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	)	

FOURTEENTH STATUS REPORT OF THE SPECIAL MASTER

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 Fourteenth 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 from January 11, 2012 through August 31, 2012 (the "Reporting Period") with respect to the goals of his appointment: namely, preserving and repatriating Assets (as defined below) potentially subject to forfeiture, administering their liquidation, and distributing the proceeds of such liquidated Assets to the victims of the Defendant.

I. THE ORIGINAL PLAN OF ACTION

Under the terms of the Order, the Special Master presented a plan of action to this Court on June 19, 2009 to: (a) advise the Court of the Special Master's appraisal and valuation of the assets subject to liquidation for restitution (the "Assets"); (b) determine whether additional funds will be necessary to make full restitution to the victims and pay the fees and expenses of the Special Master and his retained professionals; (c) if necessary, advise the Court as to additional steps that need to be taken to investigate, evaluate, obtain, and liquidate such Assets; and (d) recommend a methodology, timetable, and approximate cost associated with the control, possession, and liquidation of the Assets with an end-goal of making restitution to the victims (the "Original Plan of Action").

The Special Master's Original Plan of Action: (i) set forth the preliminary results of the diligence and valuation exercise involving the Grupo Kelly entities in Panama and Mexico; (ii) described the optimal legal structure to permit the Special Master to obtain control over the Assets and the companies owning and operating the Assets as a Mexican trust; (iii) identified certain "Exhibit B" assets that would be subjected to the Mexican trust and liquidated, if necessary to make restitution; (iv) addressed issues of victim restitution and sales strategy; and (v) identified potential obstacles and next steps in each of the aforementioned areas.

II. THE ASSETS

A. Cash

The Special Master received a total of USD6,400,000 in cash from Grupo Kelly on February 24, 2009, which was deposited in an account maintained by Mayer Brown (the "Special

Master's Operating Account"), from which professional fees incurred in connection with making restitution to the victims are paid. On December 16, 2009, the Special Master received Court approval to consummate the sale of the Aguascalientes Property (as described in a prior Status Report submitted to the Court). The proceeds related to the Aguascalientes sale were deposited into the Special Master's Sales Proceeds Account (the "Special Master's Sales Proceeds Account") for the benefit of the victims.

Taking into account interest accruals and disbursements to outside professionals for services rendered to the Special Master, as of August 27, 2012, the balance of cash and investments in the Special Master's Operating Account was USD5,772,333.00, and the balance of sale proceeds in the Special Master's Sales Proceeds Account was USD49,195,297.86. The balance of the Special Master's Sales Proceeds Account has increased by over USD42 million since the last status report, which was filed on January 11, 2012.

B. The Assets

1. Formation of the Restitution Trust and Contribution of Exhibit B Assets

On July 17, 2009, the Special Master, with the assistance of Jáuregui y Navarrete, S.C. ("JN," formerly known as Jáuregui, Navarrete y Nader or JNN), Mexican counsel to the Special Master, and Arias, Fabrega & Fabrega ("ARIFA"), Panamanian counsel to the Special Master, completed the formation of a trust in Mexico to hold the Assets (the "Restitution Trust"). One salient feature of the Restitution Trust is that it contemplates the post-execution joinder of assets as necessary to make restitution to the victims. Accordingly, on October 9, 2009, several Exhibit B Assets (as defined in the Fourth Status Report of the Special Master) were contributed to the Restitution Trust. The Special Master has held discussions with the U.S. Attorney's Office (the "USAO") to consider other Assets that may be suitable for contribution to the Restitution Trust depending on the value of the Asset versus the cost of adding the Asset to the Restitution Trust. Where the cost of adding an Asset to the Restitution Trust is too high compared to the value of the Asset, such Assets may be sold outside of the Restitution Trust and the proceeds turned over to the Special Master to be applied to restitution.

