

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 11-60702-CIV-SEITZ/SIMONTON

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

COMMODITIES ONLINE, LLC
COMMODITIES ONLINE MANAGEMENT,

Defendants.

RECEIVER'S INITIAL STATUS REPORT

Pursuant to the Court's April 12, 2011, Order, [D.E. 9], David S. Mandel, the court-appointed Receiver of Commodities Online LLC, and Commodities Online Management, LLC (together, "Commodities Online" or the Defendants), files his Initial Status Report to inform the Court and the investors and creditors of the Receivership activities to date.

I. PROCEDURAL BACKGROUND

On April 1, 2011, the United States Securities and Exchange Commission (the "SEC") filed a civil complaint in the United States District Court for the Southern District of Florida, charging the Commodities Online with violating federal securities laws by "duping investors into funding a fraudulent scheme and violating the antifraud and registration provisions of the federal securities laws." DE 1. On the same day, on the SEC's motion, the Court entered: an Order Appointing Receiver that appointed David S. Mandel as Receiver over the Defendants (the "Receivership Order"). [D.E. 2 & 3].

II. THE RECEIVER'S ROLE AND RESPONSIBILITIES

The Court directed that the Receiver engage in three categories of activities: (A) “take immediate possession of all property, assets and estates of every kind of the Defendants, . . .” Receivership Order, ¶1; (B) “[i]nvestigate the manner in which the affairs of the Defendants were conducted, and institute such actions and legal proceedings, for the benefit and on behalf of the Defendants and their investors and other creditors, as the Receiver deems necessary against those individuals, corporations, partnerships, associations and/or unincorporated organizations, which the Receiver may claim have wrongfully, illegally or otherwise improperly misappropriated or transferred money or other proceeds directly or indirectly traceable from investors in the Defendants . . .” *Id.*, ¶ 2; and (C) “[p]resent to this Court periodic reports (no less than quarterly) reflecting the existence and value of the assets of the Defendants and of the extent of liabilities, both those claimed to exist by others and those the Receiver believes to be legal obligations of the Defendants. *Id.*, ¶ 3.

Upon his appointment, the Receiver took immediate possession and control over the offices and business locations of the Defendants, and promptly began the process of marshaling the Defendants’ assets to protect investors’ and creditors’ interests. The Receiver also commenced an inquiry into the business affairs and financial condition of the Defendants. Pursuant to authority granted in the Receivership Order, the Receiver retained the following professionals to search, recover and protect the Defendants’ corporate assets, and to otherwise untangle the Defendants’ financial and operational affairs: (1) the law firm of Mandel & Mandel LLP; (2) Kapila & Company (“Kapila”), forensic accountants, and (3) the law firm of White & Case LLP in Mexico.

The Receiver has established an informational website www.commoditiesonline.com and has established an email address: Commodities-Receiver@mandel-law.com dedicated to Receivership business. In addition, Mandel & Mandel LLP has dedicated an extension on its telephone system for communications relating to the Receivership.

The Receiver has set forth below the status of his activities, investigation and analysis of the assets of the Defendants to date.

A. Taking Possession of Receivership Property

Immediately upon his appointment, the Receiver took the following steps to carry out his mandate to take possession of the receivership property and to protect the estate from further dissipation or liability:

1. Physical Premises and Tangible Assets

On Friday April 1, 2011, the Receiver took possession of the property, assets, and estates of the Defendants in two locations:

a. 6550 W. Federal Highway, Suite 220, Fort Lauderdale, Florida

At approximately 6:00 p.m., the Receiver took possession of the business premises of Commodities Online, located on the second floor at 6550 W. Federal Highway, Suite 220, Fort Lauderdale, Florida (the “corporate office”). The corporate office consisted of a reception area, conference room, kitchen, lounge, and four offices.

b. 1940 SE 2nd Street, Pompano Beach, Florida¹

Later that same day, the Receiver took possession of a second business location of Commodities Online, located at 1940 SE 2nd Street, Pompano Beach, Florida (the “sales office”), a stand alone building shared with a law office (which lawyer allegedly provided legal services to Commodities Online). The first floor of the sales office consisted of a reception area, kitchen, bathroom, and at least five offices. The second floor of the sales office consisted of a “boiler room,” including a large room divided into approximately twelve cubicles, each equipped with a phone line and a computer.

¹ This is a shared space with American Financial Solutions (an entity controlled by a Commodities Online Vice President).

At the Defendants' corporate and sales offices, the locks were changed, the computers were disabled, and a preliminary inventory was commenced. The Receiver took possession of all books and records (both electronic and in hardcopy) in the names of the Defendants.

c. Mexican Iron Ore

There are preliminary indications that the Defendants may own a substantial quantity of iron ore located in Mexico. The Receiver has retained Mexican counsel to attempt to determine if the Defendants do, in fact, own the iron ore, and if so, to take whatever steps are required to safeguard the ore for later sale or liquidation, for the benefit of the receivership estate.

2. Securing Computer Data

Kapila's computer experts who are experienced in securing electronic data were present with the Receiver's agents and immediately took steps to secure the computer system. From that point forward, Kapila ensured that no changes were made to any electronic data on the receivership premises.

