

**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MARYLAND**

**SECURITIES AND EXCHANGE  
COMMISSION,**

**Plaintiff,**

v.

**KEVIN B. MERRILL, et al.,**

**Defendants**

Case No. 1:18-cv-02844-RDB

**RECEIVER GREGORY S. MILLIGAN'S EIGHTH QUARTERLY STATUS REPORT  
FOR THE PERIOD BETWEEN JULY 1, 2020 AND SEPTEMBER 30, 2020**

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Receiver Gregory S. Milligan, of the firm Harney Partners (the “Receiver”), respectfully submits this Eighth Quarterly Status Report for the Period Between July 1, 2020 and September 30, 2020 (the “Report”) in accordance with the First Amended Order Appointing Temporary Receiver dated November 27, 2018 (Dkt. No. 62) (the “Receivership Order”),<sup>1</sup> and would respectfully show the Court as follows:

## I. INTRODUCTION

On September 13, 2018, the Securities and Exchange Commission (“SEC”) filed a Complaint (“SEC Action”) that initiated this action against the Defendants alleging various securities violations arising from the Defendants’ operation of a Ponzi scheme.<sup>2</sup> A more detailed description of the case background is included with the Receiver’s First Quarterly Status Report for the Period Between September 13, 2018 and December 31, 2018 (Dkt. No. 99) (the “First Report”),<sup>3</sup> the Receiver’s Second Quarterly Status Report for the Period Between January 1, 2019 and March 31, 2019 (Dkt. No. 138) (the “Second Report”),<sup>4</sup> the Receiver’s Third Quarterly Status Report for the Period Between April 1, 2019 and June 30, 2019 (Dkt. No. 177) (the “Third Report”),<sup>5</sup> the Receiver’s Fourth Quarterly Status Report for the Period Between July 1, 2019 and

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<sup>1</sup> A copy of the Receivership Order can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2019/01/First-Amended-Order-Appointing-Receiver-11.27.18.pdf>.

<sup>2</sup> Capitalized terms herein shall have the meaning as used in the Receivership Order unless otherwise noted.

<sup>3</sup> A copy of the First Report can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2019/05/2019-01-30-99-Status-Report.pdf>.

<sup>4</sup> A copy of the Second Report can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2019/05/4827-0821-0325.1-Dkt.-138-Receivers-Second-Quarterly-Status-Report-for-Period-1.1.19-and-3.31.19.pdf>.

<sup>5</sup> A copy of the Third Report can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2019/07/Receivers-Third-Quarterly-Report-April-1-to-June-30885.pdf>.

September 30, 2019 (Dkt. No. 230) (the “Fourth Report”),<sup>6</sup> the Receiver’s Fifth Quarterly Status Report for the Period between October 1, 2019 and December 31, 2019 (Dkt. No. 273) (the “Fifth Report”),<sup>7</sup> the Receiver’s Sixth Quarterly Status Report for the Period between January 1, 2020 and March 31, 2020 (Dkt. No. 291) (the “Sixth Report”),<sup>8</sup> and the Receiver’s Seventh Quarterly Status Report for the Period between April 1, 2020 and June 30, 2020 (the “Seventh Report”) <sup>9</sup> (the First Report, Second Report, Third Report, Fourth Report, Fifth Report, Sixth Report, and Seventh Report are collectively, the “Prior Reports”), which are incorporated herein by reference.

Pursuant to the Receivership Order, this Report provides information regarding the assets and liabilities of the Receivership Estate, a summary of the Receiver’s activities for the period between July 1, 2020 and September 30, 2020 (the “Applicable Period”), and information regarding claims held by and against the Receivership Estate. A summary of all the Receiver’s receipts and disbursements for the Applicable Period is being filed contemporaneously with this Report and is incorporated herein by reference.

## **II. IMPACT OF COVID-19**

As detailed in the Sixth and Seventh Reports, the global shutdown caused by COVID-19 impacted the Receiver’s ongoing liquidation efforts and the operations of DeVille Asset Management Ltd. (“DeVille”), Riverwalk Credit Repair, Inc. (“Riverwalk Credit”), and Riverwalk

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<sup>6</sup> A copy of the Fourth Report can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2019/11/4827-4051-1659.1-Dkt.-230-Receivers-Fourth-Quarterly-Status-Report-for-Period-Between-July-1-2019-and-Sep1223.pdf>.

<sup>7</sup> A copy of the Fifth Report can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2020/02/2020-01-31-273-Status-Report1861.pdf>.

<sup>8</sup> A copy of the Sixth Report can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2020/05/2020-04-30-291-Status-Report.pdf>.

<sup>9</sup> A copy of the Seventh Report can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2020/08/2020-07-30-325-Status-Report.pdf>.

