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12 *Liquidator Receiver*

13 UNITED STATES DISTRICT COURT  
14 CENTRAL DISTRICT OF CALIFORNIA

15  
16 FEDERAL TRADE COMMISSION,

17 Plaintiff,

18 v.

19 TATTO, INC., et al.,

20 Defendants.

CASE NO. LACV13-8912 DSF (FFM<sub>x</sub>)

**RECEIVER'S INTERIM REPORT  
RE: RECEIVERSHIP AND  
LIQUIDATORSHIP**

JUDGE: Hon. Dale S. Fischer  
CTRM: 840

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1 **I. Introduction**

2 Thomas W. McNamara was appointed Receiver of the Corporate  
3 Defendants<sup>1</sup> by the Temporary Restraining Order (“TRO”) entered December 5,  
4 2013 (ECF No. 22), which appointment was confirmed by the Preliminary  
5 Injunction (“PI”) entered January 6, 2014 (ECF No. 69).

6 The FTC’s claims have now been resolved as to all Defendants – Stipulated  
7 Order entered June 11, 2014 (ECF No. 114) as to Individual Defendant Lin Miao  
8 (“Miao”) and his related entities (all the Corporate Defendants except Bullroarer);  
9 Stipulated Order entered August 5, 2014 (ECF No. 123) as to Individual Defendant  
10 Andrew Bachman (“Bachman Stipulated Order”); and Default Judgment entered  
11 August 14, 2014 (ECF No. 124) as to Defendant Bullroarer, Inc. (“Bullroarer  
12 Default Judgment”).

13 The Miao Stipulated Order (Section X, page 15) and the Bullroarer Default  
14 Judgment (Section VII, page 6) both provide for the continuation of the  
15 receivership over the Corporate Defendants and direct the Receiver to wind them  
16 down and liquidate any assets.

17 The Miao Stipulated Order and the Bachman Stipulated Order also expand  
18 the Receiver’s duties to include the liquidation of some personal assets of  
19 Individual Defendants Miao and Bachman – the Miao Stipulated Order appoints  
20 the Receiver as Liquidator of identified personal assets of Miao to be liquidated  
21 through a Liquidatorship separate from the receivership; and the Bachman  
22 Stipulated Order directs the Receiver to sell identified personal assets of Bachman  
23 within the context of the receivership.

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27 <sup>1</sup> Defined to include Tatto, Inc., Bullroarer, Inc., Shaboom Media, LLC, Bune,  
28 LLC, Mobile Media Products, LLC, Chairman Ventures, LLC, Galactic Media,  
LLC, Virtus Media, LLC, and their d/b/a’s, successors, and assigns. (See TRO,  
page 3, paragraph 2; PI, page 3, paragraph 2.)

1 By this Interim Report, we report to the Court on the current status of the  
2 receivership, which now includes the sale of some Bachman personal assets, and  
3 the separate Liquidatorship over some Miao personal assets.

## 4 **II. Receivership – Corporate Defendants**

5 By the detailed Preliminary Report filed December 16, 2013 (ECF No. 47), I  
6 described the history and current state of Corporate Defendants' Premium SMS  
7 business, reported on steps taken to implement the TRO, preserve assets and  
8 business records, and advised the Court that the absence of any current operations  
9 rendered moot the issue of whether the business could be operated lawfully and  
10 profitably going forward.

11 Several reports and motions were filed afterward, relating to the  
12 identification and pursuit of clawback claims to recover funds disbursed to others  
13 from the proceeds of the Premium SMS business. By Supplemental Reports on  
14 December 17, 2013 (ECF No. 56), January 3, 2014 (ECF No. 66), and January 21,  
15 2014 (ECF No. 80), we have reported on fund flows into other non-party  
16 businesses operated by Miao (Scambook and Be Great Partners) and Bachman  
17 (Game Plan Holdings).

18 By a report and application filed April 29, 2014, I requested authorization to  
19 retain overseas counsel to pursue a claim against Bullroarer funds held in a Hong  
20 Kong bank account. By Order entered May 6, 2014 (ECF No. 107),<sup>2</sup> the Court  
21 granted that authorization and we thereafter retained Hong Kong counsel, on a  
22 contingency fee basis, who successfully secured a freeze order against a Bullroarer  
23 account in a Hong Kong bank with a balance of \$5 million. Through counsel in  
24 Hong Kong, we continue to pursue repatriation of those funds to the receivership.  
25 This process is lengthy and not entirely predictable, but our counsel is optimistic  
26 that such repatriation can be achieved.

