of JCS, TBTI and Gee Bo financial accounts as indicated in the report and does *not* include all of the 77 financial accounts mentioned above.

Second, the monies that investors received from merchant banks or credit card companies as chargebacks must also be considered in determining the total losses suffered by investors. These credit card chargebacks will reduce the amount of claims that I anticipate receiving from certain investors, and potentially other creditors. For example, if an investor recovers all of his or her net losses through a chargeback, I will likely recommend the Court deny any claim up to the amount of the chargeback. One of the primary merchant processing companies, First Data Merchant Services Corporation, has represented that as of January 9, 2015, it has returned approximately \$9,636,124.25 in chargebacks to investors. This is based on demands for chargebacks made by such investors pursuant to contractual obligations with their credit card companies or issuing banks. Such payments will likely result in claims brought by the merchant processing companies as trade creditors.

B. Other Uses of Funds by the Receivership Entities

My investigation indicates that other payments were made to insiders, third-parties, and vendors. Some of the more significant payments were made in connection with TBTI's ATM Business, which is discussed in detail in my Emergency Motion for an Order Seeking Court Approval to Sell and Assign Certain T.B.T.I. Assets. [DE 50]. In total, TBTI's ATM business, received approximately \$15.77 million. However, this business used approximately \$15.6 million during the same time period. Accordingly, it generated approximately \$171,000 in net revenue for TBTI, which was insufficient to meet investor obligations.

In addition, during the relevant time period, insiders, related parties, and employees received a total of approximately \$10.5 million out of the approximately \$80.8 million raised from investors. Of those monies, at least \$3,536,401 was paid directly to the individual defendants, their respective spouses, or companies that they owned and/or controlled.

III. THE RECEIVER ANTICIPATES INITIATING ACTIONS AGAINST THOSE WHO RECEIVED COMMISSIONS FOR SELLING VCMs AND INVESTORS WHO RECEIVED MORE THAN THEY INVESTED

Among other things, the Receivership Order provides that I may initiate actions on behalf of the Receivership Entities against those individuals or entities who received transfers of monies or other proceeds directly or indirectly traceable from investors of the Receivership Entities. [DE 19]. Such actions may include, but are not limited to, those for disgorgement of profits and recovery and/or avoidance of fraudulent transfers under Florida Statute § 726.101, et seq. *Id.*

As part of my investigation, my professionals and I have determined that several dozen individuals and/or entities received over \$6,000,000 in “commissions” from the Receivership Entities in connection with soliciting others to purchase VCMs. Some of the individuals or entities offering VCMs then utilized sub-agents, who also received commissions for their sales. I have sent demand letters to the majority of these individuals and entities, who are located throughout the United States, demanding that they repay these monies.⁶ If such individuals and entities do not return these funds for the benefit of the Receivership Entities, or otherwise reach a Court-approved compromise with the Estate, I anticipate filing actions against them in federal court and seeking the recovery of such monies.

In addition to those individuals and/or entities who received commissions, over 100 individuals and entities received back at least \$10,000 more than their principal investment prior to the Receivership’s inception, which makes them profiteers. I anticipate demanding that any such profiteer return to the Receivership Estate an amount equal to the profits made by each such

⁶ I have filed copies of the Receivership Order and the Complaint in approximately seventy-two (72) federal jurisdictions where I believe that assets or property of the Receivership Estate may be located. *See* 28 U.S.C. §754.

profiteer. This will include any person who obtained a chargeback on a credit card in excess of their principal investment. If a resolution over the amount demanded cannot be reached with such profiteers, I will assess the viability of filing an action against such individual or entity on a case by case basis.⁷

IV. EXPANSION OF RECEIVERSHIP OVER JOLA AND PSCS

In late August 2014, I moved this Court to expand the Receivership over two Florida entities named JOLA Enterprise Inc. and PSCS Holdings, LLC. [DE 114]. JOLA was owned and controlled by Defendant Joseph Signore (“Defendant Signore”) and his spouse, and PSCS was owned by Defendant Paul Schumack (“Defendant Schumack”) and his spouse. The basis for my motion was similar to my earlier motion to expand the Receivership over Gee Bo. In addition to being owned and controlled by the individual defendants and their spouses, JOLA and PSCS received nearly all their funds from JCS and/or TBTI. During the relevant time period, JCS and TBTI transferred a total of \$956,975 to JOLA, and TBTI transferred \$2,350,000 directly or indirectly to PSCS. As explained in the motion and my declaration that was filed in support of the motion, both JOLA and PSCS were essentially used as conduits for the individual defendants to enrich themselves. *Id.*

On December 11, 2014, over the opposition of Defendant Signore, this Court granted my motion and issued an Order expanding the Receivership over JOLA and PSCS. This allowed me to secure immediately an additional \$746,698.09 for the Estate that was held in a bank account in

⁷ Prior to sending out any demand letters, counsel for one investor proactively reached out to me and offered 100%, or all, of the \$162,300 in false profits that his client received from the Receivership Entities. I entered into a conditional settlement agreement for these false profits to be returned to the Estate, which was approved by the Court on January 27, 2015. [DE 198]. I encourage other individuals or entities to do the same as this one investor and return 100% of any monies received above the principal investment.

JOLA's name. I anticipate that the Order will also assist me in extricating approximately \$400,000 from a retirement plan that was set up for TBTI employees with funds from PSCS, as well as to attempt to liquidate shares of a private company that were purchased with funds from PSCS. Finally, the expansion over JOLA and PSCS will assist me in streamlining legal actions filed against recipients of monies from JOLA and PSCS.

V. DEFENDANT SCHUMACK AND HIS SPOUSE VOLUNTARILY AGREED TO TURN OVER CERTAIN PERSONAL ASSETS

In early September 2014, Defendant Schumack's counsel and my attorneys negotiated an agreement whereby Defendant Schumack and his spouse voluntarily turned over the bulk of their personal assets to the Estate. This was accomplished pursuant to a Court-approved Assignment and Assumption Agreement that I entered with the Schumacks on September 17, 2014 (the "Assignment") [DE 118 and 119]. This Assignment included, among other things, the Schumacks' personal residence, which was purchased in November 2013 for approximately \$1,650,000, as well as certain contents and furnishings. In that regard, I immediately procured insurance for the home and its contents; hired three appraisers pursuant to federal statute; and listed the home for sale conditioned on future Court approval. The house remains on the market for a Court-approved, future sale.

In connection with marketing the home, I had the home cleaned, its windows washed, its pool pump replaced, its sprinkler system repaired, and photographed and videotaped the premises. I also contacted the U.S. Attorney's Office for the Southern District of Florida ("USAO"), which had previously filed a *lis pendens* on the Schumacks' personal residence in connection with a criminal action. The USAO lifted the *lis pendens* in light of the Assignment of the residence to the Receivership Estate. Subsequently, the Schumacks signed the deed over to the Estate, which was then recorded with the Broward County Recorder's Office.

Moreover, as part of the Assignment, the Schumacks transferred any rights to monies that were paid to the IRS from 2012 to the present, any interests or rights to several insurance policies, an annuity valued at approximately \$88,000, and any interests that they maintain in the TBTI pension plan containing nearly \$400,000, among other things.⁸

VI. ASSET PURCHASE AGREEMENT WITH ATOMIC WORLD MEDIA, INC. AND PUBLIC AUCTION

In late November 2014, after several months of extensive negotiations, I entered into a conditional Asset Purchase Agreement (“APA”) to sell a combination of the JCS’s and Gee Bo’s assets for \$1,536,971.75. The bulk of the assets to be sold under the APA are the VCMs, computer hardware, software, and certain contracts associated with the VCMs and Gee Bo. To ensure that the assets are marketed and that the Receivership Estate receives the highest and best price, the APA provides for the asset sale to the proposed purchaser or to a higher bidder pursuant to specific bidding procedures set forth in the Verified Motion that I filed with this Court (the “Verified Motion”) [DE 151]. Under these bidding procedures, I have determined that the asset sale to the purchaser as a “stalking horse” and public auction will enable me to obtain the highest and best offer for the assets and maximize their value. This is ultimately in the best interest of the investors and creditors with valid claims.⁹

In addition, the APA provides notice of the sale and bidding procedures in national and local periodicals to provide ample opportunity to the marketplace. My professionals and I will also aggressively solicit bids from third-parties. However, in the event that there are no other

⁸ Notably, as part of the Assignment, the Receiver did not release the Schumacks from liability for claims that the Estate may have against them.