Debt Solutions, Inc. (“Riverwalk Debt”) (Riverwalk Credit and Riverwalk Debt are collectively, “Riverwalk”). These disruptions continued during the Applicable Period, but as states continued to lift the stay-home orders and ease restrictions, the Receiver saw a continued uptick in activity with buyers of Receivership Assets. DeVille and Riverwalk continued operations in a work-from-home environment until their ultimate sales, as discussed in more detail below. COVID-19 cases spiked during the Applicable Period in states like Texas (where DeVille and Riverwalk were located) and Florida (where Prestige Motor Car Imports, LLC (“Prestige”), the vehicle broker, is located) from early July through the end of August where new cases have remained relatively lower. However, Prestige presented and the Receiver accepted two (2) vehicles sales during the Applicable Period for gross sale proceeds of \$765,000.00. Also, as described below, the Receiver accepted an offer to sell two real properties and experienced strong sales of personal property sold at auction during the Applicable Period. The ongoing measures related to COVID-19 continue to be a consideration as the Receiver sequences and prioritizes the disposition of additional Receivership Assets and proceeds with a proposed claims and distribution procedure.

### **III. OVERVIEW OF THE RECEIVER’S ACTIVITIES**

During the Applicable Period, the Receiver, in coordination with the federal authorities, has continued to control, or taken steps to assume control of, the Receivership Assets with the objective of preserving the Receivership Assets to maximize the recovery for the Receivership Estate. As detailed herein, the Receiver has continued the efforts outlined in the Prior Reports, as well as addressing numerous new issues that have arisen since the applicable periods in the Prior Reports. By way of illustration, the Receiver and his counsel continue to routinely maintain a list of 75 to 100 ongoing issues requiring action by the Receiver or his counsel in order to effectively and efficiently investigate, preserve, manage, and administer Receivership Assets and non-individual Receivership Parties.

During the Applicable Period and as discussed in more detail below, the Receiver and his counsel completed the liquidation of numerous Receivership Assets (including the assets of DeVille and Riverwalk, two (2) vehicles, and numerous items of luxury personal property) generating net sale proceeds exceeding \$20.6 million.

During the Applicable Period, the Receiver has continued to maintain and update the Receivership Estate website, located at [www.Merrill-Ledford.com](http://www.Merrill-Ledford.com), with relevant and required information regarding asset sales and other matters related to the case. Specific links to relevant documents are included herein for convenience.

#### **A. Summary of Assets**

The Receiver continues the process of assuming control and management of all property of the Receivership Estate during the Applicable Period.

##### **1. Cash**

As of September 30, 2020, the Receivership Estate had approximately \$50.5 million of cash on hand in Receivership Estate bank accounts under the sole control of the Receiver. The amount of cash on hand has increased by approximately \$20.1 million during the Applicable Period due to both sales of Receivership Assets and the continued operation of the businesses of the non-individual Receivership Parties, as discussed in more detail below.

##### **2. Business Operations & Assets**

The Receivership Estate included three ongoing business operations in Texas: (i) DeVille; (ii) Riverwalk Credit; and (iii) Riverwalk Debt. As detailed in the Prior Reports, the Receiver operated these businesses and investigated the proper means to monetize their value for the benefit of the Receivership Estate.

During the Applicable Period, the Receiver and Garnet Capital Advisors, LLC (“Garnet”) conducted the sale of DeVille’s assets pursuant to sale procedures approved by the Court. *See*

Dkt. No. 310. On July 10, 2020, the Receiver filed the Notice of Proposed Auction with respect to DeVille's assets, which set a sealed-bid auction for August 11, 2020. *See* Dkt. No. 320. Garnet conducted the sealed-bid auction on August 11, 2020 pursuant to the Court-approved sale procedures. *See* Dkt. No. 347.

DeVille's assets were broken out into seven (7) distinct categories of loan portfolios, plus DeVille's operating platform (leasehold office space, furniture, fixture and equipment, employees, and other components required to conduct the DeVille business), to allow bidders to bid on some or all of DeVille's assets in order to maximize the return to the Receivership Estate. Garnet received a total of sixteen (16) bids, and of those bids five (5) bids were for all of DeVille's loan portfolios and eleven (11) bids were for individual categories of loan portfolios (some of which bid on multiple categories of loan portfolios) from bidders who did not want to purchase all of the DeVille portfolios. The greatest return to the Receivership Estate was a sale of all of the DeVille portfolios to a single buyer and such sale closed on August 28, 2020. Since the Receiver's appointment, the DeVille assets have generated more than \$30 million in net cash to the Receivership Estate.

On August 13, 2020, the Court entered an Order granting the Receiver the authority to market and sell the operations and assets of Riverwalk pursuant to Court-approved procedures. *See* Dkt. No. 332. On August 17, 2020 the Receiver gave notice of a stalking horse bidder and a public auction date of September 30, 2020. *See* Dkt. No. 333. To participate at the public auction, a prospective bidder needed to submit a competing offer on or before September 23, 2020. *See* Dkt. No. 333. The Receiver did not receive a competing bid to purchase the operations and assets of Riverwalk, and, accordingly, the Receiver closed on the sale to the stalking horse bidder for \$100,000 on September 30, 2020.