2. The Asset Sale Process: Salient Points

a. Turistica Kelly Sale

The Turistica Kelly Property is a large warehouse, office building, and manager's house located in Cancún, Mexico ("Turistica Kelly") that was sold on May 27, 2011. The Special Master sold certain equipment that was stored rent-free inside the warehouse for approximately USD8,000.00.

b. Puerto Cancún

On July 13, July 19, and July 23, 2012, United States District Court Judge Ronald A. Guzman heard reports from the Special Master concerning his efforts to secure a purchase agreement for Puerto Cancún. As noted previously, the Special Master had entered into an agreement to sell the project to MIRA, an affiliate of the Black Creek Group ("MIRA"). That agreement contained several provisions to be satisfied before the Special Master was obliged to complete the sale. Because one of the contingencies, relating to certain environmental concerns, was not satisfied, the Court authorized the Special Master to decline to complete the transaction and to undertake negotiations with Artha Capital ("Artha"), another prospective purchaser of Puerto Cancún.

Pursuant to the purchase agreement, MIRA was entitled to negotiate with the Special Master to resolve the disputed issues. In accord with that right, MIRA presented the Special Master with several settlement proposals that would provide for the transaction to be completed with MIRA on terms more favorable to the victims in this case.

On July 13, 2012, the Court heard from a representative of Artha who expressed Artha's ongoing interest in buying the Puerto Cancún project for USD65 million dollars and closing the transaction as soon as possible. Thereafter, over the weekend of July 21-22, Artha presented another proposal to the Special Master that offered less money but provided certain advantages that its earlier proposals did not.

In closed sessions on July 13, 19, and 23, 2012, the Court heard from the Special Master and counsel for defendant Kelly and the government. Proceeding in closed session was necessary so that the Special Master could report on confidential negotiations and give his candid assessments of several issues. Public disclosure of these discussions could have prejudiced the negotiations and impaired reaching the most favorable outcome for the victims in this case.

In the closed sessions, the Court was advised that MIRA's settlement offer provided for: (a) a greater purchase price than its previous offer; (b) the elimination of the previously agreed delay in the payment of a significant portion of the purchase price; and (c) the assumption by MIRA of the liability for litigation that is pending with respect to the Marina portion of the project. The total amount of purchase price money under MIRA's best and final offer, however, was still less than the amount offered by Artha.

The Court, Special Master and counsel discussed a number of considerations relevant to deciding which would be the best course of action to benefit the Restitution Trust and the victims in this case. Among those considerations were: (a) the length of time it would take to complete the closing of the sale of the project; (b) the net proceeds to be realized by the Restitution Trust; (c) the likely arbitration resulting from not closing with MIRA; (d) the resulting delay from not closing with MIRA; (e) the substantial legal and other fees associated with arbitration with MIRA; (f) a lien or other legal impediments being placed on the property so as to render it difficult to actually complete the sale of the property to another buyer until after the resolution of arbitration with MIRA; (g) the lack of certainty whether the Special Master would prevail in arbitration with MIRA; (h) the drain on existing assets resulting from the Special Master's continued operation of the Puerto Cancún project during arbitration with MIRA; and (i) the need to begin distributions of restitution to the victims in this case, many of whom are elderly or in declining health.

The terms of the proposed offer from MIRA as of late June 2012 would have yielded an immediate payment from MIRA of USD30.5 million for the Puerto Cancún project and left significant continuing obligations and costs for the Special Master and the victims; the final terms proposed by MIRA yielded an immediate payment from MIRA of USD48.3 million for the Puerto Cancún project and left minimal continuing obligations for the Restitution Trust.

In sum, balancing the likely lesser amount of proceeds to be realized from the sale to MIRA under the terms of its final settlement offer against the uncertainty that a sale to Artha under its announced terms would occur and the possible delay likely to be caused by arbitration proceedings with MIRA if the Artha offer were accepted, it was the Court's conclusion that the Restitution Trust and the victims in this case would be best served by completing the sale of the Puerto Cancún project to MIRA under the terms of its final settlement offer. The Special Master was authorized to proceed accordingly and finalized the sale of Puerto Cancún to MIRA on August 17, 2012.

