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**UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION**

COMMODITY FUTURES TRADING
COMMISSION, and

STATE OF UTAH DIVISION OF
SECURITIES, through Attorney General
Sean D. Reyes

Plaintiffs,
v.

RUST RARE COIN INC., a Utah corporation,
and GAYLEN DEAN RUST, an individual,
DENISE GUNDERSON RUST, an individual,
JOSHUA DANIEL RUST, an individual

Defendants;

and

ALEESHA RUST FRANKLIN, an individual,
R LEGACY RACING INC, a Utah
corporation, R LEGACY ENTERTAINMENT
LLC, a Utah limited liability company, and R
LEGACY INVESTMENTS LLC, a Utah
limited liability company.

Relief Defendants.

**MOTION TO APPROVE TRANSFER
OF FUNDS TO JEFF AND PATRICIA
WATSON**

Case No. 2:18-cv-892

Judge Tena Campbell

Jonathan O. Hafen, the Court-Appointed Receiver (the “Receiver”) for the assets of Rust Rare Coin Inc., (“RRC”), Gaylen Dean Rust, R Legacy Racing Inc., R Legacy Entertainment LLC, R Legacy Investments LLC, Denise Gunderson Rust, and Joshua Daniel Rust (collectively, the “Receivership Defendants”), respectfully requests authority from the Court to transfer funds to Jeff and Patricia Watson, as described below.

On November 27, 2018, the Court entered an Order Appointing Receiver and Staying Litigation (the “Order”). *See* ECF No. 54. Pursuant to paragraph 18 of the Order, the Receiver was authorized to take immediate possession of all non-exempt personal property of the Receivership Defendants. *Id.* ¶ 18. Paragraph 36 of the Order authorized the Receiver to “transfer, compromise, or otherwise dispose of any nonexempt Receivership Property, other than real estate, in the ordinary course of business, on terms and in the manner the Receiver deems most beneficial to the Receivership Estate.” *Id.* ¶ 36. Through this Motion and in an abundance of caution, the Receiver respectfully requests permission to return to Jeff and Patricia Watson approximately \$191,000 of investor funds received *after* the Receiver’s appointment, as described more fully below.

I. The Watsons’ Investment Into Mr. Rust’s Silver Investment Scheme

On October 27, 2018, Jeff and Patricia Watson (the “Watsons”) met with Mr. Todd Lugli, a friend and Rust Rare Coin Inc. investor, to discuss the prospect of investing in what appeared to be a lucrative investment opportunity with Mr. Gaylen Rust. Mr. Lugli explained that Mr. Rust was actively engaged in the buying and selling of silver and urged the Watsons to consider investing their money into Mr. Rust’s investment scheme.

Shortly thereafter, on October 31, 2018, the Watsons agreed to invest in Mr. Rust’s silver scheme and reached out to Mr. Lugli to confirm the same. To evidence this arrangement, the

Watsons signed and executed an agreement wherein they agreed to invest \$190,000 directly with Rust Rare Coin Inc. (the “Agreement,” attached here to Exhibit A). These funds were to be wired directly to one of the Receivership Defendants’ bank accounts, and the Agreement expressly stated that this money was an investment for the “purchase and selling of silver.” *See* Ex. A.

The Watsons planned to use funds from the sale of certain real property to finance their silver investment with Mr. Rust. However, because the funds were being held in a 1031 Exchange Account with First American Exchange Company (“First American”), the Watsons were unable to transfer the funds as set forth in the Agreement until November 19, 2018, the property’s closing date. Accordingly, the Watsons provided First American with the necessary wire instructions for the Receivership Defendants’ bank account and arranged to have those funds transferred as soon as they became available.

However, unbeknownst to the Watsons or First American, on November 13, 2018, the above-captioned case was formally commenced against the Receivership Defendants. *See* Dkt. No. 1. And on November 15, 2018, the Court entered an *Order Granting Plaintiffs’ Ex Parte Motion for Statutory Restraining Order, Appointment of Receiver, and other Equitable Relief* (the “Order” or “Freeze Order”), *see* Dkt. No. 22. Among other things, this Order froze all of the Receivership Defendants’ bank accounts and prevented the accounts from receiving or processing all deposits and withdrawals. *See id.* When the Receiver learned that this freeze was preventing vendor payments and other incoming funds that were rightly due to the Receivership Defendants, the Receiver arranged to have the freeze removed from the corresponding bank accounts. It was at this time, on November 19, 2018, that American First transferred \$191,002.50 to the Receivership Defendants’ bank account on behalf of the Watsons. *See* Statement of Accounts, attached hereto as Exhibit B.

Because these funds were received *after* the Court entered the Freeze Order and appointed the Receiver, these funds should be returned to the Watsons. Unlike other post- Receivership funds retained by the Receiver, this \$191,002.50 payment was made *solely* for the purpose of investing in Mr. Rust's silver investment scheme. As such, if the Receivership Estate were to retain these funds, the Receiver is concerned that he would effectively be perpetuating Mr. Rust's fraudulent investment scheme. Accordingly, the Receiver seeks Court approval to return to the Watsons the \$191,002.50 investment the Estate received after the Freeze Order.

A Proposed Order is attached hereto.

DATED this 1st day of May, 2019.

PARR BROWN GEE & LOVELESS

/s/ Joseph M.R. Covey
Joseph M.R. Covey
Cynthia D. Love
Attorneys for Receiver

IT IS HEREBY CERTIFIED that service of the foregoing was electronically filed with the Clerk of the Court through the CM/ECF system on May 1, 2019, which sent notice of the electronic filing to all counsel of record.

/s/ Joseph M.R. Covey
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