### 3. Real Property

The Receivership Estate also contains one commercial and three residential real properties that have been secured by the Receiver, as discussed in greater detail below.

### 4. Other Property

Additionally, there were several personal property items that the Receiver has recovered or identified to date, including:

- Other Property. As provided in the Prior Reports, the Receivership Estate includes several investments made by the Defendants including, but not limited to: (i) prepaid hours on a Gulfstream Aircraft G200; (ii) an art collection; (iii) a watch collection; (iv) a comic book collection; (v) jewelry; (vi) a litigation financing arrangement; (vii) an equity investment in an alternative investment management company; and (viii) a whole life insurance policy.

Some of the foregoing assets are of unknown value. The Receiver has determined the best means of monetizing some of the aforementioned investments, such as the numerous Heritage auction notices filed with the Court during the Applicable Period described in more detail below, and is in the process of determining the best means to monetize the remaining investments for the benefit of the Receivership Estate.

- Clawbacks. The Receivership may hold claims (“Clawbacks”) against individuals and entities, in addition to the Relief Defendants, that received gifts, donations, or fraudulent transfers from the Receivership Parties. These individuals and entities may have received funds from the Receivership Parties derived from Ponzi scheme funds fraudulently obtained from investors. If and when the Court authorizes the Receiver to pursue such actions, the Receiver will investigate these claims and, where appropriate, make demand for full repayment of the gift, donation, or fraudulent transfer and file suit against the recipients of such transfers, if necessary.
- Clawbacks – Investors who are “Net Winners.” The Receiver may hold claims against investors who withdrew fictitious profits from the Receivership Parties. An investor’s withdrawn profits may be fictitious, for example, if that party received payments in excess of investments.
- Claims against Other Persons or Entities. The Receiver has started to investigate, analyze, and collect evidence regarding potential causes of action against other third parties. The more immediate need has been to secure and determine the best means for monetizing the tangible Receivership Assets, but the Receiver’s investigation into this category of assets has flowed from the administration of other identified Receivership Assets.

Based upon current available information, which is preliminary and subject to further due diligence, the Receiver team estimates total recoveries from Receivership Assets could range between \$55 million and \$65 million.<sup>10</sup> Future quarterly reports will have the benefit of additional recoveries, market data regarding assets yet to be monetized, and more due diligence leading to an increasingly accurate estimate of total Receivership Estate recoveries.

## **B. Administration and Management**

The Receiver and his team continue to manage and marshal the Receivership Assets with the goal of maximizing the recovery to the Receivership Estate consistent with concepts outlined in the Initial Preservation Plan (Dkt. No. 54) (the “Preservation Plan”)<sup>11</sup> and the Prior Reports. To fulfill his obligations to the Court, the Receiver has undertaken the following tasks during the Applicable Period with respect to the various forms of property in the Receivership Estate.

### **1. Coordination and Conference with Other Parties**

Since being appointed in this case, the Receiver has coordinated extensively with the SEC, U.S. Attorney’s Office, FBI, and U.S. Marshals Service regarding the identification and safeguarding of Receivership Assets and the Receiver’s proposed disposition of the Receivership Assets. As detailed in greater detail in Prior Reports, the Receiver has also facilitated discussions with criminal counsel for Defendant Kevin B. Merrill (“Merrill”) and Defendant Jay B. Ledford (“Ledford”), and counsel for Relief Defendant Amanda Merrill (“Amanda Merrill”), to obtain their consent to the procedures and proposed disposition of the real property and vehicles owned or purchased by Merrill and/or Amanda Merrill. Counsel for the Receiver has also communicated

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<sup>10</sup> These preliminary estimates do not include any potential clawback or fraudulent transfer claims that have not yet been authorized by the Court or investigated by the Receiver.

<sup>11</sup> A copy of the Initial Preservation Plan can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2019/05/Initial-Preservation-Plan-11.13.18.pdf>.

with Relief Defendant Lalaine Ledford (“Lalaine Ledford”) on several occasions regarding the proposed sale of personal property.

## **2. Activities in Companion Criminal Case**

As detailed in the Third Report, all three individual Defendants in this SEC Action entered plea agreements in the criminal action styled *U.S.A. v. Merrill, et al.*, Case No. 1:18-cr-00465-RDB (the “Criminal Action”). On October 11, 2019, the Court entered a Judgment<sup>12</sup> against Merrill in the Criminal Action requiring imprisonment for a term of 240 months on one count and 24 months on another count to run consecutive for a total of 264 months, with credit for time served in federal custody since September 18, 2018. *See* Dkt. No. 146 in the Criminal Action. On October 29, 2019, the Court entered a Judgment<sup>13</sup> against Ledford in the Criminal Action requiring imprisonment for a term of 144 months on one count and 120 months on a second count, to run concurrently, plus 24 months on a third count to run consecutive to the first two counts, for a total of 168 months, with credit for time served in federal custody since September 18, 2018. *See* Dkt. No. 169 in the Criminal Action. On January 27, 2020, the Court entered a Judgment against Amanda Merrill in the Criminal Action for conspiracy to obstruct justice. *See* Dkt. No. 218 in the Criminal Action.