c. Financial Monitoring Process

Starting in October 2009, Grupo Kelly provided the Special Master and Frontera, on a weekly basis, a rolling 13-week company-by-company cash flow model (the "Cash Flow Model") to forecast income and expenses (the "Cash Flow Forecast"). The Special Master held a conference call with Grupo Kelly management and Frontera on a weekly basis to review these forecasts. The Cash Flow Model and Cash Flow Forecast have been effective in highlighting operational strengths and weaknesses within the Grupo Kelly companies, identifying potential cost-savings opportunities, and providing the Special Master with up-to-date information to make operational decisions in order to maintain the value of the Assets. Since the sale of Puerto Cancún was approved, the Special Master has been holding this call with Grupo Kelly on a biweekly basis.

d. Bella Vista

The Special Master and Frontera have been in discussions with Grupo Kelly regarding the future of the Bella Vista Towers project ("Bella Vista"). The parties are analyzing the viability of the construction of Towers 3 and 4 at Bella Vista. Bella Vista was originally designed to consist of four condominium towers (approximately 232 condominium units) adjacent to the Puerto Cancún Project. Towers 1 and 2 have been completed and a limited number of residents moved into those towers. The internal structure for Tower 3 has been erected, but the tower is not yet ready for residents at this time. Construction of Tower 4 has not started; however, condominiums in all four towers have been sold and binding contracts are in place in connection with such sales. As of August 2012, approximately 73.77%, 74.13%, 69.0%, and 52.7% of the available condominium units in Towers 1, 2, 3 and 4, respectively, have been sold.

Grupo Kelly estimates that Bella Vista will require approximately USD11,800,000 in additional funds to complete construction of Tower 3. Economic conditions and unmet developer apartment delivery commitments have combined to produce a slow sales pace at Bella Vista, and as such, the project will not be able to self-finance the construction of Tower 3. The Special Master, along with Grupo Kelly, determined to invest the resources necessary to finalize at least the first two towers in Bella Vista because it serves as a visible "flagship" element for all of the Puerto Cancún Project, in part because it is located adjacent to the main entrance of the

Puerto Cancún Project. In October 2010, Bella Vista was awarded second place (out of 57 comparable developments) in the Cemex Building Awards.

The condominium regime for Bella Vista was registered in the Public Registry in February 2012. As of August 29, 2012, six units have been deeded to clients of Bella Vista.

The Special Master is currently in negotiations with two serious bidders for Bella Vista. On July 18, 2012, the Special Master signed a Promise to Purchase and Sale Agreement with the first potential buyer for Bella Vista ("Bidder 1") and initiated the publication period in which other bidders had an opportunity to present a superior offer for the property. Since that time, a second potential buyer for Bella Vista ("Bidder 2") has presented the Special Master with a superior offer for Bella Vista. The Special Master is currently in negotiations with both Bidder 1 and Bidder 2, and hopes to finalize the sale of Bella Vista by the first quarter of 2013.

e. Panamanian Issues

(1) The Avalon Grand Panama

During this Reporting Period, the Special Master worked with ARIFA and Frontera to seek potential purchasers for the Avalon Grand Panama Hotel (the "Avalon Grand Panama"). So far, the Special Master has not received any serious offers to purchase the hotel, particularly because of its location and an outstanding lien attached to the lots where the hotel is located.

With the assistance of a Panamanian labor counsel and ARIFA, the Special Master has formalized all outstanding labor obligations of the Avalon Grand Panama so that the hotel complies with mandatory Panamanian regulations. The Special Master has also managed to reduce the operational costs of the Avalon Grand Panama by reducing the number of employees working at the hotel.

(2) Other Panamanian Issues

The Special Master and Frontera organized and updated the financial statements of each of the Panamanian entities formerly administered by Grupo Kelly. With the assistance of ARIFA, the Special Master has appointed new officers and directors of each of these entities to streamline and facilitate the monitoring of internal corporate processes. The Special Master has also updated and paid past due registration fees (*tasas únicas*) that must be periodically paid to Panamanian authorities by each of these Panamanian entities.

f. Additional Assets

(1) The Mexican Hotel Properties

Based on an FTI Consulting, Inc. valuation, the four Mexican hotels (the Avalon Grand Cancún Hotel, the Avalon Reef Club Isla Mujeres Hotel, the Avalon Baccara Hotel, and the Avalon Excalibur Acapulco Hotel) have a combined total estimated net realizable value of between USD11,900,000 and USD13,100,000.

