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**IN THE 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.

**RECEIVER'S FOURTH QUARTERLY
STATUS REPORT**

*For the period July 1, 2019 to
September 30, 2019*

Civil No. 2:18-cv-00892-TC

Honorable Tena Campbell

Magistrate Judge Dustin Pead

Jonathan O. Hafen, the Court-Appointed Receiver for the assets of Rust Rare Coin Inc., Gaylen Dean Rust, Denise Gunderson Rust, Joshua Rust, Aleesha Rust Franklin, R Legacy Racing Inc., R Legacy Entertainment LLC, and R Legacy Investments LLC (collectively, “Receivership Defendants”), hereby submits this Fourth Quarterly Status Report for the period of July 1, 2019 through September 30, 2019, pursuant to Section XIII, paragraph 53 of this Court’s Order Appointing Receiver and Staying Litigation, dated November 27, 2018 (the “Appointment Order”). *See* Dkt. No. 54.

As instructed by the Court, this Report addresses:

- I. A summary of the operations of the Receiver, including significant developments during the quarter.
- II. A summary of the current financial condition of the Receivership.
- III. A summary of the receipts and disbursements of the Receivership.
- IV. A description of known Receivership property, including approximate valuations, and anticipated dispositions.
- V. A description of liquidated and unliquidated claims of the Receivership, including the need for forensic and investigatory resources, approximate values of those claims, and anticipated methods of enforcing such claims.
- VI. A list of known creditors of the Receivership.
- VII. The status of creditor claims proceedings.
- VIII. The Receiver’s recommendations for continuation of the Receivership.

I. **SUMMARY OF OPERATIONS OF THE RECEIVER, INCLUDING SIGNIFICANT DEVELOPMENTS DURING THE QUARTER**

A. **General Developments**

1. **Claims Process.** This quarter, the Receiver and his team worked diligently to establish and finalize a claims process and claim form that would allow potential claimants of the Receivership Estate to file claims against the Receivership Defendants. On August 2, 2019, the

Receiver filed a motion seeking approval of this proposed claims process, *see* Dkt. No. 236, which the Court granted. Dkt. No. 239. Notice of the claims process was then published on the Receiver's website, in various print news publications, and sent out via email to all parties identified on the Receiver's master mailing matrix. The Receiver then coordinated the delivery of over 4,000 hard-copy claim packets to potential claimants, including former vendors, customers, employees, and investors.

2. In response to these notices, the Receiver received several inquiries from potential claimants regarding the claim form and the supporting documentation necessary for an allowed claim. In an effort to assist claimants with this process, the Receiver and his team worked to respond to such inquiries and sent out confirmation letters to all claimants who submitted a claim form to the Receiver.

3. At this time, the Receiver has received over 585 claim forms totaling approximately \$153 million in claims from potential claimants. The Receiver and his team are analyzing these claims to determine the propriety of the same. The deadline to submit all claim forms was October 4, 2019.

B. Liquidation of Real Property

1. **St. George Condominium.** Earlier this year, the Receiver contracted to sell the condominium located at 1111 Plantation Drive #306, St. George, Utah, to two private buyers for \$375,000, and this Court approved the proposed sale. *See* Dkt. No. 197. Because one of the buyers was unable to satisfy certain financing conditions, however, the Receiver was unable to close on the property as expected. After temporarily relisting the property, the buyers agreed to execute an addendum to the original purchase agreement that removed one of the buyers from the proposed sale. As a result, the Receiver expect to move forward and close on this property shortly.

2. **Huge Studios.** The Receiver and his real estate broker, Highland Commercial, have continued to market the Huge Studios property and its corresponding equipment with potential buyers. As a result of these efforts, the Receiver expects the property to go under contract by the end of the next quarter. Any proposed sale of this property will be subject to Court approval.

3. **Big Door.** The real property located at 78 W Center Street, Provo, Utah, went under contract earlier this year, and the Receiver has now sold the property for \$820,000.

4. **Alaskan Properties.** After selling several pieces of real property in Homer, Alaska, only the following two Alaskan properties remain within the Receivership Estate: (1) a two-story business property located at 3657 Main Street and (2) a residential home located at 65299 Diamond Ridge Road with two adjacent pieces of raw ground (“Tract C” and “Lot 3A”). Each of these properties are being marketed for sale by the Receiver’s real estate broker, Ash Churchill, and are not yet under contract. Any proposed sale of the properties will be subject to Court approval.