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<sup>12</sup> A copy of the Judgement against Merrill can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2020/01/2019-10-11-Dkt.-146-Judgment-as-to-Merrill1457.pdf>.

<sup>13</sup> A copy of the Judgement against Ledford can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2020/01/2019-10-29-Dkt.-169-Judgment-as-to-Ledford1458.pdf>.

**3. Businesses Operating in Texas**

**(a) DeVille Asset Management Ltd.**

**(i) Overview**

As outlined in the Prior Reports, DeVille's operations included the collection of defaulted account receivable portfolios acquired from consumer credit originators, such as credit card issuers, auto loan finance companies, student loan providers, retailers, and other consumer lenders. DeVille had an in-house debt collection center and a network of collection agencies and attorneys who perform collections on DeVille's behalf.

Until the portfolios' sale during the Applicable Period, Velocity Investments, LLC ("Velocity") continued its day-to-day management and regulatory oversight of the DeVille portfolios pursuant to a Master Servicing Agreement as detailed in the Prior Reports. Velocity had previously organized the return of accounts from incumbent third-party agencies inherited by the Receiver, reconciled the remainder of the two million accounts, orchestrated the recall of accounts from third-party agencies, and placed accounts with new third-party agencies to improve DeVille's productivity, compliance efforts, efficiency, and profitability. This reconciliation was required to both provide an accurate and audited current balance for each account for purposes of overall portfolio valuation and to prepare for future buyer due diligence when the portfolio is offered for sale. In February 2020, more than 713,000 accounts were placed with third-party agencies representing face-value debt of \$3.7 billion. These activities have created new cash flow on previously dormant accounts. The Receiver coordinated all collection strategies with both Velocity and Garnet, the broker that is marketing and will ultimately sell DeVille's assets.

**(ii) Disposition**

As detailed above, the Receiver filed the Notice of Proposed Auction with respect to DeVille's assets, which occurred on August 11, 2020. *See* Dkt. No. 320. The auction resulted in

sixteen (16) bids and an ultimate sale that closed on August 28, 2020. *See* Dkt. No. 347. The Receiver is in the process of transitioning operations to the buyer and vacating the commercial property leased by DeVille and Riverwalk.

**(b) Riverwalk Debt Solutions, Inc. and Riverwalk Credit Repair, Inc.**

**(i) Overview**

Riverwalk Debt provides a fee-based service to assist borrowers by providing financial solutions for student loans, with a focus on federal student loan consolidation and federal student loan forgiveness programs. Riverwalk Credit provides a fee-based credit repair organization that reviews and analyzes its clients' credit profiles and then disputes/repairs inaccurate items. As outlined in the Prior Reports, Riverwalk Debt and Riverwalk Credit are both essentially operating at a startup level.

Throughout the Applicable Period, the Receiver team has worked closely with the Director of Operations and other members of the Riverwalk management team to monitor operating results and consider additional cost-savings measures, if available.

**(ii) Disposition**

As detailed above, on August 17, 2020 the Receiver a notice of proposed auction with respect to the operations and assets of Riverwalk. *See* Dkt. No. 333. The Receiver did not receive a competing bid to that of the stalking horse bidder. Thus, the Receiver closed on the sale of Riverwalk to the stalking horse bidder for \$100,000 on September 30, 2020 pursuant to the Court-approved procedures. *See* Dkt. No. 332. The Receiver is in the process of transitioning operations to the buyer and vacating the commercial property leased by DeVille and Riverwalk. The terms of the sale to the stalking horse bidder excluded Riverwalk's accrued accounts receivable from such sale, so the Receiver is now establishing a plan to attempt collection on such accounts for the benefit of the Receivership Estate.

#### 4. Real Property

##### (a) Overview

As described in Prior Reports, the Receivership Order granted the Receiver authority to “take custody, control, and possession of All Receivership Assets,” including real property, and ordered the Receiver to “manage, control, operate, and maintain the Receivership Estate and hold in his possession, custody, and control all Receivership Assets.” Receivership Order, Dkt. No. 62 at ¶ 8. During the pendency of this case, the Receiver has undertaken the review and analysis of various real estate holdings, including both residential and commercial properties located in Maryland, Florida, Texas, and Nevada. The Receiver has engaged Sotheby’s International Realty, Inc. (“Sotheby’s”) to assist with the monetization of the majority of the real properties. On April 23, 2019, the Court entered an Agreed Order on the Sotheby’s Motion (the “Merrill Agreed Order”) with respect to certain real property owned or purchased by Merrill and/or Amanda Merrill (the “Merrill Real Property”), which established the procedures for the sale of the Merrill Real Property (the “Real Property Sales Procedures”). *See* Dkt. No. 137.<sup>14</sup> In addition, the Receiver sought and obtained Court approval to retain Coldwell Banker Commercial Amarillo to market and, upon further order of the Court, sell the commercial real property owned by Ledford that is located at 2801 Paramount Boulevard, Amarillo, TX 79109. *See* Dkt. Nos. 185 & 189.