The Special Master and Frontera have prepared marketing materials for each hotel property and have initiated the sales strategy for the hotels. The Special Master, in consultation with the USAO, developed a plan to remove encumbrances on the hotels represented by the Universal Leases attached thereto so as to maximize the proceeds resulting from an eventual sale of the hotel properties. The Universal Leases affect the marketability of some of the hotel properties. The Special Master presented a motion before this Court to this effect on December 22, 2011, which the Court approved on January 24, 2012. The Special Master is in the process of implementing the plan described in the motion.

On May 22, 2012, the Court signed an order approving the sale of the Avalon Grand Cancún Hotel for a purchase price of USD10,000,000, and the sale closed on June 12, 2012. Of the USD10,000,000 in gross proceeds, USD350,000 was placed into escrow to settle three labor litigation matters related to the Avalon Grand Cancún Hotel. Any net funds left in the escrow once the labor litigation matters are resolved and allowance has been made for taxes and other transaction expenses, will be available for distribution to the victims.

(2) The Palmer Johnson Yacht

Frontera engaged a yacht broker to sell the 126-foot Palmer Johnson yacht "Time" (the "Yacht"), which is owned by Saint Etienne, Inc., a Panamanian entity. The Yacht originally was on the market with a listing price of USD2,250,000, but because there were no interested buyers, the Special Master lowered the sale price to USD1,900,000 on May 13, 2011. In April 2012, the Special Master received and accepted an offer to buy the Yacht for gross proceeds of USD1,050,000.00. The Court approved the sale and it closed in May 2012.

(3) Quarry

Grupo Kelly conveyed to the Restitution Trust a 320-hectare quarry (the "Quarry") located within six kilometers of the Puerto Cancún Project. The Quarry has been an important supply source for the construction of Puerto Cancún, because it has provided thousands of tons of landfill that have been used to fill in the swampland on which the Puerto Cancún Project is constructed. Approximately forty hectares of the land comprising the Quarry were originally sold to Desarolladora Homex, S.A. de C.V. ("Homex"), a company that engages in the development of residential housing in Mexico ("Original Sale"). Since the Original Sale, Grupo Kelly and Homex have entered into a subsequent agreement pursuant to which Homex will acquire the entirety of the Quarry (except for the landfill donation described below) in exchange for the monies Homex had already deposited in connection with the purchase of an unrelated parcel in Puerto Cancún ("Homex Puerto Cancún Parcel") and USD3,000,000. Homex still owes approximately USD917,000 in connection with this transaction.

(4) Avanti

The Special Master and Frontera distributed marketing material regarding Avanti Motor Corporation and its affiliates ("Avanti") to interested parties and received preliminary non-binding indications of interest and non-disclosure agreements for the stock owned by Avanti Automotive S.A. de C.V. and the active U.S. trademarks and design patent owned by Avanti Motor Corporation, as well as a variety of classic cars owned by the Kelly family.

The Special Master sold two 2006 Avanti convertible automobiles for USD8,000 each in December 2011. The Special Master also sold two Avanti automobiles ('63 and '64) to an investor for a combined total of USD20,000 in March 2012. In addition, the Special Master used nine automobiles as payment in kind as part of a severance settlement with a former Puerto Cancun employee. The Special Master has received interest in several remaining Avanti automobiles and is working with the potential buyers. There are nine remaining automobiles that the Special Master continues to market in both the Mexican and U.S. markets.

The Special Master received a very low bid for the active U.S. trademarks and the design patent owned by Avanti, but rejected this bid as unreasonable. The Special Master and Frontera continue to market the active U.S. trademarks and the design patent.

(5) Odyssey Health Club

The Odyssey Health Club was listed for sale with Colliers International, a commercial real estate broker, on January 26, 2010 for USD2,900,000. The Odyssey Health Club consists of two properties on the coastline ten minutes north of downtown Cancun. One property holds a building where the Health Club's main operations were located, and includes a pool, tennis courts, and basketball courts. The other property is located across the street on the beach and was used as a beach club for the members. The Odyssey Health Club has been non-operational for several years.

