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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 EIGHTH QUARTERLY
STATUS REPORT**

*For the period July 1, 2020 to
September 30, 2020*

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 Eighth Quarterly Status Report for the period of July 1, 2020 through September 30, 2020, 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 Analysis.** This quarter, the Receiver and his team continued to make progress on their review, analysis, and verification of the claim forms submitted by potential claimants of the Receivership Estate. At the end of the quarter, there have been approximately

621 claim forms submitted to the Estate, and the total amount of self-reported losses identified by such claimants is approximately \$171 million. The Receiver and his team continue to diligently analyze the submitted claims and have coordinated with the Court to ensure that the review process is both thorough and efficient. The Receiver and his team review each claim to determine the accuracy of the dollar amount asserted, as well as the basis and priority of the claim. At this time, the Receiver and his team have reviewed all claim forms submitted by potential claimants, including investors. During that analysis, the Receiver has identified categorical objections to certain types of claims and has submitted for the Courts consideration and a motion detailing said objections. The Receiver's analysis is ongoing with respect to certain employee-related claims while the Receiver continues to review employment records in order to verify such claims.

2. **Claw Back Actions.** As previously reported, the Receiver and his team filed 30 separate claw back actions against approximately 124 different investors to ensure that the Receiver preserved his right to recover proceeds from potential net winners after the November 15, 2019 filing deadline. In addition, the Receiver made a significant effort to minimize the number of filings by coordinating the execution of over 170 tolling agreements with various potential net winners. As discussed in more detail below,¹ the Receiver continues to work closely with investors and their counsel to secure a favorable resolution of such claims.

B. Liquidation of Real Property

1. **Alaskan Properties.** Prior to this reporting period, the only Alaskan property remaining was the residential home located at 65299 Diamond Ridge Road with two adjacent pieces of raw ground which had been marketed for sale by the Receiver's real estate broker. This

¹ See Section V.

quarter, the Receiver obtained a full-price offer for the Diamond Ridge property which the Court approved. *See* Dkt. 343. As a result of the Receiver's efforts, over \$442,000 was brought into the Receivership Estate.

2. **Timeshare Membership.** Gaylen and Denise Rust own a timeshare membership with Wyndham by WorldMark that the Receiver is currently in the process of attempting to liquidate, which has been difficult due to restrictions on the sale of the asset and unpaid balances. The Receiver continues in his efforts to determine the most effective way to liquidate this interest.

C. Liquidation of Personal Property.

1. **Huge Studios Equipment.** As previously reported, the Receiver has retained the services of Michael Greene to facilitate the sale of the sound equipment that was located at Huge Studios. As set forth in the Receiver's agreement with Mr. Greene, the equipment is being stored by Mr. Greene at his warehouse at no charge to the Estate. This quarter, Mr. Greene worked to market and sell the remaining Huge Studios equipment to various third parties, subject to the Receiver's prior authorization of all sales. Although Mr. Greene continues his efforts to liquidate the remaining Huge Studios equipment, progress has slowed due to (i) complications related to COVID-19, and (ii) the remaining inventory has little value. To date, Mr. Greene has recovered a total of \$268,578. The Receiver will continue to provide the Court updates regarding the sale of the remaining Huge Studios equipment.

2. **Rust Rare Coin Inventory.** The Receiver created an inventory of the thousands of coins and other items held at Rust Rare Coins ("RRC"). Several of the items stored at RRC belonged to individuals and were not part of the Receivership Estate. The Receiver has returned nearly all of those items to their respective owners and, as discussed below, continues working to liquidate any remaining items in the Receiver's possession.

3. The Receiver has engaged the services of Erkelens & Olson Auctioneers and Appraisers (“Erkelens”) to conduct live auctions of the remaining inventory items. However, due to complications and restrictions related to COVID-19, Erkelens discontinued holding live auctions. Instead, Erkelens has transitioned its business operations to facilitate online auctions. Last quarter, the Receiver directed Erkelens to auction a small number of items online to determine whether an online auction format would maximize value for the Estate. The results of the auction far exceeded the Receiver’s expectations. Accordingly, the Receiver is working with Erkelens to put the thousands of items held there in lots that will be auctioned online. The Receiver anticipates that the auctions for the low-value items will begin sometime next quarter.