On September 17, 2020, the Court approved the sale of 1848 Circle Road, Towson, Maryland 21204 for a purchase price of \$2,499,000. *See* Dkt. No. 355. However, the sale of 1848 Circle Road, Towson, Maryland 21204 did not close during the Applicable Period. Accordingly,

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<sup>14</sup> A copy of the Merrill Agreed Order can be found on the Receiver’s website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2019/05/2019-04-29-137-Agreed-Order.pdf>.

the \$2,328,246.50 in net proceeds from this sale will not be reflected as cash on hand until the next quarterly status report is filed.

**(b) Recommended Disposition of Remaining Real Property**

The Receiver and Sotheby's marketing and sale efforts will continue as to each of the remaining real properties during Q4 2020, although it is unknown at this time how long the COVID-19 pandemic will impact the real estate market such that holding the remaining real properties for an additional period of time could result in a higher recovery when the market returns to the new normal.

- 9017 Grove Crest Lane, Las Vegas, Nevada 89134;
- 1132 Glade Road, Colleyville, Texas 76034; and
- 2308 Cedar Elm Terrace, Westlake, Texas 76262.

**5. Vehicles**

**(a) Overview**

As itemized in Prior Reports, the Receivership Assets include many automobiles, motorcycles, and a boat. As detailed in the Seventh Report, the Receiver entered into contracts to sell the following vehicles that had not closed by June 30, 2020:

- 2016 Ford F150, VIN 1FTEW1EG3GFA83463 (Dkt. No. 312);
- 2018 Land Range Rover, VIN SALGS2RE6JA501496 (Dkt. No. 316); and
- 2015 Bentley Flying Spur, VIN SCBET9ZA7FC042592 (Dkt. No. 317).

The above sales closed during the Applicable Period, as detailed in the chart below. In addition, the Receiver sold the following vehicles during the Applicable Period:

- 2016 Ferrari 488 GTB, VIN ZFF79ALA3G0217973 (Dkt. No. 319); and
- 2015 Ferrari 458 Speciale Aperta, VIN ZFF78VHA7F0213197 (Dkt. No. 323).

The gross sale prices and net proceeds to the Receivership Estate from each of these vehicle sales were:

Vehicle	Notice Filed	Gross Sale Price	Net Proceeds
Ford F150 VIN -3463	6/15/2020	\$ 32,000.00	\$ 29,400.00
Land Range Rover VIN -1496	6/26/2020	\$ 88,000.00	\$ 82,475.00
Bentley Flying Spur VIN -2592	6/30/2020	\$ 82,000.00	\$ 75,133.56
Ferrari 488 GTB VIN -7973	7/8/2020	\$ 215,000.00	\$ 196,597.05
Ferrari 458 Speciale Aperta VIN -3197	7/15/2020	\$ 550,000.00	\$ 520,200.00
		\$ 967,000.00	\$ 903,805.61

**(b) Recommended Disposition**

The Receiver, having consent and authority to sell all vehicles owned by both Merrill and Ledford, will continue to store, maintain, market, and sell each of the remaining vehicles through Prestige.

**6. Other Property**

The Receiver, independently and through collaboration with the SEC, FBI, and U.S. Attorney's Office, has identified other personal property as described in the Prior Reports. This category of assets includes but is not limited to art, collectibles, jewelry, watches, luggage, and similar luxury items. To maximize recovery to the Receivership Estate, the Receiver has researched and identified various consignment and/or auction outlets for monetizing the different classes of personal property at the appropriate time.

The Receiver previously obtained an Order from the Court to retain Heritage as broker for the Receivership Estate to sell certain categories of personal property that were being held in storage by the Receiver or held by the U.S. Marshals or the FBI ("Heritage Order"). *See* Dkt. No. 272. Heritage and the Receiver had begun noticing and setting dates for auctions as the COVID-19 pandemic began to impact the United States. Heritage provided the Receiver with sales data from other recent sales that confirmed the pandemic had not negatively affected expected sales prices. To ensure there were no unforeseen impacts from COVID-19, the Receiver negotiated a reserve price for each item that had not previously existed prior to COVID-19. The reserve prices

ensure that each item receives the minimum amount from its low-end valuation based on the market prior to COVID-19.