⁹ The public auction is currently set for February 20, 2015. However, I plan to seek Court approval to reset the date of the auction in the near future.

interested parties to overbid the purchaser, the \$1,536,971.75 purchase price is reasonable and represents fair value for the property.

Defendant Signore and his spouse both objected to the sale of the assets subject to the APA. [DE 157]. On January 6, 2015, over their objections, the Court granted my Verified Motion and issued an Order authorizing the: (1) APA, including overbid and auction procedures consisting of a break-up fee expense reimbursements; (2) form and manner of notice of sale, bidding, and auction; and, (3) sale of the receivership estate's assets free and clear of liens, claims, encumbrances, and other interest. [DE 188]. Accordingly, I am in the process of carrying out the Court's Order.

VII. OTHER LITIGATION INVOLVING THE RECEIVERSHIP ESTATE

A. Litigation Relating to Discovery

The majority of the recent litigation involving the Receivership Estate has involved discovery matters arising out of the issuance of subpoenas to individuals or entities who received commissions for selling VCMs, or otherwise received large transfers of monies from one or more of the Receivership Entities. My legal professionals have issued over one-hundred and forty (140) subpoenas to entities and individuals whom I believe possess relevant information concerning these payments and/or transfers. Most recipients have complied, but others have not.¹⁰ On September 18, 2014, Damon Barnes, Jeremy Barnes, and J&J Bundles, Inc., moved the United States District Court for the Middle District of Florida to quash the subpoenas issued to them. *See* Case No. 14-mc-00078-CEH-TGW (M.D. Fla.). The Middle District Court granted, in part, and

¹⁰ Notably, some individuals who appear to have received large commissions from the Receivership Entities invoked their Fifth Amendment Privilege when subpoenaed for documents and depositions.

denied, in part, the motion to transfer the discovery motions before it to this Court.¹¹ [See DE 126]. The issues presented to the Middle District Court are currently pending before this Court. [DE 131, 142-43].

In addition, in early November 2014, I moved for orders to show cause against two other individuals who failed to respond to the subpoenas issued to them. The Court granted my renewed motion for orders to show cause on December 12, 2014 [DE 166 and 167]. I moved for a contempt order against one of the subpoena recipients on December 31, 2014, and that motion is currently pending before this Court. [DE 186]. The remaining subpoena recipient was granted an enlargement of time, and has since provided a response to the subpoena.

B. Motion to Intervene

In September 2014, an investor moved to intervene in the instant matter and for an order requiring me to implement a claims review process regarding Gee Bo immediately, or in the alternative, to segregate monies collected as to Gee Bo. [DE 115]. The proposed intervenor contended that because he was a large investor, if not the largest individual investor, in Gee Bo, he should be entitled to intervene and force an immediate claims review process for Gee Bo. *Id.*

I opposed the intervention for a number of reasons. [DE 122]. First, the Securities Exchange Act of 1934 bars intervention as a matter of law where an intervenor fails to satisfy the requirements of Rule 24 of the Federal Rules of Civil Procedure. Indeed, the proposed intervenor's motion provided no evidence that he, individually, invested any monies in Gee Bo. Second, there is no evidence that I will not, or am not, representing the intervenor's interests. Third, a Court-approved claims and distribution process would be a more efficient, streamlined approach, for

¹¹ The United States District Court for the Middle District of Florida denied the portion of the motion directed to Jeremy Barnes because it lacked jurisdiction over his motion to quash in the first instance. Jeremy Barnes resides in Georgia.

addressing his claim. Finally, intervention would potentially encourage other investors and non-party creditors to seek intervention. In this case, there are numerous investors and non-investor creditors. *Id.*

VIII. TOWN HALL MEETING IN WEST PALM BEACH

On September 19, 2014, my professionals and I held a town hall style meeting at the Marriott Hotel in West Palm Beach, Florida. The purpose of the meeting was to provide investors, interested parties, and the public the opportunity to hear from me and my professionals concerning the Receivership Estate's status, my role and its limitations, the role of the various members of my legal and forensic accounting professionals, and how I anticipate the Receivership will proceed going forward. The town hall format provided those who attended the opportunity to meet with me and my professionals personally, or call in via a teleconference, and ask any questions that were not answered during my presentation. Approximately 60 people attended personally, some traveling from out of state, while several hundred individuals called in from across the nation and attended telephonically.¹²

I received many questions in advance of the town hall meeting via email, and tried to address as many as I could during my presentation. In addition to my professionals and me, a representative from the U.S. Securities and Exchange Commission's trial unit was also present and participated.

The meeting lasted approximately two (2) hours. The most common questions, from those attending personally and from those who emailed questions in advance of the meeting, were: (1) whether they were going to receive any monies back; (2) how much many they could expect; (3)

¹² It is noteworthy that neither I nor the professionals who attended billed for their time associated with the Town Hall Meeting. In addition, I negotiated with Marriott to provide a free ball room for the meeting, provided that the Receivership Estate pay the costs associated with the set-up and refreshments that were provided to the attendees.

how large the losses were; and (4) whether I was going to take any action against those who solicited them to purchase VCMs. I also explained legal concepts such as the stay of the underlying action, disgorgement, and parallel prosecutions.

IX. WAIVER OF PRIVILEGE WITH CERTAIN PROFESSIONALS WHO PROVIDED LEGAL SERVICES TO JCS

In December 2014, following a hearing before the Honorable Daniel T.K. Hurley in a parallel criminal case styled *U.S. v. Signore, et. al*, Case No. 14-cr-80081-DTKH (S.D. Fla.) (the “parallel criminal case”), I understand that Judge Hurley requested that the Government and counsel for the criminal defendants confer as to the waiver of the attorney-client privilege between JCS and its former counsel for a potential reliance on counsel defense. Prior to making a determination as to whether I would do so on behalf of JCS, my counsel and I interviewed two prior attorneys for the company to determine, among other things, the scope of their respective representations and the actual services they provided to JCS.

Following my interview, I made the determination to waive privilege on behalf JCS concerning both law firms, and advised the Government and counsel for the defendants of the same. I am in the process of determining whether to waive privilege for other prior professionals.

X. DEFENDANT SIGNORE AND HIS SPOUSE WERE PERMITTED TO SECURE FIVE VCMs AND OTHER MATERIALS IN CONNECTION WITH THEIR DEFENSE OF A CRIMINAL MATTER

As the Court is aware and described in my Reply [DE 182], Defendant Signore’s and his spouse’s criminal counsel previously requested that I preserve five (5) specific VCMs for use during trial in the parallel criminal case. To avoid impeding Defendant Signore from presenting such VCMs during his criminal trial, I agreed to do so. Under supervision of one of the members of my professionals, I permitted Defendant Signore, his wife, and defense counsel’s investigator to go to the JCS warehouse and hand-pick five (5) VCMs that he and his wife requested I preserve

for their joint criminal trial. He also hand-picked marketing materials and other items that my professional agreed to, and did, segregate, preserve, and remove to an offsite storage facility. Further, I ensured that these five (5) machines were included in the proposed APA for their use during the criminal trial.¹³

XI. FUTURE CLAIMS PROCESS

In the future, I anticipate seeking approval from the Court for an approved claims process and form. While I am unable to predict with certainty when I will seek such approval, I hope to be in a position to begin drafting a motion to approve the claims form and claims process early next quarter. When I file such a motion, I will post it on the Receivership website located at www.jcs-tbtireceivership.com.¹⁴ At the same time, I anticipate reaching out to investors to ensure that I have their accurate mailing and contact information.

XII. CONCLUSION

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

¹³ Mr. Craig Hipp, a defendant in the parallel criminal case, has also requested the use of 5 VCMs during his criminal trial, which is severed from his co-defendants and set to begin in late February or March 2015.

¹⁴ In the future, I anticipate also seeking Court approval to consolidate, or pool, the Receivership Entities' assets and liabilities.

Receivership.

Executed on this 30th day of January 2015.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'JDS', written over a horizontal line.

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

EXHIBIT A

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
Case No.: 14-CV-80468-MIDDLEBROOKS**

SECURITIES AND EXCHANGE COMMISSION,

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

Defendants.

