

Trustee's Status Report of August 8, 2013

The Chapter 7 bankruptcy case (the "Case") of Peregrine Financial Group, Inc. ("PFG") was commenced on July 10, 2012. Ira Bodenstein was appointed as the successor Chapter 7 trustee (the "Trustee") on July 12, 2012. There has been a great deal of activity in the Case since its commencement, and there remains much to accomplish before the Case can be concluded. In this report, the Trustee will give an overview of the most significant tasks undertaken and completed by the Trustee and his professionals. He will provide a current report on the financial status of the PFG bankruptcy estate (the "Estate") and a summary of the pending and yet to be completed tasks that remain for the Estate.

I. SIGNIFICANT TASKS ALREADY ADDRESSED BY THE TRUSTEE.

- a. Taking possession of and closing seventeen (17) PFG offices around the world.
- b. Obtaining possession and control over the numerous PFG bank accounts maintained at various financial institutions around the world and serving subpoenas on each of those financial institutions to obtain PFG records.
- c. Capturing all of the electronic data contained on the hundreds of computers maintained by PFG and its personnel and consolidating all servers at a single co-location site in Chicago.
- d. Consolidating all PFG paper records at a single record storage facility in Chicago.
- e. Working with Federal authorities (the FBI and the US Attorney's Office) to access and eventually obtain copies all of the documents and electronic

information seized by said authorities from PFG offices in Chicago and Cedar Falls, Iowa.

- f. Interviewing many of the numerous former PFG employees to gather information concerning the company's operations, the people involved with the company and the nature of the fraud that occurred. The Trustee also met with Russell Wasendorf, Sr. on two separate occasions.
- g. Fielding calls and providing responses to the thousands of calls from customers, brokers and former employees about their respective accounts and the Case in general.
- h. Presenting a motion to the Bankruptcy Court seeking to establish a procedure to provide for service of customers by email address, as to which motion the Bankruptcy Court entered an Order.
- i. Presenting a motion to the Bankruptcy Court seeking approval of procedures for fixing pricing and claim amounts in connection with the termination and liquidation of the Debtor's foreign currency ("Forex") customer agreements, as to which motion the Bankruptcy Court entered an order.
- j. Presenting a motion to the Bankruptcy Court seeking approval of Procedures for Valuing Commodity Customer Claims Related to Conversions of Foreign Currencies, which provides for the use of a weighted average of all conversion prices for each foreign currency in valuing the "net equity" claims of commodity customers holding balances

denominated in foreign currencies as of the Petition Date, as to which motion the Bankruptcy Court entered an order.

- k. Presenting a motion to the Bankruptcy Court seeking authority to recognize three separate categories of customer account classes (“Domestic Futures,” “Foreign Futures” and “Delivery”), as to which motion the Bankruptcy Court entered an order.
- l. Marketing and selling, after entry of an order of the Bankruptcy Court, various PFG proprietary software respecting the trading and administration of customer accounts.
- m. Marshalling and selling, after entry of orders of the Bankruptcy Court, PFG’s personal property from its various locations.
- n. Working extensively with the Commodity Futures Trading Commission (“CFTC”) and PricewaterhouseCoopers, the Trustee’s financial advisors, to determine the authenticity of the thousands of PFG customer accounts prior to making any distributions thereon.
- o. After receipt of Bankruptcy Court approval, making an interim distribution to PFG futures customers through Vision Financial in the fall of 2012 in the approximate amount of \$123,000,000.00 which represented a return of approximately 30% to all domestic futures customers and 40% to all foreign futures customers (the “Interim Distribution”).¹
- p. Presenting a motion to the Bankruptcy Court which sought authority to return specifically identifiable property (“SIP”) to those customers who

¹ With certain limited exceptions.

held SIP in their accounts, as to which motion Bankruptcy Court entered an order.

- q. Creating and establishing procedures for the submission, review and determination of claims by all classes of PFG customers, as well as all other PFG creditors, including setting bar dates for the submission of such claims.
- r. Reaching an agreement with the receiver appointed in the CFTC case against PFG and Russ Wasendorf, Sr. (the “Receiver”) on the allowance of an approximate \$215,000,000 claim for the Estate against the Receivership assets and obtaining the entry of an order effectuating that agreement.
- s. Liquidating and closing PFG’s wholly owned Canadian subsidiary, Peregrine Financial Group Canada, Inc., pursuant to the applicable regulatory scheme governing the liquidation of a Futures Commission Merchant in Canada.
- t. Negotiating with the Customer Representatives from the consolidated cases filed by former PFG customers against various financial institutions and individuals seeking the recovery of the approximate \$215,000,000 in funds diverted from a PFG customer segregated account (the “Seg Account”) with respect to the assignment to said Representatives of the Estate’s claims against those same parties, for prosecution by the Customer Representatives in conjunction with their already pending claims.