The property has received some interest over the last few months, including offers that the Special Master and Frontera did not seriously entertain because they were well outside the set sales parameters in price and terms. The Special Master and the broker continue to market the property.

(6) Grupo Kelly Corporate Building

The Grupo Kelly corporate building, located at Av Coba #82 Int 301 Sm3 Mza10 in Cancun (the "Corporate Building"), was listed for sale with Coldwell Banker on October 28, 2010 for USD1,550,000. In order to improve the likelihood of a quick sale of the property, the Special Master requested that Grupo Kelly vacate the Corporate Building and move their corporate offices to empty commercial space within the Avalon Grand Cancun Hotel. As a result, Grupo Kelly has vacated the Corporate Building.

The Special Master accepted an offer to buy the Corporate Building for gross proceeds of approximately USD700,000.00 and the sale closed in June 2012.

(7) Kelly Family Homes

The Kelly family owns five homes in Cancun (collectively, the "Kelly Family Homes"). The Special Master and Frontera are working with Michael P. Kelly, his attorneys, and Costa Realty to evaluate the Kelly Family Homes for sale. The Special Master sold one of the homes ("Anessa's House") in June 2012 for gross proceeds of MXN1,900,000 or approximately USD150,000.

(8) Donzi boats

There are two Donzi speedboats – a 1999 Donzi 33ZX2 MerCruiser owned by Donald L. Kelly and a 2001 Donzi 28ZXO2 MerCruiser owned by Michael P. Kelly (the "Donzis").

The Special Master closed on the sale of one of the Donzis for gross proceeds of USD29,200.00 in August 2012. The Special Master continues to market the remaining Donzi.

(9) Isla Mujeres Lot

Grupo Kelly, through Senza Dubbio Bella, S.A. de C.V., owns an undeveloped, vacant beach front lot on Isla Mujeres with a surface area of approximately 5,150 square meters (the "Isla Mujeres Lot"). This lot was contributed as part of the "Exhibit B" assets identified in the Special Master's Original Plan of Action. It was listed with a commercial real estate broker, Coldwell Banker, on January 30, 2010 and was actively marketed at USD1,250,000. There was little interest in the lot at that list price due to environmentally sensitive mangrove growth on it. Additionally, there is a neighboring turtle farm that has expanded on to part of the beach front of this lot. These two factors considerably reduce the developable area of the lot. A subsequent appraisal of the Isla Mujeres Lot in August 2011 valued it at MXN8,991,000 or USD737,000.

Upon further due diligence, the Special Master found that Grupo Kelly, through Senza Dubbio Bella, S.A. de C.V., does not own the federal maritime terrestrial zone (ZOFEMAT) concession allowing access to and development along the beach adjacent to the Isla Mujeres Lot, which significantly negatively impacts its value.

III. THE VICTIMS

A. The Universal Lease Files

The Universal Lease files have been produced by Grupo Kelly and have been scanned by the USAO. The USAO conducted an audit of the calculation of the victims' restitution claims provided by Grupo Kelly against the universal lease information the USAO has received directly from the victims in October-December 2009. Generally, the USAO's audit found that the information provided by Grupo Kelly was consistent with the information provided by the victims.

B. The Victim Claim Process

The Special Master and the Special Master's Claim Processing Agent ("Stenger"), in consultation with the USAO, drafted a proposed Amended Claims Procedure Order (the "Amended Claims Procedure Order"), which was approved by this Court on June 14, 2010. The Amended Claims Procedure Order gave the Special Master and Stenger 60 days from the date the Claims Procedure Order became effective to send each victim a claim form (the "Victim Claim Form") with the total restitution amount that each victim is entitled to receive should the

Special Master be able to make full restitution to all victims (the "Total Restitution Amount"),[1] as well as an explanation of how the Special Master and Stenger reached that value. Stenger has sent a total of 13,319 claim forms.[2]

The Amended Claims Procedure Order required each victim to review their Claim Form and either approve the calculated Total Restitution Amount or ask for a recalculation of the Total Restitution Amount. The Victim Claim Form also asks the victims to terminate their leases and release their claims on the properties themselves to allow the properties to be sold free and clear of all liens and/or liabilities in order to receive the maximum value possible. Any claims a victim might have against Michael E. Kelly in his personal capacity, however, will not be affected by this release.

