

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES OF AMERICA,)
) No. 06 CR 964
)
 v.) Judge Ronald Guzman
)
 MICHAEL E. KELLY)

REDACTED SECOND STATUS REPORT OF THE SPECIAL MASTER¹

Douglas A. Doetsch, the court-appointed special master (the “Special Master”) in the case of *United States of America v. Michael E. Kelly*, hereby submits this Second Status Report of the Special Master pursuant to this Court’s Order Appointing Douglas A. Doetsch As Special Master dated February 10, 2009 (the “Order”), to update the Court and interested parties on the status of the Special Master’s progress since February 28, 2009 through March 31, 2009 (the “Reporting Period”) with respect to the goals of his appointment: namely, preserving and repatriating Assets as defined in the Order potentially subject to forfeiture, administering their liquidation, and distributing restitution to the victims of the Defendant.

I. SUMMARY UPDATE OF THE NINETY DAY PLAN OF ACTION

During the Reporting Period, the Special Master has continued efforts, as further described in this Report, to determine the optimal legal structure for taking title to, and possession of, the assets identified in Exhibit A of the Order Assets (the “Assets”), through which the Assets are to be held for the benefit of the victims (the “Legal Structure”), and to gain such understanding of the legal and financial attributes of the Assets and the victims’ claims as is necessary to accomplish the Court’s objectives for the initial ninety (90) day period.

II. THE RESTITUTION TRUST

During the Reporting Period, the Special Master, with the assistance of Jauregui, Navarrete y Nader S.C. (“JNN”), Mexican counsel to the Special Master, and Arias, Fabrega & Fabrega (“Arifa”), Panamanian counsel to the Special Master, has continued to evaluate the optimal legal structure to permit the Special Master to obtain control over the Assets and the companies owning and operating the Assets, taking into account the possible legal and tax implications inherent in the transfer of such control, and ultimately the Assets, into the restitution fund (the “Restitution Fund”). [REDACTED] A trust agreement has been drafted and is currently being reviewed by JNN and Mayer Brown LLP (“Mayer Brown”), counsel to the Special Master. Bank of New York has been selected as the trustee. In addition, the Special Master is working with Mayer Brown to implement an advisable structure which will permit the repatriation of funds recovered by the Restitution Trust into the Restitution Fund in the U.S. for

¹ This Second Status Report is filed under seal with the Court’s permission in order to preserve the Special Master’s ability to obtain the best return on the Assets that will be liquidated for the benefit of the victims.

distribution to the victims.

III. THE ASSETS

A. Cash

The Special Master has received a total of US \$6,400,000 in cash from Grupo Kelly, which has been deposited in an account maintained by Mayer Brown LLP pending the establishment of the Restitution Trust (the "Special Master's Trust Account"). An offer has been made on [REDACTED] for \$200,000, however, the buyer is still in the process of obtaining financing. When this sale goes through, the proceeds will be transferred directly to the Restitution Trust or the Special Master's Trust Account, if the Restitution Trust is not finalized at the time of the sale. The balance of cash in the Special Master's Trust Account is US \$6,404,600.52.²

Given the current economic climate in the United States, the Special Master believes that it may be wise to transfer the funds in the Special Master's Trust Account from the current interest-bearing account to a more secure mix of bank CDs and U.S. Treasury securities. The Special Master is currently considering several proposals to accomplish this funds transfer.

B. The Assets

1. Due Diligence Trip to Acapulco

On March 23, 2009, the Special Master, a representative of FTI Consulting ("FTI") and Grupo Kelly representatives went to Acapulco to conduct an initial due diligence review of the [REDACTED]. They also held a preliminary discussion of the financial condition [REDACTED].

2. Meetings with Grupo Kelly and Mexican Officials

On March 24, 2009, the Special Master traveled to Mexico City to meet with representatives of FONATUR [REDACTED].

