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15 **UNITED STATES DISTRICT COURT**
16 **CENTRAL DISTRICT OF CALIFORNIA – WESTERN DIVISION**

17 SECURITIES AND EXCHANGE
18 COMMISSION,

19 Plaintiff,

20 vs.

21 TITANIUM BLOCKCHAIN
22 INFRASTRUCTURE SERVICES,
23 INC.; EHI INTERNETWORK AND
24 SYSTEMS MANAGEMENT, INC.
25 aka EHI-INSM, INC.; and MICHAEL
26 ALAN STOLLERY aka MICHAEL
27 STOLLAIRE,

28 Defendants.

Case No. 18-cv-4315 DSF (JPRx)

**RECEIVER’S REPLY
MEMORANDUM IN SUPPORT OF
THE MOTION TO APPROVE THE
INITIAL AND SECOND
DISTRIBUTIONS & NOTICE OF
CLAIMANT MING ZHENG’S
DISPUTED CLAIM CALCULATION
OBJECTION (CLAIM # 1000177);
DECLARATION OF RECEIVER,
JOSIAS N. DEWEY, IN SUPPORT OF
REPLY**

Date: January 30, 2023

Time: 1:30 p.m.

Ctrm: 7D

Judge: Hon. Dale S. Fischer

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1 Josias N. Dewey, the Court appointed Receiver for the estates of Defendants
2 Titanium Blockchain Infrastructure Services Inc. and its subsidiaries and/or affiliates
3 (collectively, the “Receivership Entity”), hereby submits this Reply Memorandum in
4 Support of the Receiver’s Motion to Approve the Initial and Second Distributions
5 (hereinafter, the “Reply”). The Receiver also hereby gives notice to the Court of
6 Claimant Ming Zheng’s Claim Calculation Objection (Claim #1000177).

7 **I. INTRODUCTION**

8 On December 29, 2022, the Receiver’s counsel filed a Motion for Approval of
9 the Initial and Second Distributions (Dkt. 116, hereinafter “Distribution Motion”). In
10 the filing, the Receiver respectfully requested an Order from this Court authorizing him
11 to simultaneously execute the Initial and Second Distributions, and approving both the
12 Distribution Dates and Distribution Notice. *See id.* The Distribution Motion is set to be
13 heard by the Court on January 30, 2023.

14 On January 4, 2023, Plaintiff Securities and Exchange Commission filed its non-
15 opposition to the Receiver’s Distribution Motion (Dkt. 117).

16 On January 7, 2023, Claimant Ming Zheng (“Zheng”) emailed the Court’s clerk
17 alleging that the Receiver’s loss calculation as to his claim (Claim #1000177),
18 deliberately disregarded the FIFO rule in violation of Section 3.1 of the Distribution
19 Plan and that the Receiver “consistently evade[d] claimant’s questions”. A copy of
20 Zheng’s Claim Determination Notice and email are attached as **Exhibit 1** and **Exhibit**
21 **2** to the Accompanying Declaration Josias N. Dewey in his capacity as the Court-
22 Appointed Receiver (the “Dewey Decl.”), respectively (with confidential information
23 redacted). Notably, neither Zheng nor any other Claimant have opposed the
24 Distribution Motion.

25 For the reasons set forth in the Distribution Motion—and *as confirmed by the*
26 *SEC’s Notice of Non-Opposition*—the Distribution Motion should be granted.
27 Claimant Zheng’s objection regarding the calculation of his claim does not change this
28

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1 conclusion. In fact, as set forth more fully below, the Receiver anticipated the
2 possibility of such objections and set aside approximately \$146,000.00 in the Reserve
3 Fund for “Disputed Claims”¹, as described in the Distribution Motion. This reserve is
4 more than sufficient to cover Zheng’s \$15,000.00 Disputed Amount, which is the *only*
5 pending Disputed Claim. Moreover, although the Receiver will respond more fully to
6 Zheng’s objection if unable to resolve the claim pursuant to the governing claims
7 resolution process,² the objection itself has no merit. Zheng’s purported “objection”
8 ignores several manual recalculations that have already been performed by the
9 Receiver, extensive email correspondence with detailed explanations, and Zheng’s own
10 misapplication of the Distribution Plan’s loss methodology.

11 For these reasons, the Receiver respectfully requests that the Distribution Motion
12 be granted and that he be allowed to proceed with the Initial and Second Distributions
13 without further delay.