In an effort to clarify questions raised by victims with regard to both the waiver language included with the Victim Claim Form and the deadline for submission of the Victim Claim Form as outlined in the Amended Claims Procedure Order, the Special Master submitted a proposed Superseding Claims Procedure Order (the "Superseding Claims Procedure Order") to the Court, which was approved on July 28, 2010. The Superseding Claims Procedure Order made three clarifications. First, it made clear that the Claims Bar Date referred to in the Amended Claims Procedure Order was the actual deadline to challenge the Total Restitution Amount rather than a bar to receiving restitution generally. Second, the Superseding Claims Procedure Order approved the sending of a Substitute Waiver/Release (the "Substitute Waiver") to make it clear that the waiver applied only to certain Assets (as defined in the Amended Claims Procedure Order) that currently are or may come under the control of the Court through the Special Master, and any other assets of the Defendant are subject to legal actions and other legal rights of any victim. Finally, the Substitute Waiver did not apply to any claims that victims may have against Michael E. Kelly or any agent, servant, or co-conspirator of Michael E. Kelly.

In accordance with the Superseding Claims Procedure Order, a Substitute Waiver form was sent to all identified victims on August 13, 2010, which included a clarifying letter that outlined these changes and highlighted the fact that victims were not required to sign a waiver in order to participate in the restitution program.[3]

As of August 30, 2012, Stenger had received 6,885 executed Victim Claim Forms from the victims. Of the 6,885 executed Victim Claim Forms, only 14.42% of victims disagreed with

[1] The Total Restitution Amount will be the basis for the claim; however, the amount of the actual distribution received by each victim will be reduced, depending on the amount of funds available for distribution. All victims will receive a pro rata share of the proceeds available for restitution, provided they have not already received distributions greater than their pro rata share.

[2] This figure includes duplicates as it was necessary to send some claim forms multiple times to the same victims due to failure to submit the claim forms, incorrect contact information, errors in completion of the claim form, and/or a victim's request.

[3] In October 2010, it came to Stenger's attention that the information provided by Grupo Kelly only included the information for the primary leaseholders and, in many cases, did not list the information for co-investors. While the discovery of co-investors did not affect the overall calculation of the Total Restitution Amount for each lease, the amount paid to each victim associated with such lease would differ, depending on how many co-investors there were and what percentage of the lease each co-investor owned. After consultation with the Special Master and the USAO, Stenger issued revised Victim Claim Forms to each affected victim and their co-investors.

their claim as calculated by Stenger. Also, 6,835 Substitute Waivers were returned. Of those 6,835 Substitute Waivers, 86.36% agreed to waive their claims to the Assets, 11.94% did not agree, and 1.70% returned a blank form. Victims had until September 24, 2010 to contest the calculation of their Total Restitution Amount and provide supporting documentation. Co-investors who were discovered later or whose claim forms were adjusted due to the discovery of their co-investments were also given 60 days to return their Victim Claim Forms. Although the deadline for objecting to the Total Restitution Amount has now passed, Stenger is in the process of following up with those victims who have either not submitted a Victim Claim Form, have not submitted a Substitute Waiver/Release, or who failed to fully complete either document. There are 434 files for which Stenger has not been able to locate new addresses to send Victim Claim Forms to.