3. Asset Review

During the week of March 2, 2009, lawyers from Mayer Brown, a consultant from FTI and Kurtzman and Carson Consultants LLC ("KCC") went to Cancun to scan and catalogue all of the Asset-related documentation held by Grupo Kelly. These documents were then organized in a database by KCC to permit efficient review by the Special Master and his professionals.

At the beginning of March, an offer was made on [REDACTED] for \$200,000. FTI and Mayer Brown evaluated the offer and the Asset and determined that the offer was fair. The purchaser is awaiting financing to complete the sale, but a closing date will be set once the financing materializes. The proceeds will be transferred directly to the Restitution Fund or the Special Master's Trust Account.

² As of April 1, 2009.

[REDACTED]

IV. THE VICTIMS

A. The Universal Lease Files

The Special Master originally contemplated scanning the Universal Lease files into a database similar to the one created for the Asset-related files to permit efficient review by the Special Master and his professionals during the Claims Process. The feasibility of this process was assessed in Cancun during the week of March 2, 2009 with the cooperation of KCC and lawyers from Mayer Brown LLP. After this assessment, it appeared that the most cost effective solution was to pursue the possibility of obtaining the original files with the assistance of the United States Attorney's Office. The United States Attorney's Office and the Federal Bureau of Investigation coordinated with Grupo Kelly and Defense counsel to find an alternative solution, which is expected to be implemented in early May.

C. Investor Communication

Very few victims have contacted the Special Master at this point and the Special Master has not had cause to contact victims himself. Any victim who has contacted the Special Master directly was referred to the resources provided by the United States Attorney's Office, which include:

- 1) A phone line established by the United States Attorney's Office dedicated to addressing victims' questions. That number is (866) 364-2621;
- 2) An email address established by the United States Attorney's Office dedicated to addressing victims' questions. That address is USAILN-Victim.MK@usa.doj.gov;
- 3) For victims who have already been identified, the United States Attorney's Office has created a password protected website, www.notify.usdoj.gov, which victims can access with a Victim Identification Number ("VIN") and Personal Identification Number ("PIN") provided to them by the United States Attorney's Office. Victims should call (866) 625-1631 if they have any problems accessing the website;
- 4) For victims who have already been identified and do not have access to the internet, the United States Attorney's Office has also established a call center, (866) DOJ-4YOU (1-866-365-4968), which victims can access with the same Victim Identification Number and Personal Identification Number provided to them by the United States Attorney's Office.

V. CONTINUING STRATEGY

As stated above, the Special Master is pursuing the objectives of the Court for the initial ninety (90) day period. In furtherance thereof, efforts during the next thirty (30) days will be focused on continuing the assessment and verification of the information provided by Grupo

Kelly relating to victims' claims, establishing the Restitution Trust and transferring control of the Assets, analyzing the value and sale prospects of the Assets, consolidating records obtained from Grupo Kelly to facilitate the transfer of Assets to the Restitution Fund and developing the Plan of Action to deliver to the Court for its approval.

CONCLUSION

The Special Master shall continue to perform his responsibilities and duties consistent with the Order and all other directives of this Court.

RESPECTFULLY SUBMITTED this **9th day of April, 2009.**

/s/ Douglas A. Doetsch

Douglas A. Doetsch, Special Master

STANDARDIZED FUND ACCOUNTING REPORT

CRIMINAL – RESTITUTION FUND

United States of America vs. Michael E. Kelly

CRIMINAL COURT CASE NO.
06 CR 964

REPORTING PERIOD 03/01/2009 – 03/31/2009

Exhibit A

STANDARDIZED FUND ACCOUNTING REPORT for Michael Kelly Restitution Fund - Cash Basis