EXPERT REPORT

Submitted by Melissa Davis, CPA, CIRA, CFE

January 21, 2015

Kapila/Mukamal

CPAs, Forensic and Insolvency Advisors

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
Case No.: 14-CV-80468-MIDDLEBROOKS**

SECURITIES AND EXCHANGE COMMISSION

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INDEX

REPORT

EXHIBITS

Documents Utilized	A
Sources and Uses of Funds	B
Net Investor Losses	C
Liability to Investors	D
TBTI ATM Activity	E
Geebo Bank Activity	F
JCS to TBTI to Investors	G

QUALIFICATIONS

**Resume of Melissa Davis
Case Experience**

Kapila/Mukamal

CPAs, Forensic and Insolvency Advisors

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
Case No.: 14-CV-80468-MIDDLEBROOKS**

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Defendants.

EXPERT REPORT

I. OVERVIEW

James D. Sallah, Esq. was appointed as Receiver (“Receiver”) of JCS Enterprises, Inc. d/b/a JCS Enterprises Services, Inc. (“JCS”) and T.B.T.I., Inc. (“TBTI”) (collectively “the Receivership”) on April 7, 2014.¹ The Receiver filed a motion to expand the Receivership to include My Gee Bo, Inc. (“Geebo”)² and the Court entered an order granting the motion on April 11, 2014.³

The Receiver retained KapilaMukamal, LLP as his forensic accountants. In the sections that follow, Melissa Davis and KapilaMukamal (collectively “Davis” or “KM”) set forth certain opinions about JCS, TBTI and Geebo (“Receivership Entities”). KM’s opinions are based on an analysis of

¹ D.E. 19.

² D.E. 23.

³ D.E. 26. Per D.E. 114, the Court also expanded the Receivership to include JOLA Enterprises, Inc. and PSCS Holdings, LLC.

the documents enumerated at **Exhibit A** as of the date of this report. Additional documents and information may be made available or reviewed, and certain facts currently not available may come to light, which may impact the conclusions and opinions reflected herein. Furthermore, the forensic investigation and discovery is still in process and is not completed. Continued investigation may reveal information that has an impact on the analysis and findings presented in this report.

This report was prepared solely for use in this matter or for use at the discretion of the Receiver. The information and conclusions reached should not be relied upon by any other person nor should any statement in this report be used for any other purpose without written consent from KM or without written consent from the Receiver.

II. SCOPE

The Receiver has asked KM to opine on:

- a. Whether or not JCS and TBTI operated a Ponzi scheme;
- b. The amount of funds invested into the Ponzi scheme;
- c. The amount of funds lost by investors in the Ponzi scheme;
- d. Whether or not the revenue generated from advertising was sufficient for JCS and TBTI to pay all investors the monthly returns;
- e. Whether or not any TBTI investor purchases were deposited into JCS bank accounts;
- f. The source of funds available to Geebo;
- g. Whether or not JCS transferred funds to TBTI that TBTI used to make the monthly return payments to investors, and

- h. Whether or not revenues generated by TBTI's ATM servicing business were sufficient for TBTI to pay all investors the monthly returns.

III. OPINIONS

KM's opinions are as follows:

- a. From December 2011 to approximately April 2014, JCS and TBTI operated a Ponzi scheme. They paid old investors their returns utilizing moneys obtained from new investors;
- b. The total funds JCS and TBTI raised from investors was approximately \$80.8 million;
- c. The investors lost at least \$31.1 million;
- d. The revenue generated from advertising was insufficient for JCS and TBTI to pay all investors the monthly returns;
- e. Certain investor purchases were made through credit card merchant accounts in the name of JCS. These purchases included both JCS and TBTI investor transactions;
- f. Funds that flowed into the Geebo financial accounts included funds that were derived from JCS and TBTI;
- g. JCS transferred funds to TBTI that TBTI used to make monthly payments to investors, and
- h. Revenues generated by TBTI's ATM servicing business during the time of the Ponzi scheme were not sufficient for TBTI to pay all investors the monthly returns.

IV. BACKGROUND

JCS Enterprises, Inc. d/b/a JCS Enterprises Services, Inc.

JCS was incorporated on October 12, 2010 as a Delaware Corporation. On June 29, 2011, JCS became Foreign Profit Corporation for purposes of transacting business in Florida. Joseph Signore and Laura Signore a/k/a Laura Grande were President and Vice President, respectively.⁴

My Gee Bo, Inc.

Geebo was incorporated on April 2, 2013 under the laws of the State of Florida. Joseph Signore and Laura Signore were President and Vice President, respectively.⁵

T.B.T.I., Inc

TBTI was incorporated on August 13, 2001 under the laws of the State of Florida. Paul Schumack and Christine Schumack were President and Secretary, respectively. On September 20, 2013, an amendment was filed to change Christine Schumack to President, change Paul Schumack to Vice President, add Crystal Miller as Treasurer, and add Chad Wright as Secretary.⁶

⁴ www.sunbiz.org

⁵ *Id.*

⁶ *Id.*

JOLA Enterprises, Inc.

JOLA Enterprises Inc (“JOLA”) was incorporated on February 25, 2013 under the laws of the State of Florida. Joseph Signore was titled President and Director and Laura Signore was titled Treasurer and Secretary.⁷

PSCS Holdings, LLC

PSCS Holdings, LLC (“PSCS”) was incorporated on August 5, 2013 under the laws of the State of Florida. Paul Schumack and Christine Schumack were both titled as managing officers.⁸

V. METHODOLOGY

A. Bank Transactions Reconstruction

In order to determine the nature of the transactions of the Receivership Entities, Davis, assisted by other professionals within KM, prepared a detailed reconstruction of the funds received and disbursed in each entity's financial accounts during the period December 1, 2011 through April 30, 2014 (“Relevant Time Period”). The reconstruction process included the following tasks:

- KM reviewed and analyzed the electronic accounting records maintained by JCS and TBTI;⁹

⁷ *Id.*

⁸ *Id.*

⁹ TBTI and JCS utilized QuickBooks accounting software. JCS also utilized Check Soft accounting software.

- KM reviewed the JCS and Geebo banking records found in the JCS leased premises;
- KM reviewed the TBTI banking records produced by Christine Schumack;
- KM provided data to the Receiver regarding missing financial information. The Receiver issued subpoenas to the financial institutions to obtain the missing financial records, and
- Once the financial information was obtained from the financial institutions, KM analyzed the banking records which included bank statements, deposit tickets and deposit support, wire transfer advices and cancelled checks. **Exhibit A.1** displays the Receivership Entity bank accounts included in the reconstruction process.

KM prepared a combined¹⁰ reconstruction of the funds received and disbursed by the Receivership Entities during the Relevant Time Period on a transactional level basis (the “Bank Reconstruction”). The Bank Reconstruction encompassed over 45,000 transactions. The results are summarized at **Exhibit B** and in **Table 1**, below.

¹⁰ Transactions totaling \$116,425,216 that occurred between the Receivership Entities net to zero.

Table 1

Sources and Uses of Funds					
Type	Sources	%	Uses	%	Net
Investors ¹¹	80,840,553	81.41%	49,752,796	52.00%	31,087,757
ATM Business	15,773,111	15.92%	15,601,809	16.31%	171,302
Insiders/Related Parties	1,157,381	1.17%	11,715,895	12.25%	(10,558,514)
Operating & Facilities	390,243	0.39%	8,541,131	8.92%	(8,150,888)
Commissions	-	0.00%	6,429,356	6.72%	(6,429,356)
Credit Cards	-	0.00%	2,101,948	2.20%	(2,101,948)
Further Investigation Required	-	0.00%	466,121	0.49%	(466,121)
Real Estate & Rent Related	-	0.00%	436,131	0.46%	(436,131)
Professional Fees	-	0.00%	371,257	0.39%	(371,257)
Geebo Territory Purchases	1,084,000	1.09%	260,000	0.27%	824,000
Advertising	21,143	0.02%	-	0.00%	21,143
	\$ 99,266,431		\$ 95,676,444		\$ 3,589,987
Beginning Balance	41,166	0.04%	-	0.00%	41,166
Transfer to Receiver ¹²					(3,631,153)
Net Remaining Balance					\$ -

VI. ANALYSIS

A. Ponzi Scheme Defined

The Securities and Exchange Commission (“SEC”) defines a Ponzi scheme as follows:¹³

¹¹KM’s calculations are based on the transactions in the bank reconstruction and a review of the investor files. To date, there is approximately \$4.8 million in receipts where KM had made the assumption they are investor related and has not identified the name of the investor due to insufficient information provided by financial institutions. The disbursements include \$240,370 in chargeback transactions where KM has not identified the investor name due to insufficient data provided by the financial institution.