5. **Victorian House.** This quarter, the Receiver and his real estate broker continued to market for sale the Victorian-style home located at 734 East 200 South, Salt Lake City, Utah. As a result of those efforts, the Receiver has received numerous offers to purchase the property, and has now entered into a contract to sell the property for \$1,400,000. Because this offer was in line with appraisals, the Receiver entered into a purchase agreement with the proposed buyer, subject to Court approval. The Receiver is currently moving forward with the sale of the property.

6. **Timeshare Membership.** Gaylen and Denise Rust own a timeshare membership with Wyndham by WorldMark that the Receiver is currently in the process of liquidating. Given the difficulties often associated with selling such interests, the Receiver is working to determine the most effective way to liquidate this interest. Any proposed sale of this interest will be subject to Court approval.

C. Liquidation of Personal Property.

1. **Rust Rare Coin Inventory.** The Receiver is currently in the process of liquidating the high-value inventory from Rust Rare Coin (“RRC”). The Receiver received several formal and informal objections from investors and former RRC customers regarding this sale, which he is currently reviewing and analyzing. This process has required a significant amount of time and coordination between the Receiver, his counsel, and his numismatic experts due to the sizable portion of items being held by RRC on consignment or for grading or appraisal services. The Receiver anticipates filing a reply to these objections in the coming weeks that will include a recommendation as to how the Court should rule on these objections. The Receiver will ask the Court to set a hearing date at which time objecting parties can be heard.

2. Once the Court determines whether to grant or deny these objections, the Receiver intends to move forward with the sale of the high-value RRC items. The Receiver’s numismatic expert, Ian Russell, has ensured all of the coins and paper money have been graded as necessary and are ready for auction pending Court approval.

3. Furthermore, the Receiver also commissioned a local coin expert from Legacy Rare Coins in Murray, Utah to inventory all of the low-value and consigned items from RRC. The Receiver intends to use this list to confirm that all of the RRC inventory is properly accounted for and ultimately liquidated or returned to its designated owners.

4. **Rust Rare Coin—Bullion.** The Receiver continues to store all bullion and other commodities at a licensed storage facility pending resolution of the Receiver’s motion to liquidate the RRC inventory. *See* Dkt. No. 168.

5. **Sale of Alaska Business Property Inventory.** As previously reported, the Receiver entered into an agreement with Aleesha Rust Franklin last quarter wherein she agreed to

purchase certain health and wellness inventory related to her business in Homer, Alaska. Under that agreement, Ms. Franklin is required to make ongoing payments to the Receiver for such inventory over the next 24 months. This quarter, the Receiver received \$1,351.54 in total payments from Ms. Franklin, and to date, she has paid \$6,351.54 of her total \$55,000 obligation to the Receivership Estate for such inventory.

D. Recovery and Sale of Other Receivership Property

6. **Money at Zions Bank.** As previously reported to the Court, several transfers involving the Receivership Defendants' bank accounts took place in the 24-hours immediately preceding the Receiver's appointment. One of these transfers was for \$1.6 million, which the Receiver is actively trying to recover. After filing a motion for turnover of these funds, the Zions customer who initially transferred the funds filed an objection with the Receiver and requested discovery on this issue. The Receiver is currently working with the customer's legal counsel to accommodate these requests. The Receiver anticipates that this dispute will be ready for an evidentiary hearing before the Court this next quarter, at which time the Court will decide who receives the \$1.6 million.

7. **Musician's Toolkit Intellectual Property.** Through Musician's Toolkit, Defendants created thousands of hours of high-quality music instructional videos and a custom learning-management system for instructors. To ensure that the value of these assets is maximized for the Receivership Estate, the Receiver intends to retain a broker in the coming months who will help facilitate their sale. Although the Receiver has not yet started to actively market these assets, the Receiver has received tentative interest from various parties. The Receiver has worked with his accountants to create a preliminary "Sales Packet" for Musician's Toolkit which he has provided to interested buyers.

8. **Huge Studios Intellectual Property.** The Receiver also intends to begin working towards a potential sale of the Huge Studios intellectual property within the next several months. The Receiver anticipates that the sale of these intangible assets will likely require significant analysis given the interrelated nature of Huge Studios, Torque Entertainment, Writer's Den, and YourLDSMusicStore.