27 <sup>2</sup> Our original application and subsequent Order were filed under seal, but  
28 now that we have the freeze order in Hong Kong, we will request the Court unseal  
those pleadings.

1 At inception of the receivership, the Miao-related Corporate Defendants had  
2 limited funds frozen in bank accounts (totaling \$20,500) and none have any  
3 identifiable assets to liquidate. As to Bullroarer, as noted above, we have frozen  
4 and are seeking to recover \$5 million on deposit in Hong Kong. Other than a  
5 virtual office in San Francisco, we have not identified any active United States  
6 operations of Bullroarer. Given its Australian situs, we have determined that it is  
7 not cost-effective to further investigate its offshore operations. We have identified  
8 real property assets in California purchased by Bullroarer and/or its principal with  
9 proceeds from Premium SMS operations. We intend to seek authorization from  
10 the Court to pursue those real property interests.

11 Attached as Exhibit A is a Receipts and Disbursements Summary for the  
12 receivership which shows receipts of \$20,553 and disbursements of \$8,390  
13 (accounting fees approved by the Court and costs related to the disposition of  
14 Bachman's assets) for a current cash balance of \$12,163.

15 **III. Receivership – Bachman Assets**

16 The Bachman Stipulated Order directs Bachman to delivery to the receiver  
17 two identified vehicles (a Ferrari 458 Italia and a Mercedes SUV G550) and eight  
18 identified premium watches. The vehicles are now being actively marketed by  
19 Virtuoso Performance in Hayward, California, an expert in the sale of high-end,  
20 exotic vehicles. The watches will be auctioned by Sotheby's at their next available  
21 "Important Watches" auction on December 10, 2014.

22 Bachman is also required to transfer his shares in Game Plan Holdings,  
23 LLC, Pet Flow, LLC, Seva Search, Inc., and LeagueNation, LLC. His shares in  
24 Game Plan Holdings were liquidated in July, 2014, and the net proceeds remitted  
25 to the FTC. As to the others, we are working with counsel to finalize the  
26 documents necessary for such transfers.

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1 **IV. Liquidatorship – Miao Assets**

2 The Miao Stipulated Order directs Miao to deliver to the Liquidatorship five  
3 pieces of real property, four automobiles, 12 pieces of premium jewelry, and all his  
4 interests in Miao Partners LLC and its holdings. As directed by the Stipulated  
5 Order, we have managed this Liquidatorship as an entirely separate operation from  
6 the receivership and have separately recorded fees and expenses related to the  
7 Liquidatorship.

8 **A. Real Property**

9 As required by the Miao Stipulated Order, Miao has cooperated with the  
10 Liquidator to prepare and record quitclaim deeds, as necessary, to transfer title to  
11 the five real property assets listed below. We have retained local real estate  
12 brokers to market and sell all five properties, four of which are now under contract  
13 for sale. Finalizing the transfer of the three condominiums in Chicago was  
14 complicated by various local Chicago ordinances and the need to settle pending  
15 claims by the homeowners association against the two condominiums on North  
16 Dearborn.

- 17 1. 6660 Colgate Avenue, Los Angeles, California. This single-  
18 family home is now in escrow for sale at \$2,623,725 with a  
19 projected close date of November 3, 2014 and projected net  
20 proceeds to the Liquidatorship of approximately \$2.5 million.
- 21 2. 9508 Gloaming Drive, Beverly Hills, California. This single-  
22 family home has been listed for sale at \$1,895,000 since  
23 July 21, 2014. The broker has reported that, after an initial  
24 flurry of interest by prospective buyers, there has been limited  
25 activity. We will work closely with the broker to review and  
26 consider a possible price reduction, additional marketing efforts  
27 and/or low-cost repairs and enhancements that might increase  
28 salability.

- 1           3.     200 North Dearborn, Unit 3201, Chicago, Illinois. This  
2           condominium in Chicago is now under contract and in escrow  
3           at a sales price of \$180,000 with a projected closing date of  
4           December 12, 2014.
- 5           4.     200 North Dearborn, Unit 3202, Chicago, Illinois. This  
6           condominium in Chicago is also under contract and in escrow  
7           at a sales price of \$300,000 with a projected closing date of  
8           November 6, 2014.
- 9           5.     327 East 25<sup>th</sup> Street, Unit 1W, Chicago, Illinois. This  
10          condominium in Chicago is also under contract and in escrow  
11          at a sales price of \$160,000 with a projected closing date of  
12          November 19, 2014.