¹²Amount of funds transferred to the Receiver on or before April 29, 2014.

¹³ <http://www.sec.gov/answers/ponzi.htm>

“A Ponzi scheme is an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, the fraudsters focus on attracting new money to make promised payments to earlier-stage investors to create the false appearance that investors are profiting from a legitimate business.”

The Association of Certified Fraud Examiners - Fraud Examiner's Manual - 2014 International Edition defines a Ponzi scheme as follows:

“A Ponzi is generally defined as an illegal business practice in which new investors' money is used to make payments to earlier investors. The investment opportunity is typically presented with the promise of uncommonly high returns. A simple investment scam rakes in as much money as possible and then disappears, whereas a Ponzi scheme stays in business by turning some of the money back into the game.....Payoffs are made from the pool of investor funds; the rest is siphoned into operators' pockets.”¹⁴

Ponzi schemes share certain common characteristics:

- The purported business underlying the investment scheme depends on the inflow of external investor money;
- The investor money is not used according to the stated business purpose. Instead, the investor money is used to pay returns to earlier investors, to often fund the perpetrator's lifestyle, or for some other illegitimate purpose;
- The purported business enterprise underlying the scheme lacks sufficient profit to provide the returns and, therefore, depends on a continually increasing inflow of new investor money, and
- Ponzi schemes often involve a charismatic and confident central promoter who successfully swindles investors.

¹⁴ Association of Certified Fraud Examiners, *Fraud Examiners Manual 2014 International Edition*, Financial Transactions & Fraud Schemes, Consumer Fraud, Ponzi and Pyramid Schemes, 1.1224-1.225.

B. The JCS & TBTI Ponzi Scheme

JCS and TBTI marketed and sold virtual concierge machines (“VCMs”) to investors promising them large returns. The VCMs were interactive ATM-like machines that enabled businesses to advertise their products and services. VCMs were to be placed in hotels, airports, or stadiums and would generate advertising revenue which would finance the guaranteed rate of return.

The VCM sales were documented with either a JCS “Virtual Concierge Buyer Program Agreement” or TBTI’s “Virtual Concierge Investor Contract.” The agreements were similar in content:

- **VCM purchase price:** Investors purchased each machine for a price ranging from \$2,600 - \$4,500.¹⁵
- **Investor Return:** Investors were to be paid a \$300 per month return for 36-48 months per machine. This would equate to investor profitability ranging from \$6,300 to \$11,800 or a 140% – 450% return per VCM.¹⁶

The average cost of the VCM investment was between \$2,600 and \$4,500 per machine.¹⁷ Investors were provided with two options to invest: the “passive program” or “aggressive” program.¹⁸ With the “passive program”, JCS purportedly handled the advertisements, software, hardware

¹⁵ Based on KM’s analysis of the investor files.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ DE No. 4.

and location of the VCM. With the “aggressive program” investors had to place the VCMs themselves.¹⁹ Most investors chose the passive program, which purportedly provided a monthly return of \$300 per month for a period of generally between 36 and 48 months.²⁰

TBTI investor contracts stated:

“If for whatever reason, the Investor can sell back to the Provider the VC equipment at any time for their initial purchase price.”²¹

Advertising Revenue

The JCS and TBTI business model was structured to generate revenue through advertising sales by placing VCMs in various venues. The

JCS investor contracts stated:

“Advertising revenues will be paid as follows: The advertising revenue check will be mailed to the Buyer on the 15th of the following month, considering that the funds are available from the sale to Seller and for each wall unit purchased Buyer will receive from Seller \$300.00 per month in advertising revenue for 36 consecutive months.”²²

TBTI investor contracts contained similar language. As indicated to investors, the advertising revenue would fund their return of \$300 per month for 36-48 months. According to a *JCS 6 Month Virtual Concierge Advertising Contract Order Form (“Advertising Contract”)* found in the JCS records,

¹⁹ *Id.*

²⁰ Based on KM’s analysis of investor files.

²¹ TBTI VCM Contract - Section I “Concept of the Operation”.

²² JCS VCM Contract - Section 4 “Unit Price and Compensation to Buyer”.

businesses could select from five different advertising packages priced from \$15 to \$975.²³

Ponzi Scheme Attributes

Initial receipts from investors began in December 2011. During the period analyzed, JCS and TBTI raised approximately \$80.8 million from at least 1,800 investors by selling more than 22,500 VCMs.²⁴

Although more than 22,500 VCMs were sold to investors, it appears that less than 100 operating VCMs were actually placed.²⁵ This resulted in an insignificant amount of revenue that was actually raised from the operating VCMs to repay investors. Instead, as is consistent with all Ponzi schemes, new investor funds were used to pay older investors and here, money was funneled out of the scheme for the benefit of insiders. Moneys were also used to fund the costs related to Geebo.

Advertising revenue was the alleged source from which the investors were to be repaid. At a minimum, the JCS/TBTI business model would need to generate a minimum of \$10,800 per VCM machine sold based on a \$300 return for a 36 month period.

²³ Based on a typical *JCS 6 Month Virtual Concierge Advertising Contract Order Form* found within the records of JCS.

²⁴ KM's calculations are based on the transactions in the bank reconstruction and a review of the investor files. To date, there is approximately \$4.8 million in receipts where KM has not identified the name of the investor or the number of units purchased due to insufficient information provided by financial institutions. JCS and TBTI's internal records reflected the sale of approximately 25,000 VCMs to approximately 1,800 investors. The Receiver's investigation is ongoing.

²⁵ D.E. No 107-1.

Based on the Bank Reconstruction, actual advertising revenue received by JCS and TBTI was \$21,143²⁶ during the entirety of the scheme.²⁷ The scheme had attributes of a Ponzi scheme which indicate there was an insignificant legitimate business operation and the investment scheme served the primary purpose of benefiting insiders.

C. Investor Liability

Total funds collected from investors was approximately \$80.8 million, total funds paid to investors was approximately \$49.7 million resulting in net investor loss of at least \$31.1 million.²⁸ (**Exhibit C**) As enumerated in the preceding sections, the funds disbursed by JCS and TBTI to investors far exceeded the few identifiable sources of revenue generated by the entities. Therefore, JCS and TBTI lacked funds to repay investors and consequently depended on funds from new investors in order to repay old investors.

JCS and TBTI's purported source of funds to pay investors was the advertising revenue received from VCM advertisers. **Exhibit D** demonstrates that \$49.7 million was paid to investors during the Relevant Time Period. Based on the documents reviewed to date, it appears that the first advertising revenue was not collected until May 2012, after almost \$1.9 million had been collected from investors and approximately \$339,000 had

²⁶ This amount includes \$10,836 in transactions where KM was not able to identify the payor due to insufficient data provided by the financial institution. KM made the assumption that the transaction related to advertising revenue.

²⁷ KM is aware that in his affidavit (D.E. 4), Thomas Donelon, former CPA for JCS indicated that he was provided supporting documentation for advertising revenue totaling \$39,425 for 2012. KM did not identify this amount of advertising revenue being deposited into the JCS bank accounts.

²⁸ This analysis is presented on an aggregate basis. Actual losses incurred by individual investors may exceed \$31 million since some investors received more from the scheme than they invested.

been repaid to investors. Thus demonstrating, new investor funds were utilized to repay old investors as no advertising revenue had been collected by JCS from December 2011 through April 2012.

JCS and TBTI sold more than 22,500 units throughout the Relevant Time Period. Each unit was to yield a return of \$300 per month per machine for 36-48 months. Based upon the conservative calculation that the payment stream was limited to 36 months, **Exhibit D** demonstrates more than \$243.4 million would have been due to the investors. \$49.7 million was actually paid back to investors, resulting in a total outstanding obligation of approximately \$193.7 million.