The most common objection to the calculation of the Total Restitution Amount is that promised interest (or, in a few cases, promised rental payments) on the Universal Lease should be included in the Total Restitution calculation. Other objections were that (a) the initial lease investment or payments received were calculated incorrectly, or (b) restitution should be based on current fair market value of the lease, not net investment. This Court has referred all issues regarding the manner and/or process by which claims against the estate are to be valued and paid to the victim claimants to Magistrate Judge Morton Denlow. After receiving memoranda from the USAO, input from the Special Master, and comments from victims, Magistrate Judge Denlow issued a report and recommendation agreeing with each of the Special Master's positions on the relevant issues on December 21, 2011. Specifically, the report and recommendation states that: (1) the starting point for calculating restitution should be the value of the actual loss suffered by a victim, i.e. the total amount paid to obtain a Universal Lease including penalties; (2) the Special Master should have the authority to terminate or renegotiate uncompleted purchase agreements for condominiums that were to be purchased by victims in whole or in part with Rollovers (defined and discussed above); (3) pre-judgment interest should not be calculated unless and until all victims are made whole; (4) the Special Master should use his best efforts to determine each deceased victim's legal heir rather than rely on the beneficiary designations in the Universal Leases; (5) brokers' claims should be subordinated to other victims' claims unless a broker can show that he or she used funds unrelated to Universal Lease commissions to purchase a Universal Lease; and (6) the Special Master should pay victims directly unless a victim designates otherwise. Judge Guzman adopted Magistrate Judge Denlow's report and recommendation in full on January 24, 2012.

On August 2, 2012, Magistrate Judge Denlow entered an order laying out the process for victims appealing the determination of their restitution amounts (the "Appeals Order"). The Appeals Order states that all appeals must be filed by August 14, 2012. Consistent with the Appeals Order, the U.S. Attorney's Office filed a motion to deny legal-based appeals on August 21, 2012. Victims have until August 31, 2012 to respond to the motion, and the government's reply, if any, is due September 7, 2012. A hearing will be held on September 11, 2012 to address the appeals. The hearing will start at 10:00 a.m. in the Everett McKinley Dirksen United States Courthouse, 219 South Dearborn Street, Chicago, Illinois 60604.

The Special Master anticipates being able to make restitution payments to victims sometime after the appeals process is completed. The Special Master will decide in his discretion, with the guidance of the Court, when exactly such distributions can be made.

Additional distributions will be made to the extent there are additional funds to be distributed after these initial payments.

C. Victim 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 USAO, which include:

1) a telephone line established by the USAO dedicated to addressing victims' questions. The telephone number associated with such phone line is (866) 364-2621;

2) an email address established by the USAO dedicated to addressing victims' questions. The email address is USAILN-Victim.MK@usa.doj.gov;

3) for victims who have already been identified, the USAO has created a password-protected web site, www.notify.usdoj.gov, which victims can access with a Victim Identification Number ("VIN") and Personal Identification Number ("PIN") provided to them by the USAO. Victims should call (866) 625-1631 if they have any problems accessing such web site; and

4) for victims who have already been identified and do not have access to the Internet, the USAO has also established a call center, (866) DOJ-4YOU (1-866-365-4968), which victims can access with the same VIN and PIN provided to them by the USAO.

IV. CONTINUING STRATEGY

The Special Master will continue his efforts to transfer control of the Assets to the Restitution Trust or otherwise take control of additional assets or the proceeds therefrom, analyze the value and sales prospects of Assets, prepare a sales strategy for the various Assets, and facilitate the sale of such Assets. Additionally, the Special Master continues to engage in regular discussions with Grupo Kelly regarding the financial performance of the Assets.

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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 **31st day of August, 2012**.

DOUGLAS A. DOETSCH,
Special Master

By: /s/ William R. Stone
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Counsel to the Special Master

EXHIBIT A

STANDARDIZED FUND ACCOUNTING REPORT for Michael Kelly Restitution Fund - Cash Basis
Criminal Court Case No. 06 CR 964
Reporting Period 1/1/12 to 8/27/12