14 **II. THE DISTRIBUTION MOTION SHOULD BE GRANTED**

15 On May 9, 2022, the Court granted the Distribution Plan and authorized the
16 Receiver to make the Initial and Second Distributions pursuant to the terms and
17 procedures stated therein (Dkt. 109 at 1). Those terms and procedures granted the
18 Receiver discretion in setting the Benchmark Date, Conversion Price, and Distribution
19 Dates for the Initial and Second Distributions. *Id.* at 2. The Receiver was only required
20 to notice the Court of such decisions and seek its ultimate approval prior to making
21

22 _____
23 ¹ According to the Distribution Plan, the term “Disputed” means “a Claim as to which
24 an objection to the proposed Allowed Amount (as initially set forth in the Holder’s
25 Claim Determination Communication) has been timely made by the Holder, has not
26 been settled by the Receiver, and has not been Allowed in whole or in part by an order
of the Court (Dkt. 107-1). Additionally, all other capitalized terms not specifically
defined herein, will take the meaning prescribed to them by the Distribution Plan.

27 ² Pursuant to the Receiver’s objection procedures, as detailed in the Claim
28 Determination, the Receiver will file a more detailed response to Zheng’s objection in
a separate filing if the objection is unable to be resolved.

1 Distributions. *Id.* The Distribution Motion properly satisfies each of these
2 requirements, and as such, it should be granted in all respects. (Dkt. 116).

3 **III. ZHENG’S CLAIM OBJECTION HAS NO IMPACT ON THE PENDING**
4 **DISTRIBUTION MOTION**

5 **A. The Distribution Motion Reserves Sufficient Assets to Satisfy Zheng’s**
6 **Disputed Amount.**

7 The Distribution Motion may be granted, and Distributions executed, despite
8 any pending objections by claimant’s to their individual claims determinations.

9 This is because the Receiver’s Distribution Plan already prescribes an
10 independent procedure for addressing these Disputed Claims. Specifically, Section 3.3
11 of the Distribution Plan requires the Receiver to “hold Assets in one or more Reserve
12 Fund(s) in an amount deemed sufficient, in his reasonable judgment, to pay each
13 Holder of a Disputed Claim (a) **the Distribution that such Holder would receive**
14 **under the Plan if its Claims were Allowed in the alleged amount,** or (b) such lesser
15 amount as the Court may estimate or otherwise Order” (Dkt. 107-1 at 9) (emphasis
16 added). In effect, this Section allows the Receiver to proceed with the Initial and
17 Second Distributions, while setting aside additional assets to address, and completely
18 satisfy, any Disputed Claims thereafter.

19 Accordingly, the Receiver’s Distribution Motion reserves approximately
20 \$146,000.00 for Disputed Claims, which included projected objections from Claimants
21 like Zheng (Dkt. 116 at 8). Zheng’s Disputed Amount is approximately \$15,000.00.
22 Dewey Decl. , ¶20. Considering Zheng is the sole remaining objector, the Receiver’s
23 Reserve Fund has sufficient assets to satisfy Zheng’s Disputed Amount. Dewey Decl.,
24 ¶5. Therefore, the Court should grant the Distribution Motion in all respects. Zheng’s
25 objection can be separately addressed by this Court, if necessary, after the Receiver’s
26 timeframe for resolving the claim has expired and in accordance with the prescribed
27 procedures.

B. Claimants Must Follow Specifically Defined Objection Procedures That Do Not Inhibit the Receiver’s Distributions.

The Receiver’s Claims Process Motion, approved by this Court on August 21, 2020 (Dkt. 96), states that “each claimant [is] given **30 days** from the date the Receiver sends the Claim Determination to submit an objection” to the Receiver via email (Dkt. 94 at 12). It then states that the Receiver “will receive and consider timely objections on a case-by-case basis” and will then communicate his ultimate decision. *Id.* In the event of disagreement, Claimants are first required to “work in good faith with the Receiver to attempt to resolve [their] objection[s] before submitting the objection to the Court for determination.” Ex. 1. If no resolution is reached, Claimants have the right to file the written objection . . . with the Court within **SIXTY (60) days** of the date of the Receiver’s Notice of Determination.” *Id.* (emphasis in original). The Receiver then has **sixty days** from the date of that filing to respond. *Id.*³

To date, the Receiver reviewed more than one thousand claim submissions—of which, 672 Claimants received Allowed Amounts and 63 Claimants submitted objections. Dewey Decl., ¶¶3. Together with the cooperation of the Claimants, the Receiver successfully resolved 62 of the 63 objections. *Id.* This leaves Zheng as the only Claimant who has sought Court involvement. *Id.*

As described above, the Receiver is required to file a separate filing with the Court if he is unable to resolve Zheng’s claim during the specified timeframes, assuming Zheng’s email is treated as a proper objection; however, given the nature of Zheng’s allegations, the Receiver feels the need to provide a general response in this Reply.