During the Applicable Period, the Receiver filed two notices for Heritage to conduct auctions of uncontested jewelry. *See* Dkt. Nos. 328 & 348. One sale of minor jewelry items occurred during the Applicable Period on September 8, 2020; whereas, the second sale of a single diamond ring for \$160,000.00 was noticed during the Applicable Period but occurred during the first week of October 2020. During the Applicable Period, the Receivership Estate collected \$3,825,522.37 from Heritage related to sales noticed in a prior period.

In addition, Heritage continues to hold numerous items that have been contested by Relief Defendants Amanda Merrill and Lalaine Ledford. The Receiver has protocols in place with Heritage to ensure none of the contested items are sold without the Relief Defendants' consent or further Order of the Court.

The Receiver continues to pursue additional potential Receivership Assets, including:

- at least one additional consumer debt portfolio;
- minority ownership interest in a commercial shopping center;<sup>15</sup>
- a minority interest in a privately-held biosciences company;
- \$150,000 cash deposit for the purchase of a Porsche;
- additional collectable comics;
- new furniture and furnishings not yet installed in real properties being renovated;
- John Deere tractor;
- probate estate distribution rights;
- a condemnation award related to one of the real properties;
- a minority interest in an Asian-based technology company;
- an oil and gas interest; and
- one or more cryptocurrency accounts.

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<sup>15</sup> The Receivership Estate receives approximately \$800.00 per month for its interest in the net profit generated by the shopping center.

The Receiver and his counsel are also reviewing other potential Receivership Assets that could result in additional recoveries.

**7. Insurance**

As referenced above, as of the filing of this Report, each of the real properties and vehicles owned by the Receivership Estate is adequately insured and additional insurance needs continue to be evaluated.

**IV. ESTATE ADMINISTRATION**

The Receiver has continued making payments and disbursements and incurring expenses as may be necessary or advisable in the ordinary course of business for discharging his duties as Receiver. The financial report filed contemporaneously with this Report delineates activity between the operating entities and the balance of the Receivership Estate providing a clearer picture of the separate components of the Receivership Estate.

**V. UNRESOLVED CLAIMS AGAINST RECEIVERSHIP PROPERTY**

During the Applicable Period, the Receiver continued to consider informal notice of claims against Receivership Assets. It is anticipated that parties asserting claims against Receivership Assets will receive notice and an opportunity to object during any potential sale process and/or claims and distribution process that is approved by the Court.

The Receiver has received numerous contacts from potential investor victims requesting information. The Receiver has provided general status updates and directed such parties to pleadings filed of record in the case, including the Receiver's Preservation Plan and Prior Reports.<sup>16</sup>

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<sup>16</sup> The Receiver's website for this SEC Action contains a separate section to provide information regarding the claims and distribution process at: <https://merrill-ledford.com/claims-process/>.

**VI. ACCRUED ADMINISTRATIVE EXPENSES**

During the Applicable Period, the Receivership Estate accrued administrative expenses comprised of professional fees for the services of the Receiver's team and counsel. On August 28, 2020, the Receiver and his counsel each filed fee applications for the period of April 1, 2020 through June 30, 2020 (Dkt. Nos. 338 & 339) (the "Seventh Fee Applications").

The total amount of accrued administrative expenses requested in the Seventh Fee Applications total \$191,503.08 for the Receiver and his team, and \$214,021.84 for the Receiver's counsel, Husch Blackwell. The Seventh Fee Applications have been approved and paid by the Receivership Estate. *See* Dkt. Nos. 344 & 345.

The Seventh Fee Application of the Receiver and his team demonstrates that on a combined basis, total fees and expenses continue to decline. Specifically, the Receiver incurred \$7,304.26 per day for the first fee application, \$4,939.22 per day for the second fee application, \$4,504.23 per day for the third fee application, \$2,925.78 per day for the fourth fee application, \$2,126.71 per day for the fifth fee application, \$2,310.68 per day for the sixth fee application, and \$2,127.81 per day for the Seventh Fee Application. *See* Dkt. Nos. 71, 119, 160, 238, 278, 303, & 338. The Receiver's fees have declined by more than 70% per day from the first fee application to the Seventh Fee Application.

The Seventh Fee Application of the Receiver's counsel, Husch Blackwell, demonstrates that on a combined basis, total fees and expenses continue to decline. Specifically, Husch Blackwell incurred \$3,758.57 per day for the first fee application, \$3,885.64 per day for the second fee application, \$3,186.03 per day for the third fee application, \$2,546.01 per day for the fourth fee application, \$1,527.03 for the fifth fee application, \$2,025.45 per day for the sixth fee application, and \$2,180.59 for the Seventh Fee Application. *See* Dkt. Nos. 71, 119, 160, 239, 279,

304, & 339. Husch Blackwell's fees have declined by more than 42% per day from the first fee application to the Seventh Fee Application.