9. **Torque Entertainment.** This quarter, the Receiver worked closely with his legal counsel to determine whether to move forward with the sale of certain master recordings to former Torque Entertainment ("Torque") and Writer's Den artists. Going forward, the Receiver intends to liquidate the remaining Torque property at auction.

10. **CC Soundhouse.** Prior to the Receivership, Gaylen Rust invested in excess of \$1 million into CC Soundhouse in exchange for a 5% share of the company. It also appears that Mr. Rust loaned CC Soundhouse certain funds over time for which he has not been repaid. Accordingly, the Receiver and his counsel have engaged in extensive discussions with CC Soundhouse to try and reach a resolution. CC Soundhouse and its principals also executed a tolling agreement so discussions can continue beyond the upcoming November 15 filing anniversary. The Receiver will seek Court approval before finalizing any agreement with CC Soundhouse.

11. **Angler's Roost.** Gaylen Rust owns a 9.49% interest in Angler's Roost, LLP, a 15-acre campground and RV park in Hamilton, Montana. The company is currently listed for sale by the owners, and they are working to market the property to potential buyers. The Receiver is currently determining the most effective way to liquidate his minority interest in the company. The Receiver will seek Court approval before finalizing any sale of the Receivership's interest in Angler's Roost.

12. **Eazy Tracks.** Eazy Tracks, LLC is a company that was formed to develop an app that would allow users to playback masters on their cellular devices. Based on information reviewed by the Receiver, it appears that R Legacy Entertainment invested approximately \$74,000 into Eazy Tracks and holds a 25% interest in the company. After learning that Eazy Tracks transferred certain funds to a third-party entity shortly after the Receivership began, the Receiver has attempted to reach a settlement agreement with the company's owners regarding this transfer and R Legacy Entertainment's prior investment in Eazy Tracks. These efforts remain ongoing.

13. **Investor Communications.** The Receiver continues to post updates to the Receivership's website (rustrarecoinreceiver.com) when filings are made with the Court. The Receiver has also distributed copies of all filings and notices to the approximately 800 individuals listed on the Receiver's master mailing matrix.

14. **Insurance.** The Receiver continues to ascertain, renew, and manage the insurance policies for Receivership real and personal property located in Utah and Alaska. This has involved monitoring policy statuses and coordinating the payment of all necessary insurance policy premiums so that the Receivership property remains adequately insured. Because the real properties within the Receivership Estate are almost exclusively vacant buildings being marketed for sale, the Receiver has had to work closely with his insurance agents to find insurers who are willing to provide coverage for such buildings as the policies come up for renewal. As properties have been liquidated, the Receiver has cancelled the corresponding insurance policies to reduce costs to the Estate.

15. **Tax Issues.** The Receiver continues to assist his accountants at Berkley Research Group ("BRG") with the Receivership's various tax filing requirements. These efforts have involved ongoing coordination among the Receiver, his counsel, and his accountants to accurately

determine the value of all assets that were within the Receivership Estate at the time of the Receiver's appointment. The Receivership also prepared and filed the personal tax returns for both Gaylen and Denise Rust.

II. **SUMMARY OF THE CURRENT FINANCIAL CONDITION OF THE RECEIVERSHIP.**

16. The Receiver had sufficient cash during this quarter to cover all expenses of the Receivership Estate and believes that he will continue to have sufficient cash in the Estate to cover all foreseeable expenses. The Receiver is not concerned that the Estate will be unable to cover its ongoing expenses as the Receiver, his counsel and his accountants at BRG, have voluntarily agreed to refrain from taking any fees until the Estate recovers at least three times the amount of their fees. The Receiver is confident that through the liquidation of assets and claw back recoveries, the Receivership Estate will have sufficient funds to cover all Receivership expenses and make a return to victims. Through the end of the quarter, the Receiver and his team's efforts have already recovered over \$4.3 million for the Receivership Estate. The Receiver will provide a more detailed analysis of potential recoveries in future reports.

III. **DESCRIPTION OF RECEIPT AND DISBURSEMENTS.**

17. The Receiver continues to collect outstanding accounts receivable for the Receivership Defendants. A schedule of the receipts and disbursements of the Receiver is attached hereto as Exhibit A.