D. Insider and Related Party Transactions

Funds paid to insiders and related parties of approximately \$11.7 million in aggregate further depleted the funds available to repay investors. During the Relevant Time Period, the Receivership Entities disbursed the aggregate funds directly to, or for the benefit of insiders and related parties as follows:

Table 2

<u>Payee</u>	<u>Amount</u>
W.C.F.S. Inc	\$ 2,761,100
Schumack, Paul & Christine	1,500,000
JOLA Enterprises	956,975
Signore, Laura	811,754
Signore, Joseph	220,162
Hipp, Craig ²⁹	153,660
F [REDACTED] W [REDACTED]	87,400
Grande, Matthew	34,425
PSCS Holdings LLC	25,000
Schumack, Christine	22,510
W [REDACTED] C [REDACTED]	16,400
W [REDACTED] C [REDACTED]	3,000
F [REDACTED] R [REDACTED]	2,756
Real Estate Purchases	1,205,440
Personal Expenses	1,110,218
Fuel Foods Inc	779,216
Cash	533,085
Department of the Treasury	500,000
Automobile/Boat Related Expenses	426,197
Personal Home	316,665
Shareholders	138,200
Charity / Donation	86,732
Gold Bullion	25,000
Total	\$11,715,895

E. Other Sources of Funds to the Receivership Entities

1. TBTI's ATM Business

Prior to the commencement of this Ponzi scheme, TBTI conducted an ATM servicing business. Although TBTI commonly received large deposits of funds from its ATM business partners, TBTI used the funds to replenish the cash in the ATM machines it serviced. **Exhibit E** displays TBTI's ATM business related activity on a monthly basis for the Relevant Time Period. Net cash flow generated from the ATM business of

²⁹ Craig Hipp d/b/a A&K Electronic Solutions received \$1,157,761 in payments from JCS credit card payments. Those payments are not included in this summary.

approximately \$171,000 during the Relevant Time Period was not sufficient to meet TBTI's investor obligations.

2. Geebo

KM included the activity in the Geebo bank accounts within the Bank Reconstruction because it is a related party, under Receivership and both JCS and TBTI transferred funds into the Geebo bank accounts. **Exhibit F** is a summary of the activity in the Geebo bank account.

There were deposits from merchant accounts into the Geebo bank accounts that totaled approximately \$19,250 and payments to merchant accounts totaling \$3,134. KM has not determined the payee/payor related to or the reason for, these transactions.

Between October 2013 and January 2014, there was a total of \$1.084 million in deposits from the sale of "Geebo Territory Purchases" into the Receivership Entities. Of this amount, \$260,000 was returned to the purchasing parties in March 2014.

3. Other sources of funds into JCS

JCS received funds from the following sources:

- Deposits totaling \$9,449 from a merchant processor referenced as "Geebo Sales"; and,
- Deposits totaling \$13,588 that referenced gaming related transactions.

F. Investor Related Cash Flow Analysis

1. *JCS Merchant Account*

Although JCS and TBTI maintained separate bank accounts and accounting records, JCS collected TBTI investor credit card payments through its merchant accounts yet TBTI made the monthly return payments to the investors. The JCS merchant accounts were arranged to deposit funds into four different JCS bank accounts.³⁰

2. *Transfers from JCS to TBTI*

During the Relevant Time Period, JCS transferred approximately \$42 million dollars to TBTI and TBTI utilized these funds to repay investors approximately \$39 million. However, in February 2014, JCS stopped funding TBTI which resulted in a decrease in investor payments to \$578,000 for February 2014 and \$5,700 for March 2014. **Exhibit G** displays detail on a monthly basis.

VII. BASIS OF OPINIONS

KM's opinions are based on the documents reviewed and enumerated at **Exhibit A**, and Melissa Davis' expertise and experience as a Certified Public Accountant, Certified Insolvency and Restructuring Advisor, Certified Fraud Examiner and practitioner addressing fraud investigations, solvency/insolvency and restructuring issues for over 10 years.

³⁰ The four JCS bank account are: BBT-5654, TD-8571, TD-3894, and SC-1921.

VIII. COMPENSATION

Davis' current billing rate for this matter is \$396 per hour.³¹ The billing rates of the other members of KM that worked on this engagement range from \$100 to \$530 per hour. KM's compensation is subject to Receiver and Court approval.

* * * *

KM and Davis reserve the opportunity to revise our opinions and Expert Report based on additional information that may become available in the future. KM and Davis also reserve the right to prepare charts and other demonstratives.

Dated: January 21, 2015

BY: 
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³¹ Davis' billing rate for time incurred prior to December 31, 2014 was \$380 per hour.

EXHIBITS

Securities and Exchange Commission, Plaintiff,
v.
JCS Enterprises, Inc.,
d/b/a Enterprises Services, Inc., T.B.T.I. Inc.,
Joseph Signore, and Paul Schumack II, Defendants
Case No.: 14-80468-Civ-Middlebrooks
United States District Court
Southern District of Florida

Documents Utilized

Item	Description
1	Bank Records (Exhibit A.1)
2	American Express Credit Card Statements (Exhibit A.2)
3	QuickBooks Records for JCS and TBTI
4	Check Registers from JCS Checksoft Software
5	Merchant Activity Data obtained from NMI Gateway
6	Investor Files - JCS
7	Investor Files - TBTI
8	Merchant Account Statements - Signapay
9	Merchant Account Statements - First Data
10	JCS Investor Database
11	Kiosk Location List
12	JCS Advertising Contracts
13	Accounts Payable Files
14	Investor Support Documents produced by investors
15	Tax Returns and related workpapers- JCS
16	Tax Returns and related workpapers - TBTI
17	Plaintiff's Exhibits in Support of its Ex Parte Motion for Temporary Restraining Order and Other Emergency Relief. [D.E. 4]
18	Plaintiff's Emergency Motion for Appointment of Receiver and Supporting Memorandum of Law and related exhibits. [D.E.10]
19	Amended Order Appointing Receiver. [D.E. 19]
20	Receiver's Emergency Motion to Expand Receivership to include My Gee Bo, Inc. with Incorporated Memorandum of Law [D.E. 23]
21	Order Granting Receiver's Emergency Motion to Expand Receivership to include My Gee Bo, Inc. [D.E. 26]
22	First Report of Receiver James D. Sallah, Esq. [D.E. 107-1]
23	Declaration of James D. Sallah, Esq as Receiver for JCS Enterprises, Inc. d/b/a JCS Enterprises Services Inc., T.B.T.I, Inc., and My Gee Bo, Inc. [D.E. 114-1]
24	Order Granting Receiver's Motion to Expand Receivership to Include JOLA Enterprise Inc. and PSCS Holdings, LLC [D.E. 114-2]
25	Florida Department of State Division of Corporations website, www.sunbiz.org
26	www.sec.gov/answers/ponzi.htm
27	Association of Certified Fraud Examiners, Fraud Examiners Manual 2014 International Edition, Financial Transactions & Fraud Schemes, Consumer Fraud, Ponzi and Pyramid Schemes, 1.1224-1.225.

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United States District Court
Southern District of Florida

Bank Records Utilized For This Report

Bank Account Name	Name of Bank	Account Number Ending In	Statement Start Date	Statement End Date
T.B.T.I. Inc.	Bank of America	2038	12/01/11	04/30/14
T.B.T.I. Inc.	Bank of America	4783	12/01/11	03/31/14
T.B.T.I. Inc.	Bank of America	4820	12/01/11	03/31/14
JCS Enterprises Inc.	BB&T	5654	07/31/13	04/30/14
My Gee Bo Inc	BB&T	1024	08/28/13	11/07/13
JCS Enterprises, Inc. / Joseph Signore Pres Laura Signore VP	Scottrade	6374	10/01/13	04/30/14
My Gee Bo Inc Joseph Signore Pres	Scottrade	3916	10/01/13	09/30/14
JCS Enterprises Services Inc	Seacoast National Bank	1921	10/25/13	04/30/14
JCS Enterprises Services Inc	Seacoast National Bank	2061	10/25/13	04/30/14
JCS Enterprises Services Inc	Seacoast National Bank	4001	12/26/13	04/30/14
JCS Enterprises Services Inc "M" Account	Seacoast National Bank	2141	10/25/13	04/30/14
JCS Enterprises Inc	SunTrust	3602	09/10/13	10/31/13
JCS Enterprises Inc Manufacturer	SunTrust	3610	09/10/13	10/31/13
My Gee Bo Inc	SunTrust	3636	09/10/13	11/06/13
JCS Enterprises	TD Bank	8571	01/25/12	12/30/13
JCS Enterprises	TD Bank	6824	10/15/10	01/27/12
JCS Enterprises	TD Bank	6688	11/03/10	02/29/12
JCS Enterprises Geebo Acct	TD Bank	3894	03/01/13	09/09/13
JCS Enterprises Manufacturing Account	TD Bank	8109	12/12/11	09/10/13
TBTI Inc	TD Bank	4901	07/03/12	04/30/14