At the end of the Applicable Period, the Receiver and his team had incurred approximately \$129,000.00 in unpaid fees and expenses for the three-month period ending September 30, 2020, while the Receiver's counsel has incurred approximately \$183,000.00 in unpaid fees and expenses for the same three-month period.

On September 21, 2020, the Receiver filed a Motion for Approval of the First Interim Fee Application of BDO USA, LLP—the tax accountant for the Receivership Estate and non-individual Receivership Parties—for the period of January August 26, 2019 through May 31, 2020. *See* Dkt. No. 358. The total amount of accrued administrative expenses requested in BDO's first fee application totals \$70,740.33. *See* Dkt. No. 358. The Court has not yet ruled on the motion to approve BDO's fees and accordingly such fees have not been paid by the Receivership Estate.

As of September 30, 2020, the Receivership Estate had approximately \$50.4 million of cash on hand in Receivership Estate bank accounts under the sole control of the Receiver, and the Receiver team estimates total recoveries from Receivership Assets could range between \$55 million and \$65 million.<sup>17</sup>

The Receiver anticipates the Receivership Estate will continue to accrue additional administrative expenses going forward with the actual amounts fluctuating commensurate with the activities required to properly administer the Receivership Estate.

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<sup>17</sup> These preliminary estimates do not include any potential clawback or fraudulent transfer claims that have not yet been authorized by the Court or investigated by the Receiver.

## **VII. TAX MATTERS**

As indicated in Prior Reports, the Receiver has limited information about the filing status, tax identification numbers, and other tax-related matters for the Receivership Parties. As indicated in the Prior Reports, the Receiver sought and obtained approval to retain BDO, USA, LLP (“BDO”) as tax accountant for the Receivership Estate to: (i) advise the Receiver on the tax liability of the Receivership Estate and the non-individual Receivership Parties; (ii) prepare and file state and federal tax returns on behalf of the Receivership Estate and the non-individual Receivership Parties; (iii) advise the Receiver on obtaining and maintaining the status of a taxable “Settlement Fund” within the meaning of Section 468B of the Internal Revenue Code for Receivership Funds; and (iv) advise the Receiver on other tax matters related to the administration of the Receivership Estate. See Dkt. Nos. 198 & 201. During prior periods, the Receiver worked with BDO to prepare and file 2018 and 2019 federal tax returns for the Receivership Estate, as well as all required 2018 state tax returns. By correcting prior accounting entries and the use of available net operating losses, no taxes were due on the federal returns and the total tax due on the state returns was less than \$2,000.00. During prior periods, all 2019 state tax returns were prepared and such returns were filed before the deadline of July 15, 2020.

## **VIII. RECEIVER’S ONGOING INVESTIGATION**

The Receiver continues his investigation with the assistance of his counsel, Husch Blackwell. The Receiver will file supplemental reports to the Court for the duration of the Receivership, as required by the Receivership Order.

**IX. CLAIMS DETERMINATION AND DISTRIBUTION PROCESS**

The Receiver previously obtained authority to identify claimant/creditors and to propose a plan of distribution.<sup>18</sup> *See* Dkt. No. 222. With this authority in the SEC Action, the Receiver then conferred with the U.S. Attorney's Office to obtain disclosure and release of information to the Receiver and the SEC, which was originally gathered by the U.S. Attorney's Office and FBI regarding both individual investors and pooled fund investors. Orders authorizing such disclosure were entered in the Criminal Action at the end of November 2019. The Receiver and his counsel have attended meetings with the U.S. Attorney's Office, FBI, and SEC to discuss the information developed by those agencies to date that will help facilitate the claims process in the SEC Action without duplicating prior efforts of those agencies.

Part of the initial claims analysis required the Receiver to collect additional data regarding individual investments made through investment vehicles or pooled investor funds (*i.e.*, two or more investors making a single investment). This collection and analysis of individuals' investments into and returns from investment vehicles or pooled investor funds will allow the Receiver to evaluate investments on an individual basis and ensure that individual investors receive payment where the pooled investor funds are no longer in a position to coordinate the eventual distributions. While information was available for some pooled investor funds, there was no information available to the Receiver for a majority of the pooled investor funds.

On May 21, 2020, the Receiver sent 59 letters to the pooled investor funds and any corporate entities that had invested with any of the Receivership Parties. The letters sought information and supporting documentation to identify the individual investors within each fund or

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<sup>18</sup> A copy of the Order Granting Motion to Authorize the Receiver to Identify Claimants and Creditors and Propose a Plan to Distribution can be found on the Receiver's website for this SEC Action at: <https://merrill-ledford.com/wp-content/uploads/2019/11/2019-10-04-222-Order.pdf>.

investment vehicle, and to determine how much each individual investor had invested and what returns each had received. The Receiver had a very high response rate and is now in possession of almost all information needed for all potential claimants. During the Applicable Period, the Receiver continued to follow up with pooled investor funds that have not submitted sufficient documents and information in response to the Receiver's letter. On September 30, 2020, the Receiver served 16 subpoenas on pooled investor funds to obtain the information the Receiver was unable to obtain voluntarily.