The disputed Claim Determination was sent to Zheng on October 25, 2022. *See* Dewey Decl., ¶6, Ex. 1. The following day, Zheng emailed the Receiver asking for an

³ Although Zheng did not properly “file” his objection with the Court, the Receiver has construed Zheng’s email to the clerk as providing notice of the objection. For this reason, the Receiver is addressing it herein.

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1 explanation as to how he arrived at the stated Allowed Amount. *Id.* at ¶7. Including
2 the response to this inquiry, the Receiver sent ten (10) emails to Zheng since that time—
3 offering detailed explanations for how he arrived at the stated loss amount and even
4 offering to participate in a conference call to discuss the disputed issues. *Id.* at ¶¶8-27.
5 In support, and to confirm that there was no error in the calculations, the Receiver also
6 performed several manual recalculations, which confirmed his Claim Determination.
7 *Id.*

8 Realizing that Zheng misinterpreted the complex token fraud and its resulting
9 intricate calculation methodology approved by this Court, the Receiver requested that
10 Zheng submit an independent calculation to support the alleged loss. Dewey Decl.,
11 ¶¶14-16. Zheng submitted this calculation on or about January 5, 2023. *Id.* at ¶¶ 19-20.
12 After review, the Receiver further explained that Zheng improperly applied the
13 disallowance rule for secondary market purchases and incorrectly claimed ineligible
14 tokens. *Id.* at ¶¶19-20. The Receiver explained these same issues to Zheng in prior
15 email correspondences, apparently to no avail. *See id.* at ¶¶8-18. Hoping a different
16 communication channel might foster better success, the Receiver requested a
17 teleconference with Zheng to resolve Zheng’s misunderstanding. *Id.* at ¶¶22. Zheng
18 rejected this request. *Id.* at ¶23.

19 Despite Zheng’s obligations to work with the Receiver in good faith to resolve
20 this objection, Zheng has failed to meaningfully cooperate.⁴ Conversely, the Receiver
21 has conducted a painstaking review of Zheng’s objection and will further explain his
22 analysis to the Court in a separate filing, if it becomes necessary. Nevertheless, the
23 Receiver felt the need to address Zheng’s allegation and inform the Court that the
24 objection should not inhibit or delay its consideration of the Distribution Motion.

25
26
27 ⁴ Zheng’s objection was emailed to the Court’s clerk on January 7, 2023. This is both
28 untimely (as occurring beyond the 60-day window) and improper (as submitted via
email rather than filed). *See* Ex. 1 and 2.

1 For the reasons set forth herein, Zheng’s objection,—even if meritorious, which
2 it is not—has not impact on the pending Distribution Motion.

3 **IV. CONCLUSION**

4 The Receiver respectfully requests the Court enter an Order approving the
5 Receiver’s Distribution Motion in all respects.

6
7
8 Dated: January 13, 2023

Respectfully submitted,
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CERTIFICATE OF COMPLIANCE WITH LOCAL RULE 11-6.1

The undersigned, counsel of record for Josias N. Dewey, the Court appointed Receiver for the estates of Defendants Titanium Blockchain Infrastructure Services Inc. and its subsidiaries and/or affiliates, certifies that this brief contains 1445 words, which complies with the word limit of L.R. 11-6.1.

DATED: January 13, 2023

By: /s/Kristina S. Azlin

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PROOF OF SERVICE

I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a party to the within action. My business address is 400 S. Hope Street, 8th Floor, Los Angeles, CA 90071.

On **January 13, 2023**, I served the document described as the Receiver’s **RECEIVER’S REPLY MEMORANDUM IN SUPPORT OF THE MOTION TO APPROVE THE INITIAL AND SECOND DISTRIBUTIONS & NOTICE OF CLAIMANT MING ZHENG’S DISPUTED CLAIM CALCULATION OBJECTION (CLAIM # 1000177); DECLARATION OF RECEIVER, JOSIAS N. DEWEY, IN SUPPORT OF REPLY** on the interested parties in this action as follows:

(BY Electronic Transfer to the CM/ECF System) In accordance with Federal Rules of Civil Procedure 5(d)(3) and Local Rule 5-4, I uploaded via electronic transfer a true and correct copy scanned into an electronic file in Adobe “pdf” format of the above-listed document(s) to the U.S. District Court Central District of California’s Electronic Case Filing (CM/ECF) system on this date.

I declare under penalty of perjury under the laws of the United States of America that the above is true and correct.

Executed on **January 13, 2023**, Los Angeles, California.

/s/Kristina S. Azlin
Kristina S. Azlin (SBN 235238)

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