13         There are no mortgages on any of the above properties.

14         **B.    Automobiles**

15         The Stipulated Order identifies four automobiles for liquidation.

- 16           1.     2014 Range Rover HSE SUV. This vehicle was returned to the  
17           secured lender and the Liquidator has received payment of the  
18           net equity proceeds of \$21,800.
- 19           2.     2011 Audi R8 Sedan. This vehicle was returned to the secured  
20           lender with no net equity as the outstanding loan exceeded the  
21           market value.
- 22           3.     2009 Bentley GT Sedan. This vehicle was not financed. The  
23           Liquidator ultimately received \$100,000 from the vehicle.
- 24           4.     2013 Mercedes G63 SUV. This vehicle was returned to the  
25           secured lender with no net equity as the outstanding loan  
26           exceeded the market value.

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1           **C. Jewelry Liquidation**

2           On July 13, 2014, Mr. Miao completed transfer to the Liquidator of the  
3 jewelry and watches specified in the Miao Stipulated Order. After full due  
4 diligence, we determined that the value of these items would be maximized by sale  
5 through an international auction house. We met with three auction houses and  
6 ultimately selected Sotheby's, which will include the jewelry in its December 9,  
7 2014 Magnificent Jewels auction and the watches in its December 10, 2014  
8 Important Watches auction. Both auctions will take place in New York City, but  
9 will also be available through Sotheby's website for online bidding.

10           The delivered jewelry and watches included a total of 12 pieces, several of  
11 which appear to have substantial value. Sotheby's has given us a projected range  
12 for net proceeds from the auction of \$500,000 to \$800,000, with multiple qualifiers  
13 that auction results are not predictable.

14           **D. Miao Partners, LLC Transfer of Interest**

15           The Miao Stipulated Order directs Miao to transfer to the Liquidator all his  
16 interests in Miao Partners, LLC ("Miao Partners") and all of its holdings, including  
17 but not limited to, interests in Skinny Bikini Swimwear, LLC ("Skinny Bikini"),  
18 Bloc Priya Avatar I, LLC ("Bloc Priya"), and Bloc DT 1, LLC ("Bloc DT").

19           Skinny Bikini is a startup venture. Bloc Priya is an LLC which holds an  
20 interest in a senior living real estate venture in Santa Clara, California. It has two  
21 members – Miao Partners and True Merchant, an entity controlled by Bullroarer's  
22 principal, Michael Pearse. Bloc DT is an LLC with three members (Miao Partners,  
23 True Merchant, and Bloc LLC) which holds an interest in real property in  
24 Berkeley, California. As noted above, the receivership has a claim to True  
25 Merchant's interests in Bloc Priya and Bloc DT to the extent its investments were  
26 funded by proceeds from Tatto's Premium SMS business.

27           All the documents to transfer these interests from Miao Partners to the  
28 receivership have been prepared by counsel. The Bloc Priya and Bloc DT assets

1 present some challenges as the interests of Miao Partners are governed by  
2 operating agreements of the two LLCs which contain complex provisions requiring  
3 unanimous consent of all other members to any transfers and/or a right of first  
4 refusal to purchase the interests. We are working through this process presently.  
5 Our ultimate goal, assuming the projects have value, is to achieve a liquidation of  
6 these interests as quickly as possible.

7 **E. Liquidatorship – Receipts and Expenditures Summary**

8 Attached as Exhibit B is a summary of receipts and expenditures relating to  
9 the Miao asset Liquidatorship to date. As of the date of this report, the  
10 Liquidatorship bank account has cash funds of \$120,373.31.

11  
12 Dated: October 30, 2014

THOMAS W. MCNAMARA

13  
14 By: /S/ Thomas W. McNamara  
15 Thomas W. McNamara  
16 Receiver and Liquidator Receiver  
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**CERTIFICATE OF SERVICE**

I hereby certify that on October 30, 2014, I caused the foregoing to be electronically filed with the Clerk of the Court using the CM/ECF system, which will send notification of the filing to all participants in the case who are registered CM/ECF users.

/s/ Thomas W. McNamara