Criminal Court Case No. 06 CR 964
Reporting Period 03/01/2009 to 03/31/2009

FUND ACCOUNTING (See Instructions):		Detail	Subtotal	Grand Total
Line 1	Beginning Balance (As of 03/01/2009):	\$6,400,794.02	\$6,400,794.02	\$6,400,794.02
	Increases in Fund Balance:			
Line 2	Business Income	-	-	-
Line 3	Cash and Securities	-	-	-
Line 4	Interest/Dividend Income	3,806.50	3,806.50	3,806.50
Line 5	Business Asset Liquidation	-	-	-
Line 6	Personal Asset Liquidation	-	-	-
Line 7	Third-Party Litigation Income	-	-	-
Line 8	Miscellaneous - Other (transferred by the defendant)	-	-	-
	Total Funds Available (Lines 1 - 8):	\$6,404,600.52	\$6,404,600.52	\$6,404,600.52
	Decreases in Fund Balance:			
Line 9	Disbursements to Investors	-	-	-
Line 10	Disbursements for Special Master's Operations	-	-	-
Line 10a	Disbursements to Special Master or Other Professionals	-	-	-
Line 10b	Business Asset Expenses	-	-	-
Line 10c	Personal Asset Expenses	-	-	-
Line 10d	Investment Expenses	-	-	-
Line 10e	Third-Party Litigation Expenses	-	-	-
	1. Attorney Fees	-	-	-
	2. Litigation Expenses	-	-	-
	Total Third-Party Litigation Expenses	-	-	-
Line 10f	Tax Administrator Fees and Bonds	-	-	-
Line 10g	Federal and State Tax Payments	-	-	-
	Total Disbursements for Receivership Operations	-	-	-
Line 11	Disbursements for Distribution Expenses Paid by the Fund:	-	-	-
Line 11a	Distribution Plan Development Expenses:	-	-	-
	1. Fees:	-	-	-
	Special Master (including related U.S. legal fees and expenses)	-	-	-
	Independent Distribution Consultant (IDC)	-	-	-
	Distribution Agent	-	-	-
	Consultants	-	-	-
	Other Legal Advisers	-	-	-
	Tax Advisers	-	-	-
	2. Administrative Expenses	-	-	-
	3. Miscellaneous	-	-	-
	Total Plan Development Expenses	-	-	-
Line 11b	Distribution Plan Implementation Expenses:	-	-	-
	1. Fees:	-	-	-
	Special Master (including related U.S. legal fees and expenses)	-	-	-
	IDC	-	-	-
	Distribution Agent	-	-	-
	Consultants	-	-	-
	Other Legal Advisers	-	-	-
	Tax Advisers	-	-	-
	2. Administrative Expenses	-	-	-
	3. Investor Identification:	-	-	-
	Notice/Publishing Approved Plan	-	-	-
	Claimant Identification	-	-	-
	Claims Processing	-	-	-
	Web Site Maintenance/Call Center	-	-	-
	4. Special Master (including related U.S. legal fees and expenses) Bond	-	-	-
	5. Miscellaneous	-	-	-
	6. Federal Account for Investor Restitution (FAIR) Reporting Expenses	-	-	-
	Total Plan Implementation Expenses	-	-	-
	Total Disbursements for Distribution Expenses Paid by the Fund	-	-	-
Line 12	Disbursements to Court/Other:	-	-	-
Line 12a	Investment Expenses/Court Registry Investment System (CRIS) Fees	-	-	-
Line 12b	Federal Tax Payments	-	-	-
	Total Disbursements to Court/Other:	-	-	-
	Total Funds Disbursed (Lines 9 - 11):	\$0	\$0	\$0
Line 13	Ending Balance (As of 03/31/2009):			\$6,404,600.52
Line 14	Ending Balance of Fund - Net Assets:			
Line 14a	Cash & Cash Equivalents	-	-	\$6,404,600.52
Line 14b	Investments	-	-	-
Line 14c	Other Assets or Uncleared Funds	-	-	-
	Total Ending Balance of Fund - Net Assets			\$6,404,600.52

STANDARDIZED FUND ACCOUNTING REPORT for Michael Kelly Restitution Fund - Cash Basis