18. The Receiver believes that he is in the final stages of identifying and securing the tangible assets of the Receivership Defendants. The Receiver has not made any disbursements to investors or pre-Receivership creditors of the Receivership Estate in this quarter.

IV. **DESCRIPTION OF ALL PHYSICAL RECEIVERSHIP PROPERTY.**

19. Outlined above is a description of the physical Receivership assets known to the Receiver, along with their values. The Receiver is still in the process of determining the value of various assets in the Receivership Estate, and the value of certain assets will not be finally determined until they are sold to an arms-length buyer.

V. **DESCRIPTION OF LIQUIDATED AND UNLIQUIDATED CLAIMS.**

20. The Receiver worked closely with his accountants this quarter to finalize their analysis of the Receivership's potential liquidated and unliquidated claims. This involved reviewing questionnaires, business records, and subpoenaed documents from various investors and related entities. As a result of this process, over 80 investor groups and several hundred individual investors have been identified and numerous transactions by these investors are being analyzed by the Receiver and his team.

21. Based on the net winner analyses provided by BRG, the Receiver has identified over \$50 million of potential net winner claims. The number and value of these potential claims are based primarily on the books, records and correspondence of the Receivership Defendants, and are therefore fluid and subject to ongoing investigation and change. The Receiver hopes to claw back significant funds for the Receivership Estate. To facilitate these recoveries, the Receiver and his legal counsel have drafted and sent out demand letters to potential claw back defendants in an effort to negotiate settlement agreements with them. The Receiver has also reviewed the analyses provided by BRG to help streamline the claw back process and distinguish between claimants and potential claw back defendants.

22. For potential claw back defendants whose claims arose more than four years before the Receiver's appointment, the Receiver has been securing tolling agreement from them in order to undertake further analysis before reaching a final resolution. To the extent the Receiver is unable

to execute a tolling agreement or reach a favorable settlement agreement with these investors, the Receiver intends to file ancillary lawsuits against them before the upcoming November 15, 2019 statute of limitations deadline. The Receiver continues to remain hopeful that many of the fraudulently transferred funds will be recovered without having to resort to formal litigation.

23. BRG is also in the final stages of its “sources and uses” analysis, which the Receiver expects will be completed this next quarter.

VI. **LIST OF KNOWN CREDITORS OF THE RECEIVERSHIP.**

24. As mentioned above, the Receiver initiated the claims process during this last quarter which included a claim deadline of October 4, 2019. As a result of this process, the Receiver received over 585 claim forms from potential claimants and creditors of the Receivership Estate. A list of the first and last names of each of these claimants is attached hereto as Exhibit B.

VII. **STATUS OF CREDITOR CLAIMS PROCEEDINGS.**

25. The Receiver and his team have begun reviewing the claim forms filed by potential Receivership claimants to determine whether such claims should be allowed or denied by the Court. The Receiver expects this to be an intensive process that will require significant analysis by both his accountants and legal counsel. As part of these efforts, the Receiver’s team is entering the relevant claim form data into an electronic master matrix to help track the status of each creditor’s claim.

26. Once the Receiver has made an initial determination of whether certain claims should be allowed or disallowed, he intends to file an omnibus motion with the Court asking it to rule on various categories of claims identified by the Receiver.

VIII. **RECOMMENDATION TO CONTINUE THE RECEIVERSHIP.**

27. The Receiver is still in the process of liquidating various real and personal property within the Receivership Estate and has just began filing claw back actions against potential net winners. The Receiver is also still in the early stages of reviewing the claim forms submitted by potential claimants who allege significant harm as a result of the Receivership Defendants' actions. The Receiver anticipates that the continuation of the Receivership will generate a significant amount of additional funds that will ultimately be distributed for the benefit of defrauded investors and other Receivership claimants. Accordingly, the Receiver recommends the continuation of the Receivership.

DATED this 31st day of October 2019.

PARR BROWN GEE & LOVELESS

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CERTIFICATE OF SERVICE

I hereby certify that service of the above **RECEIVER'S FOURTH QUARTERLY STATUS REPORT** was (1) emailed to all those on the master mailing matrix maintained by the Receiver; (2) posted on the Receiver's website (rustrarecoinreceiver.com); and (3) electronically filed with the Clerk of the Court through the CM/ECF system on October 31, 2019, which sent notice of the electronic filing to all counsel of record, as indicated below:

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