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Southern District of Florida

Credit Card Documents Utilized For This Report

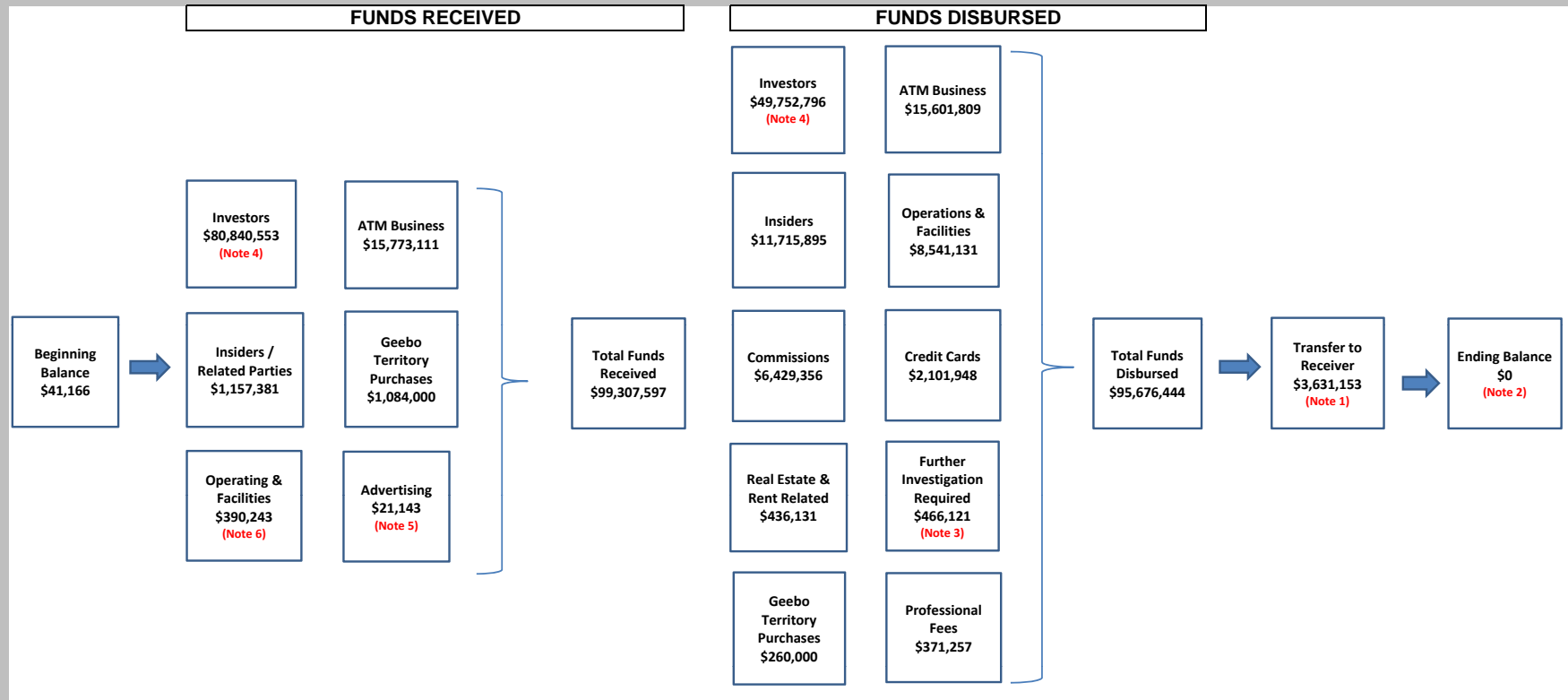
Bank Account Name	Name of Bank	Account Number Ending In	Start Date	End Date
JCS Enterprises Inc / Joseph Signore	American Express	██████████6003	09/01/13	12/31/13
JCS Enterprises Inc / Joseph Signore	American Express	██████████5005	01/01/13	08/31/13
JCS Enterprises Inc / Joseph Signore	American Express	██████████4008	09/01/12	12/31/12
JCS Enterprises Inc / Joseph Signore	American Express	██████████3000	02/01/12	08/31/12
JCS Enterprises Inc / Joseph Signore	American Express	██████████2010	01/01/11	01/01/12
JCS Enterprises Inc / Malcolm C Swasey	American Express	██████████2002	01/01/11	01/01/12

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 United States District Court
 Southern District of Florida

Sources and Uses of Funds
 For the Period of December 1, 2011 through April 30, 2014

Source: JCS, TBTI and Geebo consolidated bank reconstruction



Notes:

1. Amount of funds transferred to Receiver on or before April 29, 2014.
2. Does not include JCS and Geebo bank account interest earned of \$18.04 (combined) on April 30, 2014.
3. KM does not currently know the recipient for approximately \$466,000 in disbursements due to insufficient information provided by the financial institution. The Receiver's investigation is ongoing.
4. To date there is approximately \$4.8 million in deposits where KM has made the assumption they are investor related and has not identified the name of the investor. This amount is comprised of approximately \$4.2 million from merchant processor transactions and \$526,000 from unknown remitters on cashier's checks, transfers and deposits. The disbursements include \$240,370 in chargeback transactions where KM has not yet identified the name of the investor due to insufficient information provided by the financial institutions. The Receiver's investigation is ongoing.
5. There is approximately \$10,836 in deposits for which KM has made the assumption the transactions are advertising related but has not identified the name of the payor due to insufficient data provided by the financial institutions.
6. Operating & Facilities receipts include: \$250,000 return from Blue Water Ventures, Inc; Geebo and gambling related sales of \$23,007; Taxes/Licenses and Trading activity of approximately \$36,000; Merchant activity of approximately \$19,250; Paychex payroll from TBTI for approximately \$18,000; and funds from Weiss Law Group of \$12,000.

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Net Investor Losses
For the Period December 1, 2011 - April 30, 2014

Source: JCS, TBTI, and Geebo consolidated bank reconstruction

Date	Investor Receipts Per Month	Investor Disbursements Per Month	Net Investor Loss (Notes 1 and 2)
December 31, 2011	\$ 313,599	\$ 4,719	\$ (308,881)
January 31, 2012	203,652	34,845	(168,806)
February 29, 2012	320,789	53,867	(266,922)
March 31, 2012	800,258	85,045	(715,214)
April 30, 2012	294,050	160,769	(133,281)
May 31, 2012	230,558	201,296	(29,262)
June 30, 2012	317,775	219,001	(98,774)
July 31, 2012	671,491	263,876	(407,615)
August 31, 2012	520,897	340,273	(180,624)
September 30, 2012	573,300	359,536	(213,764)
October 31, 2012	1,450,825	494,623	(956,202)
November 30, 2012	1,198,850	645,427	(553,423)
December 31, 2012	1,678,670	706,709	(971,961)
January 31, 2013	1,340,875	955,607	(385,268)
February 28, 2013	2,062,410	1,126,532	(935,878)
March 31, 2013	3,767,854	1,490,534	(2,277,321)
April 30, 2013	3,969,617	1,822,823	(2,146,795)
May 31, 2013	5,247,070	2,185,971	(3,061,099)
June 30, 2013	5,173,904	2,848,212	(2,325,692)
July 31, 2013	5,943,055	3,202,632	(2,740,423)
August 31, 2013	9,468,225	3,737,520	(5,730,705)
September 30, 2013	8,593,513	4,462,682	(4,130,831)
October 31, 2013	7,174,575	5,148,124	(2,026,451)
November 30, 2013	7,281,169	5,264,307	(2,016,863)
December 31, 2013	10,953,291	6,761,304	(4,191,987)
January 31, 2014	1,266,780	3,379,284	2,112,504
February 28, 2014	17,500	1,886,225	1,868,725
March 31, 2014	6,000	1,512,454	1,506,454
April 30, 2014	-	398,600	398,600
	\$ 80,840,553	\$ 49,752,796	\$ (31,087,757)

Note 1) Net investor loss is presented on an aggregate basis. To date, this analysis includes \$4,843,333 in deposits where KM has made the assumption the funds are related to investor deposits but an investor name has not yet been determined due to insufficient information provided by the financial institutions. There are also \$240,370 in chargeback transactions where an investor name has not been determined.