- u. Entering into a settlement agreement with OutStructure LLC to obtain the return of \$159,000 of funds paid to OutStructure from the Seg Account, which settlement was approved by the Bankruptcy Court. Those funds have been paid to the Estate.
- v. Filing of a complaint against Connie Wasendorf, Russ Wasendorf, Sr.'s former wife ("C. Wasendorf"), for the return of certain monies transferred to her from the Seg Account and for other relief. C. Wasendorf filed a Motion to Dismiss the Complaint, which was denied by the Bankruptcy Court.

II. CURRENT FINANCIAL STATUS OF THE ESTATE.

- See Cash Position Summary attached as Exhibit "A".

III. PENDING/FUTURE ITEMS TO BE ADDRESSED BY THE TRUSTEE.

- a. The Trustee is continuing his prosecution of the complaint against C. Wasendorf for the return of certain monies transferred to her from the Seg Account, the avoidance of certain agreements between PFG and C. Wasendorf, and the recovery of certain real estate interests acquired with funds from the Seg Account. The Trustee has filed an Amended Complaint, C. Wasendorf has filed an Answer and the parties have commenced discovery. Discovery closes on August 30, 2013 and then the matter will be set for trial.
- b. In the Fall of 2012, Secured Leverage Group, Inc. and several other parties filed a complaint (the "SL Complaint") against the Trustee, seeking (i) a determination (on several legal theories) that the funds held by PFG on

account of certain Forex account and physical metals account (“Metals”) holders (together, the “Plaintiffs”) belonged, not to the Estate, but to the Plaintiffs and (ii) turnover of such funds. The Trustee filed a Motion to Dismiss the SL Complaint, which motion was granted in part, causing the dismissal of one count of the SL Complaint, and denied in part, leaving three counts of the complaint to proceed. The Trustee then filed an Answer to the remaining counts. The SL Complaint will require the Bankruptcy Court to determine the extent, if any, that the Plaintiffs are able to make a direct claim to the funds held by PFG respecting those accounts. The parties are now engaged in discovery. Documents have been exchanged and several depositions have been taken. More depositions are scheduled or to be scheduled. Discovery closes on September 30, 2013, expert discovery closes on November 30, 2013, and then the matter will be set for trial.

- c. The Trustee is still holding PFG’s inventory of physical metals. The Trustee will soon be filing a Motion to Authorize the Procedure for Liquidating Precious Metals.
- d. Pursuant to authority granted by the Bankruptcy Court, the Trustee is attempting to reach consensual resolutions with all customers who owe debit balances on their customer accounts. In the absence of an agreed resolution, the Trustee will be commencing litigation to collect on those unpaid customer debit balances.

- e. Further investigation and possible prosecution of complaints against various parties on account of either their role in the fraudulent disposition of funds by Russ Wasendorf, Sr. or their receipt of funds from PFG under circumstances giving rise to the right of recovery by the Estate.

IV. THE CLAIMS PROCESS AND FUTURE DISTRIBUTIONS.

- a. One of the principal remaining tasks for the Trustee is the distribution of additional funds to customers and creditors. In order to make further distributions to customers and creditors, the claims resolution process (the “Claims Process”) must be completed. While the Claims Process is well under way, there are a number of issues that must be resolved before the Trustee will be able to make additional distributions to customers and creditors.
- b. As an initial step in the Claims Process, the Bankruptcy Court set November 16, 2012 as the last date by which PFG’s customers and creditors were required to file a proof of claim in this Case (the “First Bar Date”). The Bankruptcy Court extended that deadline for a limited number of customers and creditors who did not receive adequate notice of the First Bar Date until March 15, 2013 (the “Extended Bar Date”).
- c. Unlike the Interim Distribution, which was made without the filing and allowance of proofs of claim forms by customers, any additional distributions will only be made to customers holding “Allowed Claims.” In order to have an Allowed Claim, (a) a timely proof of claim form must have been filed in the Case, (b) the proof of claim form must be reviewed

by the Trustee's professionals, and (c) if any questions or issues arise in that review, the customer may receive a "Notice of Trustee's Assessment of Claim" in an effort to resolve the claim. If a customer's claim can not be resolved by agreement, then such a "Disputed Claim" will only become an Allowed Claim after the entry of an order by the Bankruptcy Court after notice to the customer and a hearing.