As noted in the Sixth Report, the Receiver performed a random sampling of investors and their investment activity with the Receivership Parties to confirm the accuracy of the claims analysis prepared by the U.S. Attorney's Office and FBI. The random sampling was also undertaken to confirm the Receiver is in possession of the necessary bank statements, transactional documents, and other supporting documents to evaluate the accuracy of the expected claims in this case. After completion of the random sampling, the Receiver has confirmed the accuracy of the U.S. Attorney's Office and FBI's claims analysis, as well as confirmed the Receiver is in possession of the necessary documents to prepare and file a proposed claims procedure, except as noted above with respect to documentation for some pooled investor funds.

The Receiver is in the process of finalizing a proposed claims procedure and will seek approval from the Court after obtaining the remaining additional information from third-party sources that is necessary to complete the proposed claims procedure. The Receiver anticipates filing the proposed claims procedure in Q4 2020.

The Receiver has received numerous contacts from potential investor victims requesting information. The Receiver has provided general status updates and directed such parties to

pleadings filed of record in the case, including the Receiver's Preservation Plan and Prior Reports.<sup>19</sup>

**X. CONCLUSION**

Accordingly, the Receiver, Gregory S. Milligan, respectfully submits this Eighth Quarterly Status Report for the Court's consideration and, for the reasons stated in this Report, recommends the continuation of this Receivership Estate.

Respectfully submitted,

/s/ Lynn H. Butler

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*Counsel for Receiver Gregory S. Milligan*

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<sup>19</sup> The Receiver's website for this SEC Action contains a separate section to provide information regarding the claims and distribution process at: <https://merrill-ledford.com/claims-process/>.

**CERTIFICATE OF SERVICE**

On October 30, 2020, I electronically submitted the foregoing document with the clerk of the court of the U.S. District Court for the District of Maryland, using the electronic case filing system of the court. I hereby certify that I have served all counsel and/or pro se parties of record electronically through the Court's CM/ECF filing system for all parties who have registered to receive electronic service. Additionally, the foregoing document was served on the following parties not registered for Court's CM/ECF filing system as indicated below:

**Defendant Kevin B. Merrill (via U.S. Mail):**

Kevin B. Merrill, #64274-037  
FCI Allenwood Low  
Federal Correctional Institution  
P.O. Box 1000  
White Deer, PA 17887

**Defendant Jay B. Ledford (via U.S. Mail):**

Jay B. Ledford, #55055-048  
FCI Safford  
Federal Correctional Institution  
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**Dundalk United Methodist Church (U.S. Mail):**

Dundalk United Methodist Church  
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Baltimore, Maryland 21222

**Lienholders, Tax Assessors, and Other Interested Parties (U.S. Mail):**

Florida Community Bank, N.A.  
2325 Vanderbilt Beach Road  
Naples, Florida 34109

Mortgage Electronic Registration Systems, Inc.  
PO Box 2026  
Flint, Michigan 48501-2026

Collier County, Florida Tax Assessor  
3291 Tamiami Trail East  
Naples, Florida 34112

Maryland Department of Assessments & Taxation  
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Baltimore, Maryland 21201-2395  
Branch Banking and Trust Company,  
A North Carolina Banking Corporation  
PO Box 1290  
Whiteville, North Carolina 28472

Talbot County, Maryland Finance Office  
Talbot County Courthouse  
11 North Washington Street, Suite 9  
Easton, Maryland 21601

HSBC Bank USA, National Association, as trustee of  
J.P. Morgan Alternative Loan Trust 2006-A5  
c/o Howard n. Bierman, Trustee  
c/o Select Portfolio Servicing, Inc.  
3815 Southwest Temple  
Salt Lake City, Utah 84115

Clark County, Nevada Tax Assessor  
500 S. Grand Central Parkway  
Las Vegas, Nevada 89155

First Financial Bank, N.A. Southlake  
3205 E. Hwy. 114  
PO Box 92840  
Southlake, Texas 76092

Hunter Kelsey of Texas, LLC  
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Austin, Texas 78759

Frost Bank, f/k/a The Frost National Bank  
c/o Michael J. Quilling  
Quilling, Selander Lownds, Winslett & Moser, P.C.  
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Dallas, Texas 75201

The City of Colleyville, Texas  
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Nichols, Jackson, Dilard, Hager & Smith, L.L.P.  
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Tarrant County, Texas Tax Assessor  
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Fort Worth, Texas 76196

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Amarillo, Texas 79109

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Dallas, Texas 75356-0528

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San Antonio, Texas 78265-9548

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Denton, Texas 76209-4525

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*/s/ Lynn H. Butler*

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