Note 2) This analysis is presented on an aggregate basis. Actual losses incurred by individual investors may exceed \$31,087,757 since some investors received more from the scheme than they invested.

SEE EXPERT REPORT DATED JANUARY 21, 2015

Securities and Exchange Commission, Plaintiff,
v.
JCS Enterprises, Inc.,
d/b/a Enterprises Services, Inc., T.B.T.I. Inc.,
Joseph Signore, and Paul Schumack, Defendants
Case No.: 14-80468-Civ-Middlebrooks
United States District Court
Southern District of Florida

Cumulative Liability to Investors
For the Period December 2011 - April 2014

Date	Cumulative Advertising Revenue Per Bank Reconstruction	Cumulative Investor Funds Per Bank Reconstruction	Cumulative Number of Units Sold (Note 1)	Cumulative Liability Based on Units Sold (Note 1)	Cumulative Investor Funds Disbursed Per Bank Reconstruction	Net Cumulative Liability to Investors (Note 2)
December 31, 2011	\$ -	\$ 313,599	66	\$ 712,800	\$ 4,719	\$ 708,082
January 31, 2012	-	517,251	138	1,490,400	39,564	1,450,836
February 29, 2012	-	838,040	240	2,592,000	93,431	2,498,569
March 31, 2012	-	1,638,298	471	5,086,800	178,476	4,908,324
April 30, 2012	-	1,932,348	550	5,940,000	339,245	5,600,755
May 31, 2012	769	2,162,906	586	6,328,800	540,541	5,788,259
June 30, 2012	867	2,480,681	671	7,246,800	759,542	6,487,258
July 31, 2012	942	3,152,172	862	9,309,600	1,023,418	8,286,182
August 31, 2012	1,112	3,673,070	1,010	10,908,000	1,363,691	9,544,309
September 30, 2012	1,382	4,246,370	1,185	12,798,000	1,723,227	11,074,773
October 31, 2012	1,871	5,697,195	1,644	17,755,200	2,217,850	15,537,350
November 30, 2012	2,326	6,896,045	2,025	21,870,000	2,863,277	19,006,723
December 31, 2012	3,380	8,574,715	2,555	27,594,000	3,569,986	24,024,014
January 31, 2013	4,672	9,915,590	2,967	32,043,600	4,525,593	27,518,007
February 28, 2013	6,572	11,978,000	3,570	38,556,000	5,652,126	32,903,874
March 31, 2013	7,106	15,745,854	4,707	50,835,600	7,142,660	43,692,940
April 30, 2013	8,988	19,715,471	5,867	63,363,600	8,965,482	54,398,118
May 31, 2013	10,476	24,962,541	7,443	80,384,400	11,151,453	69,232,947
June 30, 2013	12,636	30,136,446	9,003	97,232,400	13,999,665	83,232,735
July 31, 2013	15,236	36,079,501	10,667	115,203,600	17,202,297	98,001,303
August 31, 2013	16,364	45,547,726	13,337	144,039,600	20,939,817	123,099,783
September 30, 2013	20,019	54,141,238	15,252	164,721,600	25,402,499	139,319,101
October 31, 2013	20,019	61,315,813	17,107	184,755,600	30,550,623	154,204,977
November 30, 2013	20,019	68,596,982	19,288	208,310,400	35,814,929	172,495,471
December 31, 2013	20,465	79,550,273	22,302	240,861,600	42,576,233	198,285,367
January 31, 2014	20,940	80,817,053	22,536	243,388,800	45,955,517	197,433,283
February 28, 2014	20,940	80,834,553	22,541	243,442,800	47,841,742	195,601,058
March 31, 2014	21,143	80,840,553	22,543	243,464,400	49,354,196	194,110,204
April 30, 2014	21,143	80,840,553	22,543	243,464,400	49,752,796	193,711,604

Note 1) KM's calculations are based on the transactions in the bank reconstruction and a review of the investor files. To date, there is approximately \$4.8 million in receipts where KM has not identified the name of the investor or the number of units purchased due to insufficient information provided by financial institutions. JCS and TBTI's internal records reflected the sale of approximately 25,000 VCMs to approximately 1,800 investors. The Receiver's investigation is ongoing.

Note 2) Each unit sold was to yield a return of \$300 per month per machine for 36-48 months. This amount is based upon the conservative calculation that the payment stream was limited to 36 months and equates to \$300 per month for 36 months for each unit sold.

Note 3) Amount is calculated as Cumulative Liability Based on Units sold reduced for actual payments made to investors.

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Securities and Exchange Commission, Plaintiff,
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Joseph Signore, and Paul Schumack II, Defendants

Case No.: 9:14-civ-80468-DMM
United States District Court
Southern District of Florida

TBTI ATM Business Activity
For the Period of December 1, 2011 through March 13, 2014

Source: JCS, TBTI and Geebo Consolidated Bank Reconstruction

Date	Total Receipts	Total Disbursements
December 31, 2011	\$ 390,782	\$ 438,835
January 31, 2012	425,490	420,893
February 29, 2012	348,603	339,045
March 31, 2012	556,217	545,516
April 30, 2012	438,266	385,961
May 31, 2012	357,004	364,838
June 30, 2012	389,503	390,619
July 31, 2012	444,375	426,753
August 31, 2012	439,696	395,832
September 30, 2012	345,513	316,689
October 31, 2012	346,359	406,604
November 31, 2012	380,736	414,058
December 31, 2012	419,249	434,830
January 31, 2013	365,865	346,434
February 28, 2013	331,570	359,081
March 31, 2013	512,369	479,084
April 30, 2013	420,386	418,216
May 31, 2013	526,113	604,070
June 30, 2013	765,150	748,159
July 31, 2013	1,049,758	1,050,868
August 31, 2013	895,506	959,616
September 30, 2013	814,757	773,037
October 31, 2013	907,329	989,620
November 31, 2013	1,093,951	1,094,309
December 31, 2013	1,199,212	1,215,374
January 31, 2014	1,323,894	1,230,931
February 28, 2014	168,755	10,821
March 13, 2014	116,703	41,717
	\$ 15,773,111	\$ 15,601,809

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Securities and Exchange Commission, Plaintiff,
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JCS Enterprises Inc., dba JCS Enterprises Services, Inc and T.B.T.I. Inc.,
Joseph Signore, and Paul Schumack II,
Case No.: 14-80468-Civ-Middlebrooks
United States District Court
Southern District of Florida

**Geebo Sources and Uses of Funds
For the Period August 28, 2013 - April 30, 2014**

Source: JCS, TBTI and Geebo Consolidated Bank Reconstruction

Sources and Uses of Funds

Type	Sources	%	Uses	%	Net
Geebo Territory Purchases	784,000	48.43%	260,000	51.78%	524,000
Operating & Facilities (Note 3)	19,408	1.20%	215,541	42.93%	(196,133)
Transfer to/from TBTI	90,000	5.56%	22,500		67,500
Commissions	-	0.00%	2,500	0.50%	(2,500)
Investor	-	0.00%	1,500	0.30%	(1,500)
Personal & Miscellaneous Expenses	2,457		43		2,414
Transfer to/from JCS	723,100	44.66%	-	0.00%	723,100
	<u>\$ 1,618,965</u>		<u>\$ 502,084</u>		<u>\$ 1,116,881</u>
Transfer to Receiver (Note 1)					(1,116,881)
Net Remaining Balance (Note 2)					<u>\$ -</u>

Notes

This activity is included in the consolidated reconstruction and is presented here to demonstrate the sources and uses of cash within the Geebo bank accounts.

1. Transferred to Receiver on April 29, 2014.
2. Does not include interest earned of \$8.57 on April 30, 2014.
3. Operating expenses include: Advertising/Marketing expense of \$201,854, Trading Activity of \$5,508 and Merchant Activity of \$3,134. Operating Receipts include: Merchant Activity of \$19,250.