- d. The Trustee anticipates that he will seek authority from the Bankruptcy Court to make an additional interim distribution to both Domestic and Foreign Futures Customers by the end of 2013. An interim distribution would only be to holders of Allowed Claims and would require the Trustee to reserve sufficient funds to ensure payment of all Disputed Claims in the same class of claims. Foreign Futures customers with Allowed Claims should receive a distribution, when combined with the Interim Distribution already received, totaling 100% of their Allowed Claim. Delivery customers are receiving or have already received a distribution of cash and/or delivery of their goods or a warehouse receipt for the same. The amount of the next interim distribution to Domestic Futures customers is still undetermined.
- e. As indicated in the Cash Position Summary referenced in Section II above, the Trustee is holding funds related to Forex and Metals customers in a separate account (the "Forex Funds"). Prior to any distribution to Forex or Metals customers, either the SL Complaint must be resolved by the entry of a final and non-appealable order of the Bankruptcy Court or individual

holders of Forex and Metals claims must reach a settlement agreement with the Trustee. If the Plaintiffs prevail in the SL Complaint, the Forex Funds will have been determined to not be property of the Estate and those funds will be paid directly to those Forex and Metals customers. If the Plaintiffs do not prevail in the SL Complaint, then the Forex Funds will have been determined to be property of the Estate and will be available for distribution pursuant to further order of the Bankruptcy Court.

- f. There are other unresolved legal issues respecting the relative priorities (the order in which they get paid) between the claims of creditors and the various classes of unpaid customers. One of the key legal issues is the proper treatment to be afforded to the deficiency claims of the Domestic Futures customers and how those deficiency claims are treated relative to the claims of other customers and general unsecured creditors. These legal issues must be resolved by the Bankruptcy Court before a final distribution can be made.
- g. There are multiple other disputes and unresolved issues that may result in additional funds coming into the Estate, either through litigation or settlements. Obviously, a final distribution must await the resolution and collection of all outstanding amounts from all sources.

Exhibit A

Trustee Cash Summary (as of 7/15/13)

\$ In 000's	PFG / House	Forex / Metals	4d Seg	30.7 Sec	Delivery	Unresolved ⁽¹⁾	Total
Cash Receipts:							
Transfers from Financial Institutions to Trustee Accounts	20,962	30,026	160,218	32,068	-	-	243,274
NFA Reimbursement of Fees / Fines	-	-	-	-	-	700	700
Recoveries from PFG Subsidiaries ⁽²⁾	1,353	-	-	-	-	-	1,353
Sale of Customer Accounts ⁽³⁾	-	-	-	-	-	325	325
Specifically Identifiable Property Net Liquidation Proceeds / Transfer Value	-	-	-	-	675	-	675
Sale of Assets and Other Deposits	180	-	-	-	-	2,555	2,735
Total Cash Receipts	22,495	30,026	160,218	32,068	675	3,580	249,062
Disbursements							
Payroll Related	(2,469)	-	-	-	-	-	(2,469)
Rent, Utilities, Equipment, Storage and Bank Fees	(1,161)	-	-	-	-	-	(1,161)
Professional Fees	(8,043)	-	-	-	-	-	(8,043)
Customer Distribution (Vision Transfer)	-	-	(111,521)	(10,940)	(675)	-	(123,136)
Customer Distribution (Allamont Global Partners)	-	-	(208)	-	-	-	(208)
Customer Distribution (Peregrine Asset Management)	-	-	(727)	(102)	-	-	(829)
Customer Distribution (Post NFA Freeze Deposits)	-	(1)	(25)	(124)	-	-	(150)
Total Disbursements	(11,673)	(1)	(112,481)	(11,166)	(675)	-	(135,996)
Ending Bank Account Balances	10,822	30,025	47,737	20,902	-	3,580	113,066
Additional Funds held at Financial Institutions							
JPMorgan Chase Bank N.A. ^{(4) (6)}	2,541	15,632	-	-	-	-	18,173
Morgan Stanley ⁽⁷⁾	101	-	-	-	-	-	101
US Bank ⁽⁵⁾	896	-	-	-	-	-	896
Total Additional Funds held at Financial Institutions	3,538	15,632	-	-	-	-	19,170
Total Cash Held	14,360	45,657	47,737	20,902	-	3,580	132,236

(1) Trustee is researching correct allocation of funds

(2) Recoveries from non-Debtor subsidiaries

(3) Proceeds received from Vision Financial Group for rights to assume customer interim distribution accounts

(4) Cash balances in foreign currencies have been converted to USD using 7.31.12 rates

(5) Cash balance is subject to an asserted guarantee of PFG headquarters mortgage and other unresolved issues

(6) Cash balance is subject to asserted set offs, including liquidated claims of approximately \$2.2M, and other unresolved issues

(7) Cash balance is subject to asserted set offs, including liquidated claims of approximately \$100k