Criminal Court Case No. 06 CR 964

Reporting Period 03/01/2009 to 03/31/2009

OTHER SUPPLEMENTAL INFORMATION:		Detail	Subtotal	Grand Total
Line 15	Report of Items NOT To Be Paid by the Fund:			
	Disbursements for Plan Administration Expenses Not Paid by the Fund:			
<i>Line 15a</i>	<i>Plan Development Expenses Not Paid by the Fund:</i>			
	1. Fees:			
	Special Master (including related U.S. legal fees and expenses).....	-	-	-
	IDC.....	-	-	-
	Distribution Agent.....	-	-	-
	Consultants.....	-	-	-
	Other Legal Advisers.....	-	-	-
	Tax Advisers.....	-	-	-
	2. Administrative Expenses	-	-	-
	3. Miscellaneous	-	-	-
	<i>Total Plan Development Expenses Not Paid by the Fund</i>	-	-	-
<i>Line 15b</i>	<i>Plan Implementation Expenses Not Paid by the Fund:</i>			
	1. Fees:			
	Special Master (including related U.S. legal fees and expenses).....	-	-	-
	IDC.....	-	-	-
	Distribution Agent.....	-	-	-
	Consultants.....	-	-	-
	Other Legal Advisers.....	-	-	-
	Tax Advisers.....	-	-	-
	2. Administrative Expenses	-	-	-
	3. Investor Identification:			
	Notice/Publishing Approved Plan.....	-	-	-
	Claimant Identification.....	-	-	-
	Claims Processing.....	-	-	-
	Web Site Maintenance/Call Center.....	-	-	-
	4. Special Master (including related U.S. legal fees and expenses) Bond	-	-	-
	5. Miscellaneous	-	-	-
	6. FAIR Reporting Expenses	-	-	-
	<i>Total Plan Implementation Expenses Not Paid by the Fund</i>	-	-	-
<i>Line 15c</i>	<i>Tax Administrator Fees & Bonds Not Paid by the Fund</i>			
	Total Disbursements for Plan Administration Expenses Not Paid by the Fund	-	-	-
Line 16	Disbursements to Court/Other Not Paid by the Fund:			
<i>Line 16a</i>	<i>Investment Expenses/CRIS Fees</i>	-	-	-
<i>Line 16b</i>	<i>Federal Tax Payments</i>	-	-	-
	Total Disbursements to Court/Other Not Paid by the Fund:	-	-	-
Line 17	DC & State Tax Payments	-	-	-
Line 18	No. of Claims:			
<i>Line 18a</i>	<i># of Claims Received This Reporting Period.....</i>	0	0	0
<i>Line 18b</i>	<i># of Claims Received Since Inception of Fund.....</i>	0	0	0
Line 19	No. of Claimants/Investors:			
<i>Line 19a</i>	<i># of Claimants/Investors Paid This Reporting Period.....</i>	0	0	0
<i>Line 19b</i>	<i># of Claimants/Investors Paid Since Inception of Fund.....</i>	0	0	0

Special Master:

By: /s/Douglas A. Doetsch as Special Master
(signature)

Douglas A. Doetsch
(print)

Special Master
(title)

Date: 4/9/09

Hochstetler, Katrina

From: Listermann, Nicholas C.
Sent: Thursday, April 02, 2009 10:27 AM
To: Hochstetler, Katrina
Subject: FW: Balance for Kelly Restitution Fund at 3-31-2009

fyi

From: Martin, Laura J [mailto:laura.j.martin@citi.com]
Sent: Wednesday, April 01, 2009 4:01 PM
To: Listermann, Nicholas C.
Subject: RE: Balance for Kelly Restitution Fund at 3-31-2009

AVAIL FUNDS : 6,404,600.52

listed below

This balance includes the interest

033109 INT CREDIT 3,806.50

march

Interest figure for the month of

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-----Original Message-----

From: Listermann, Nicholas C. [mailto:NListermann@mayerbrown.com]
Sent: Wednesday, April 01, 2009 3:56 PM
To: Martin, Laura J [GWM-UHNW]

Subject: Balance for Kelly Restitution Fund at 3-31-2009

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