SEE EXPERT REPORT DATED JANUARY 21, 2015

Exhibit G

Securities and Exchange Commission, Plaintiff,
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JCS Enterprises, Inc., d/b/a Enterprises Services, Inc., T.B.T.I. Inc.,
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Monthly Payments from JCS to TBTI and Monthly Payments from TBTI to Investors
For the Period December 1, 2011 - April 30, 2014

Source: JCS, TBTI and Geebo Consolidated Bank Reconstruction

Date	Disbursements from JCS to TBTI	Disbursements from TBTI to Investors
December 31, 2011	\$ -	\$ 4,719
January 31, 2012	24,300	34,845
February 29, 2012	46,900	53,867
March 31, 2012	76,750	83,545
April 30, 2012	156,550	153,269
May 31, 2012	166,500	179,396
June 30, 2012	188,800	201,901
July 31, 2012	223,275	230,276
August 31, 2012	288,050	298,273
September 30, 2012	331,350	327,436
October 31, 2012	480,800	445,423
November 30, 2012	569,225	586,627
December 31, 2012	532,975	647,009
January 31, 2013	1,087,600	866,883
February 28, 2013	1,086,650	967,182
March 31, 2013	1,321,125	1,233,914
April 30, 2013	1,639,120	1,519,173
May 31, 2013	2,137,025	1,770,771
June 30, 2013	2,558,550	2,267,992
July 31, 2013	2,926,500	2,622,662
August 31, 2013	3,790,450	3,060,150
September 30, 2013	4,478,775	3,728,262
October 31, 2013	5,070,222	4,394,174
November 30, 2013	4,906,000	4,404,057
December 31, 2013	5,894,525	5,666,769
January 31, 2014	2,000,000	2,195,434
February 28, 2014	-	578,875
March 31, 2014	-	5,774
April 30, 2014	-	-
	\$ 41,982,017	\$ 38,528,657

SEE EXPERT REPORT DATED JANUARY 21, 2015

QUALIFICATIONS

Melissa Davis, CPA, CIRA, CFE
mdavis@kapilamukamal.com

Melissa Davis is a Partner at KapilaMukamal, LLP.

Professional Experience

Ms. Davis concentrates on providing bankruptcy, litigation and forensic investigation services to debtors, creditors, receivers, assignees, bankruptcy trustees, examiners and liquidating trusts. Her practice also includes forensic accounting, fraud investigations and litigation support matters.

Ms. Davis has served as a financial advisor to fiduciaries operating distressed companies in a variety of industries including mobile fueling, health insurance, real estate, hospitality, assisted living facilities/nursing homes, metal extrusion, stevedoring and waste management. Her experience includes distressed business operations, management, preservation of collateral and asset divestiture services.

Ms. Davis has investigated fraudulent and preferential transfers, prepared defense, solvency and liquidation analyses. She has worked on asset tracing, provided litigation support and damage calculation services, including forensic and securities fraud investigations and corporate business conduct analysis. Ms. Davis has extensive experience in Ponzi-scheme investigations and analysis. Her forensic and fraud investigations have involved working in conjunction with the Securities and Exchange Commission, the Federal Trade Commission, the Federal Bureau of Investigation and the United States Attorney's Office.

Ms. Davis has testified in court and depositions and served as a court appointed Assignee for the Benefit of Creditors.

Education

- Bachelor of Business Administration degree, with a major in Accounting from Florida Atlantic University, Boca Raton, Florida
- Member and officer of the academic accounting fraternity, Beta Alpha Psi
- Recipient of Florida Institute of Certified Public Accountants academic scholarship

Professional Qualifications/Affiliations

- Certified Public Accountant, State of Florida
- Certified Insolvency & Restructuring Advisor
- Certified Fraud Examiner
- Association of Insolvency & Restructuring Advisors
- Association of the Certified Fraud Examiners
- American Institute of Certified Public Accountants
- Florida Institute of Certified Public Accountants
- American Bankruptcy Institute
- Bankruptcy Bar Association of the Southern District of Florida
- International Woman's Insolvency & Restructuring Confederation

Kapila/Mukamal

Melissa Davis, CPA, CIRA, CFE
mdavis@kapilamukamal.com

Speaking Engagements

- Central Florida Bankruptcy Law Association – “What Do Boy Bands and Healthcare Have in Common”, July 2014.
- Florida Bar Business Law Section – “Professional Fiduciaries: Responsibilities and Duties”; May 2014
- Tampa Bay Bankruptcy Bar Association – “What Do Boy Bands and Healthcare have in Common”; March 2014
- Bankruptcy Bar Association of the Southern District of Florida– “Valuation Issues in Bankruptcy”; May 2013
- American Bankruptcy Institute Southeast Regional Conference – “Ponzi Schemes and Barring Claims Against the Guilty”; July 2012
- Turnaround Management Association – “Current Issues in Real Estate”; April 2012

Publications

- “Ponzi Schemes: Fiduciaries May Be The “Saving Grace”, *ABI Journal* (2014)
- “A Health Care Fraud and Bankruptcy Primer”, *Southern District of Florida Bankruptcy Bar Association Journal* (2014)
- "Rising Tide in the Wake of Ponzi", *ABI Journal* (2013)

Community Involvement

- Summit Questa Montessori School PTO Treasurer 2013, Auction Chair 2012-2014
- Leukemia & Lymphoma Society Team In Training Participant and Volunteer 2012-2014
- Women In Distress - Annual Back to School and Thanksgiving Drives 2011-2013

Kapila/Mukamal

Melissa Davis, CPA, CIRA, CFE
Case Experience

Hearing Testimony

FTC v. American Precious Metals, LLC
Case No. 11-61072-CIV-ZOLCH
Client – David Chase, Receiver for American Precious Metals, LLC
Forensic accounting/asset tracing
Attorney contact – Patrick Rengstl, Levine Kellogg Lehman, Schneider & Grossman - Miami

Ocean Bank v. Lexington Place Associates, LLC
Case No. 08-CA-2750
Client – Ocean Bank
Forensic accounting/asset tracing
Attorney Contact – James Robinson, White & Case - Miami

Atlantic Rolloff Services, Inc.
Case No. 06-11592-PGH
Client: Kenneth A. Welt, Chapter 11 Trustee of Atlantic Rolloff Services, Inc.
Asset sale/allocation accounting
Attorney contact – Daniel Gonzalez, Meland Russin & Budwick - Miami

Rothstein Rosenfeldt Adler, PA
Case No. 09-34791-RBR Chapter 11
Client – Robert Furr, Chapter 11 Trustee Banyon 1030-32
Forensic Accounting
Attorney Contact – Russell Blain, Stichter Riedel, Blain & Prosser, PA – Tampa, FL

Deposition Testimony

Banyon 1030-32 v. Maple Leaf Drilling Partners, et. al.
Case No. 13-01297-RBR
Client – Robert Furr, Chapter 11 Trustee Banyon 1030-32
Forensic Accounting
Attorney Contact – Scott Stichter, Stichter Riedel, Blain & Prosser, PA – Tampa, FL

Melanie Damien as Receiver for the Estate of Aubrey Lee Price v. KM Homes, LLC
Case No. 1:12-CV-03977-TCB
Client – Melanie Damien
Forensic Accounting
Attorney Contact- Guy Giberson, Damian & Valori – Miami, FL

Rothstein Rosenfeldt Adler, PA
Case No. 09-34791-RBR Chapter 11
Client – Robert Furr, Chapter 11 Trustee Banyon 1030-32
Forensic Accounting
Attorney Contact – Russell Blain, Stichter Riedel, Blain & Prosser, PA – Tampa, FL

Melissa Davis, CPA, CIRA, CFE
Case Experience

PSN Liquidating Trust, Plaintiff v. Intelsat Corporation
Case No. 02-11913-BKC-AJC Chapter 11
Client – Soneet R. Kapila, Examiner for PSN Liquidating Trust
Expert Witness - Insolvency
Attorney Contact – Edward Griffith, Bolatti Griffith – New York

Bankest Capital Corp. v. E.S. Bankest, L.C.
Case No.04-10941-AJC
Client: Soneet R. Kapila, Chapter 7 Trustee of Bankest Capital Corp.
Fact Witness – Records/forensic accounting
Attorney Contact – Kenneth Robinson, Rice Pugatch Robinson Schiller - Ft. Lauderdale

L. Allen Greenfield v. Terminal Cash Solutions, LLC
Case No. 05-02375-RBR
Client: Soneet R. Kapila, Chapter 7 Trustee of Terminal Cash Solutions
Fact Witness – Records
Attorney Contact – Lisa Schiller, Rice Pugatch Robinson Schiller - Ft. Lauderdale