4. **Sale of Alaska Business Property Inventory.** As previously reported, the Receiver entered into an agreement with Aleesha Rust Franklin in July 2019 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 24 months, as a percentage of sales from retained inventory. To date, she has paid \$10,475.56 of her total \$55,000 obligation to the Receivership Estate for such inventory.

D. Recovery and Sale of Other Receivership Property

5. **Musician’s Toolkit.** Through Musician’s Toolkit, Defendants created thousands of hours of high-quality music instructional videos and a custom learning-management system for instructors. This quarter, the Court approved the sale of Musician’s Toolkit to an independent, third-party buyer. *See* Dkt. No. 319.

6. **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. At this time, the Receiver continues to work towards a settlement agreement with the company's owners regarding R Legacy Entertainment's prior investment in Eazy Tracks and certain fund transfers made by Eazy Tracks shortly after the Receiver's appointment. These efforts remain ongoing.

7. **Intellectual Property.** The Receiver continues to analyze the feasibility of a bulk sale of the Huge Studios, Torque Entertainment, and YourLDSMusicStore intellectual property. The Receiver anticipates that the sale and/or auction of these intangible assets will likely require significant analysis given the interrelated nature of Huge Studios, Torque Entertainment, Writer's Den, and YourLDSMusicStore.

8. **CC Soundhouse.** As previously reported to the Court, prior to the Receivership, Gaylen Rust invested in excess of \$1 million into CC Soundhouse in exchange for a 5% share of the company and also loaned CC Soundhouse certain funds for which he has not been repaid. After months of settlement negotiations with the CC Soundhouse principals, the parties have reached a settlement agreement which has been filed with the Court for its approval. *See* Dkt No 349.

9. **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 which has been listed for sale by its owners. The owners have received an offer to purchase Angler's Roost and the parties are in the process of performing due diligence. Pending the results of the due diligence, it is anticipated that the sale of Angler's Roost will be consummated in early 2021.

10. **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 by email copies of all filings and notices to the approximately 800 individuals listed on the Receiver's master mailing matrix. The Receiver also continues to

communicate with investors about objections and proposed actions. The Receiver has also filed all objections on behalf of investors pursuant to the Courts Summary Disposition Procedures.

11. **Insurance.** The Receiver continues to ascertain, renew, cancel and otherwise manage the insurance policies for the remaining Receivership property located in Utah. This has involved monitoring policy statuses and coordinating the payment of all necessary insurance policy premiums so that the Receivership property remains adequately insured. As properties have been liquidated, the Receiver has cancelled the corresponding insurance policies to reduce costs to the Estate.

12. **Tax Issues.** The Receiver continues to work with his accountants at Berkley Research Group (“BRG”) to ensure the Receivership’s various tax obligations are being met, including the amounts owed in relation to the Receivership’s real property and the amounts associated with the business entities still within the scope of the Receivership Estate.

13. **Discovery Productions and Redaction.** The Receiver has reviewed and produced a vast packet of documents including financial statements and investor communications to the Court and in several claw back actions. Currently, over 300,000 documents have been reviewed for production. In addition to the substantial amount of time reviewing thousands of documents for production to the Court and opposing parties, the Receiver has also completed a large-scale redaction of documents. In an effort both to ensure the privacy of hundreds of victims and minor children, while still respecting the rights of pro se litigants, the Receiver has created a set of redacted documents for production to pro se litigants. These documents have been redacted for social security numbers, birth dates and account numbers of investors.

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

14. 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 recovered over \$11.5 million in net sale proceeds for the Receivership Estate, with total sales well in excess of \$12 million. The Receiver will provide a more detailed analysis of potential recoveries in future reports.

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

15. 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.

16. As previously reported, the Receiver believes that he has identified most, if not all, of the assets that fall within the scope of the Receivership Estate.

17. At this time, the Receiver has not yet made any disbursements to investors or pre-Receivership creditors of the Receivership Estate. The Receiver filed a motion with the Court seeking approval of a distribution plan which is the first step towards making an initial interim disbursement to the creditors and claimants of the Receivership Estate. This quarter, the Court approved the Receiver's distribution plan, allowing the Receiver to begin making interim

disbursements at a later date. *See* Dkt. No. 341. The Receiver will provide the Court additional updates on the status of disbursements when they become available.