FUND ACCOUNTING (See Instructions):		Detail	Subtotal	Grand Total
Line 1	**Beginning Balance (As of 1/1/2012):**	$7,349,052.72	$7,349,052.72	$7,349,052.72
	Increase/ Decreases in Fund Balance:			
Line 2	**Business Income**	-	-	-
Line 3	**Cash and Securities**	-	-	-
Line 4	**Interest / Dividend Income/ Loss**	$2,262.99	$2,262.99	$2,262.99
Line 5	**Business Asset Liquidation**	$50,366,066.34	$50,366,066.34	$50,366,066.34
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):	**$57,717,382.05**	**$57,717,382.05**	**$57,717,382.05**
	Decreases in Fund Balance:			
Line 9	**Disbursements to Investors**	-	-	-
	Total Disbursements for Receivership Operations	-	-	-
Line 10	**Disbursements for Distribution Expenses Paid by the Fund:**	-	-	-
	1. Fees:			
	Special Master (including related U.S. legal fees and expenses)........	$1,156,305.92	$1,156,305.92	$1,156,305.92
	Independent Distribution Consultant (IDC)........	-	-	-
	Distribution Agent........	-	-	-
	Consultants........	$886,121.30	$886,121.30	$886,121.30
	Other Legal Advisers........	$312,548.07	$312,548.07	$312,548.07
	Tax Advisers........	$213,486.57	$213,486.57	$213,486.57
	Claims Processing........	$181,445.93	$181,445.93	$181,445.93
	2. Administrative Expenses			
	3. Miscellaneous (Annual Account fees, Publication Fees, inter-account transfers)	($156.60)	($156.60)	($156.60)
Line 11	**Disbursements to Court/Other:**	$0.00	$0.00	$0.00
Line 11a	*Investment Expenses/Court Registry Investment System (CRIS) Fees*	$0.00	$0.00	$0.00
Line 11b	*Federal Tax Payments*	$0.00	$0.00	$0.00
	Total Disbursements to Court/Other:	-	-	-
	Total Funds Disbursed (Lines 9 – 11):	**$2,749,751.19**	**$2,749,751.19**	**$2,749,751.19**
Line 12	**Ending Fund Balance (As of 8/27/2012):**			[illegible]
Line 12a	*Cash and Cash Equivalents*			$54,967,630.86
Line 12b	*Investments*			$0.00
	Additional disclosure on the Ending Fund Balance:			
Line 12c	*Operating Account*			$5,772,333.00
Line 12d	*Sales Proceeds Account*			$49,195,297.86

STANDARDIZED FUND ACCOUNTING REPORT for Michael Kelly Restitution Fund - Cash Basis
Criminal Court Case No. 06 CR 964
Reporting Period 1/1/12 to 8/27/12

OTHER SUPPLEMENTAL INFORMATION:		Detail	Subtotal	Grand Total
	Report of Items NOT To Be Paid by the Fund:	-	-	-
Line 14	**Disbursements for Plan Administration Expenses Not Paid by the Fund:**	-	-	-
Line 14a	*Plan Development Expenses Not Paid by the Fund:*	-	-	-
	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	-	-	-
	Total Plan Development Expenses Not Paid by the Fund	-	-	-
Line 14b	*Plan Implementation Expenses Not Paid by the Fund:*			
	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	-	-	-
	Total Plan Implementation Expenses Not Paid by the Fund	-	-	-
Line 14c	*Tax Administrator Fees & Bonds Not Paid by the Fund*	-	-	-
	Total Disbursements for Plan Administration Expenses Not Paid by the Fund	-	-	-
Line 15	**Disbursements to Court/Other Not Paid by the Fund:**			
Line 15a	*Investment Expenses/CRIS Fees*	-	-	-
Line 15b	*Federal Tax Payments*	-	-	-
	Total Disbursements to Court/Other Not Paid by the Fund:	-	-	-
Line 16	**DC & State Tax Payments**	-	-	-
Line 17	**No. of Claims:**			
Line 17a	*# of Claims Received This Reporting Period......*	0	0	0
Line 17b	*# of Claims Received Since Inception of Fund......*	0	0	0
Line 18	**No. of Claimants/Investors:**			
Line 18a	*# of Claimants/Investors Paid This Reporting Period......*	0	0	0
Line 19b	*# of Claimants/Investors Paid Since Inception of Fund......*	0	0	0

Special Master:

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

Douglas A. Doetsch
(print)

Special Master
(title)

Date: 8-28-12