In addition, Kapila promptly took control of Commodities Online's internet domain name and its related internet websites. The various websites were consolidated or re-directed to one internet location, www.commoditiesonline.com. Since then, the Receiver has been able to use Commodities Online's website to disseminate information regarding the Receivership and related litigation to investors and creditors. Pertinent information is posted and links to relevant documents are established so that investors can keep current with the litigation.

Existing email from the Defendants has been downloaded and is being searched for potential transfers of funds or other related activity that may yield additional assets to be acquired for the receivership estate.

B. Investigation of Affairs of Commodities Online

1. Financial Assets

The Receivership Order was served on several financial institutions believed to have funds on deposit belonging to the Defendants. In accordance with ¶7 of the Receivership Order, the Receiver assumed possession of, closed and received turnover of funds all bank accounts maintained in the names of the Defendants and established new cash accounts in the name of David S. Mandel, as Receiver of Commodities Online, LLC et al. As a result of the Receiver's swift actions, funds aggregating in excess of \$2.4 million were transferred to the Receivership from the Defendants' accounts maintained at the following financial institutions:

Financial Institution	Funds Remitted to the Receiver
Bank of America	\$1,659,475
JP Morgan Chase	\$439,000
PNC Bank	\$335,841
Total	\$2,434,316

The Receiver continues to work with the forensic accountants at Kapila to identify additional funds that may be targeted to be returned to the estate via litigation or other means.

Based on the analysis of the Defendants' books and records, the Receiver was able to identify potential targets who received fraudulent transfers under §726.101 of the Florida Statutes. In the upcoming weeks, the Receiver intends to send letters to each of these targets demanding the disgorgement of profits and the recovery of fraudulent transfers.

As of the date of this Report, the Receiver has obtained recovery of funds aggregating \$826,185 relating to pre-Receivership transfers.

III. FORENSIC ACCOUNTING

Based on review of the Defendants' electronic and physical accounting records, Kapila determined that Commodities Online Management, LLC did not receive or disburse any funds from January 2010 (inception) through April 1, 2011 (the date of appointment of the Receiver) (the "Relevant Time Period").

Kapila reconstructed the funds received and funds and disbursed by co-Defendant, Commodities Online, LLC ("Commodities") on a transactional level basis during the Relevant Time Period based on information from the following sources:

- a. Bank statements, cancelled checks and wire transfer advices of accounts maintained in the name of Commodities the following financial institutions:
 - Bank of America
 - Fifth Third Bank
 - JP Morgan Chase
 - PNC Bank
 - Wachovia
- b. Electronic QuickBooks records
- c. Electronic download of investor transactions provided by Kathryn Josselson, Comptroller of Commodities Online LLC.

The results of the reconstruction of Commodities Online's finances revealed the following with respect to the funds received and funds disbursed during the period from January 1, 2010 through April 1, 2011:

FUNDS RECEIVED

<u>Source of Funds</u>	<u>Amount</u>
Investors	\$18,834,778
Insiders and related parties	5,360,867
Equity interest holders	2,349,162
Subscriptions	884,256
Other	1,567,106
TOTAL	\$28,996,169

FUNDS DISBURSED

<u>Recipient</u>	<u>Amount</u>
Insiders and related parties	\$10,840,990
Iron Ore Contracts	9,507,355
Investors	3,090,509
Salaries	885,731
Legal and Professional	523,152
Other	1,714,116
Total	\$26,561,853

The forensic analysis is ongoing and continues to be updated as additional documents and information are reviewed and new facts come to light.

IV. Report of Receiver's Investigation

In addition to the efforts enumerated above regarding marshaling assets, the Receiver and his professionals have performed many services in connection with Commodities Online, including, but not limited to:

- a. closing the related businesses and identifying customers, creditors, and investors;
- b. interviewing employees;
- c. reviewing numerous investor files and attempting to identify investors;
- d. obtaining and reviewing all financial records to trace fraudulent transfers and other asset diversions;
- e. investigating and attempting to reconstruct the Defendants' financial and operational affairs, despite disorganized and incomplete records;
- f. analyzing potential claims to be pursued on behalf of the Receivership estate;
- g. communicating via email and telephone with investors and creditors of the Defendants;
- h. communicating and coordinating efforts with the SEC;
- i. interviewing creditors and investors of the Defendants;
- j. locating and conducting an inventory of assets belonging to the Defendants;
- k. locating and consolidating Commodities Online's banking accounts into a single interest bearing account;
- l. analyzing account receivables;
- m. reviewing legal authorities on property issues, securities issues, debt collection and receivership issues;
- n. researching transfers of Receivership funds to various entities and individuals, and offshore accounts and activities;
- o. securing the Defendants' computer network from outside access, dismantling and relocating computer equipment;

- p. analysis of computer workstations and laptops;
- q. securing and searching all incoming emails;
- r. gaining access to the Defendants' websites and domains;
- s. changing all security passwords for computers, websites and electronic funds transfer software; and
- t. revising the Defendants' website to provide notice to creditors about the status of the SEC's action against the Defendants.

Supplemental Reports

The Receiver will file further reports from time to time as his investigation proceeds.

Dated: April 29, 2011

Respectfully submitted,

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Counsel for the Receiver, David S. Mandel

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing was filed by
CM/ECF this 29th day of April, 2011.

/s/ David S. Mandel