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

18. Outlined above is a description of the remaining physical Receivership assets known to the Receiver, along with their estimated values. The Receiver is still in the process of determining the value of these remaining personal property assets in the Receivership Estate, and the value of most of those assets will not be finally determined until they are sold to arms-length buyers.

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

19. As previously reported to the Court, over 80 different investor groups and several hundred individual investors have been identified in this matter.

20. Based on the net winner analyses provided by BRG, the Receiver has identified over \$50 million of potential net winner claims which the Receiver is currently working to recover. 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.

21. As part of the Receiver's recovery efforts, several ancillary lawsuits have been filed against potential claw back defendants of the Receivership Estate. In total, these actions include 30 separate claw back filings against approximately 124 different investors. The Receiver and his team continue to either prosecute these claims or settle such claims as favorable agreements are reached by the parties.

22. As set forth above and in prior reports, the Receiver has also made a significant effort to minimize the number of necessary filings by coordinating the execution of over 170

tolling agreement with various investors. Because the determination of whether these investors are net winners often depends on the metal transactions associated with each investor, the Receiver has worked closely with his legal counsel and accountants to determine whether there is adequate support in the books and records of the Receivership Estate to recognize such metal transactions.

23. As part of this analysis, the Receiver and his team have also engaged in ongoing discussions with various potential net winners to determine whether the investors have any additional documentation to support their metal transactions. Through these discussions, the Receiver has been able to confirm or reject the net winner status of many investors who dealt with the silver investment pool through metal transactions. Given the magnitude of these metal transactions, however, the Receiver expects that this analysis will take significant coordination with investors and his team to resolve all of the potential claw back determinations in this matter.

24. As a result of the Court granting the Receiver's Motion for Settlement Authority (*See* Dkt. No. 271), and the Receiver's ongoing settlement efforts, the Receiver recovered approximately \$83,929 in claw back negotiations during this last quarter. To the extent the Receiver and his counsel can settle matters for 90% or more of the amount on the books and records of the Receivership Defendants, the Receiver has settled these matters without incurring the expense of filing a motion and obtaining Court approval. The Receiver continues to finalize agreements and negotiate with investors and creditors to increase the number of settlement agreements. Currently, the Receiver is in varying phases of final approval for over 22 settlement agreements. These agreements attempt to secure the largest return of funds while minimizing administrative burden to the Receivership Estate. The Receiver remains hopeful that many of the fraudulently transferred funds will be recovered without having to resort to formal litigation.

25. In connection with the claims analysis and claw back recovery efforts, the Receiver and BRG have compiled data that will be used for their expert reports. These reports will be critical in prosecuting potential claw back filings in the coming months.

VI. LIST OF KNOWN CREDITORS OF THE RECEIVERSHIP.

26. As previously reported to the Court, the Receiver initiated the claims process which included a claims deadline of October 4, 2019. As a result of this process, the Receiver received approximately 621 claim forms from potential claimants and creditors of the Receivership Estate. An updated list of the first and last names of each of these claimants is attached hereto as Exhibit B.

VII. STATUS OF CREDITOR CLAIMS PROCEEDINGS.

27. The Receiver and his team have continued their efforts this quarter to review and analyze the claim forms submitted by potential Receivership claimants to determine whether such claims should be allowed or denied by the Court. This continues to be an intensive process that requires ongoing coordination between the Receiver's counsel and his accountants. As part of this analysis, the Receiver's team has entering the relevant claim form data into an electronic master matrix to help track the status of each creditor's claim. All claim forms submitted by investors, trade vendors and customers have been reviewed and analyzed.

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

VIII. RECOMMENDATION TO CONTINUE THE RECEIVERSHIP.

29. The Receiver is still in the process of liquidating the remaining property within the Receivership Estate and continues to work towards recovering a significant amount of funds from

various claw back defendants. The Receiver is also still working to review and analyze the claim forms submitted by potential claimants of the Estate 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 30th day of October 2020.

PARR BROWN GEE & LOVELESS

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CERTIFICATE OF SERVICE

I hereby certify that service of the above **RECEIVER'S EIGHTH 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 30, 2020, which sent notice of the electronic filing to all counsel of record, as indicated below:

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