

**IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION**

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<b>SECURITIES AND EXCHANGE COMMISSION,</b>	§	
	§	
<b>Plaintiff,</b>	§	
	§	
<b>vs.</b>	§	
	§	
<b>ARISEBANK,</b>	§	<b>Civil Action No. 3:18-cv-0186-M</b>
<b>JARED RICE SR., and</b>	§	
<b>STANLEY FORD,</b>	§	
	§	
<b>Defendants.</b>	§	
	§	

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**RECEIVER’S CERTIFIED INITIAL FEE APPLICATION**

Pursuant to paragraphs 58-63 of this Court’s Order Appointing Receiver in this case [ECF No. 12], which was incorporated in full into the Order Reappointing Receiver [ECF No. 72] (the “Receivership Order”), Mark Rasmussen, the Court-appointed Receiver for AriseBank and its affiliates (the “Receivership Entities”), files this certified initial fee application.

**SUMMARY OF FEE REQUEST**

1. This initial fee application covers January 25, 2018 to March 31, 2018 (the “Application Period”) and is submitted in accordance with the Receivership Order, the local rules of this Court, and the Billing Instructions for Receivers in Civil Actions Commenced by the United States Securities and Exchange Commission (the “Billing Instructions”).

2. The Receiver respectfully requests that this Court enter an order approving and authorizing, on an interim basis, the payment of fees and expenses for the Application Period totaling \$185,115.23 to Jones Day and \$67,353.60 to Kroll. These amounts reflect the application

of the fee cap of \$125,000.00 (of which \$75,000 is allocated to Jones Day and \$50,000 to Kroll) for the first thirty days of the Receivership.

**STANDARDIZED FUND ACCOUNTING REPORT**

3. Attached as Exhibit A is the Standardized Fund Accounting Report (SFAR) for the Receivership for the Application Period.

**CASE STATUS**

4. Cash on Hand: The amount of cash on hand in the Receiver’s bank account is \$397,586.98 as of the end of the reporting period (March 31, 2018). These funds were received by (i) taking control of the Bank of America bank account held by AriseBank (\$196,211.13), (ii) securing funds obtained by Defendant Jared Rice’s legal counsel, who had received the liquidated value of certain cryptocurrency assets of AriseBank (\$200,000.00), (iii) recovering the unused portion of a legal retainer (\$1,365.00), and (iv) interest payments from the bank at which the Receiver established a bank account (\$10.85).

5. Other Assets: In addition to the cash on hand listed above, the Receiver has also taken possession of the following assets.

<u>Asset</u>	<u>Estimated Amount/Value</u>
Bitcoin	27.96 coins
Doge	196,131.04 coins
Litecoin	271.33 coins
Ether	218.73 coins
Bitshares	2,391,455.51 coins
PIVX	19,413.76 coins
BitUSD	3599.99 coins

Various computers, televisions, and smart phones	\$5,000-\$10,000
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6. The Receiver has established multiple cryptocurrency wallets to hold the cryptocurrencies listed above and is in possession of the private keys associated with these wallets. Based on values taken from a market aggregator, the present value of cryptocurrency assets is approximately \$1,143,269.80. This figure should be taken with caution because the value of cryptocurrency assets fluctuates rapidly, and the markets for some cryptocurrencies can be opaque and illiquid.

7. The Receiver anticipates filing a motion to seek authorization from the Court to liquidate the assets listed above before he files the next quarterly status report.

8. Expenses: The Receiver has incurred administrative expenses as a result of his efforts to marshal and preserve the assets of the Receivership. For the reporting period, these expenses were advanced by Jones Day (See Exhibit B at B-001 and B-029 to B-032 and Exhibit C at C-001 and C-018 to C-019) and by Kroll (See Exhibit D at D-002 and Exhibit E at E-001). In addition, the Receiver incurred standard transaction fees associated with transferring cryptocurrency from AriseBank wallets to wallets controlled by the Receiver. These fees are mandatory payments to the owners of the computers who perform the computational work to validate transactions on a public blockchain, and are automatically collected from the cryptocurrency transferred at the time of the transaction. Accordingly, the fees came out of assets of the Receivership, and the Receiver is not seeking reimbursement for these fees.

9. Creditor Claims: At this point, the Receiver has not promulgated a claims procedure or determined the validity of any possible creditor claims. The Receiver is still evaluating the investor contributions made to AriseBank based upon information collected from computers and

servers and also from the information provided by people who have contacted the Receiver. At present, the number of investor claims is unknown but likely is in the hundreds or low thousands.

10. The Receiver is working on formulating a creditor claims process, including procedures for (i) providing notice to potential claimants; (ii) receiving and reviewing claims, (iii) recommending to the court payment or denial of claims; and (iv) disposing of claims. To date, the Receiver has not disbursed any funds to any claimants.

11. Claims Held by Receiver: On April 24, 2018, the Receiver filed suit in the United States District Court for the Northern District of Texas against Richard Smith, Jr. and Kurt F. Matthew, Jr. (the “Smith Complaint”). In the Smith Complaint, the Receiver alleges that, in December 2017 and January 2018, Jared Rice Sr. transferred at least 95,000 PIVX coins, worth at that date approximately \$1.3 million, to Defendant Smith in connection with the acquisition by AriseBank of a purported FDIC-insured bank. The PIVX transfers were made by Rice on behalf of AriseBank. The Receiver also alleges that Smith transferred at least USD \$123,000 in funds derived from the PIVX coins to Defendant Matthew. The Receiver asserts claims against Defendants Smith and Matthew for unjust enrichment, conversion, and fraudulent transfer, and seeks return of all funds to the Receivership, together with interest and attorneys’ fees as provided for by law. The Receiver has weighed the likelihood of prevailing on his claims and recovering assets for the Receivership against the expected costs and expenses of the litigation, and has concluded that the balance in this case favored prosecution of the claims.

12. The Receiver also has been negotiating with an additional third party regarding funds that were transferred to it in mid-January 2018 by AriseBank. The Receiver believes that this transfer of funds occurred in violation of the Texas Uniform Fraudulent Transfers Act and that fair value was not received by AriseBank for the funds. The Receiver has demanded the return of

the funds but the third party to date has refused. The Receiver anticipates that he may need to file a lawsuit to recover the funds.

13. The Receiver has filed a notice of receivership in all relevant jurisdictions where assets of the Receivership are believed to be located. In addition, as a precaution, the Receiver has filed a notice of receivership in a large number of other jurisdictions.

#### **FEE APPLICATION**

14. On January 25, 2018, the Securities and Exchange Commission filed a complaint against Defendants AriseBank, Jared Rice, Sr., and Stanley Ford, along with an application for the appointment of a receiver for the Receivership Entities [ECF No. 2]. That same day, the Court appointed Mark Rasmussen to be the Receiver over the business and assets of AriseBank and its affiliates [ECF No. 12]. On April 5, 2018, the Court reappointed Rasmussen to be the Receiver over the business and assets of AriseBank and its affiliates.

15. On January 26, 2018, the Court entered orders authorizing the Receiver to employ Jones Day as legal counsel [ECF No. 14] and Kroll Cyber Security as a forensic and investigative consultant [ECF No. 13]. Jones Day and Kroll began working on this matter on January 25, 2018. On March 19, the Court approved the Receiver's motion to extend the engagement of Kroll to include forensic accounting services [ECF No. 67].

16. The names, hours worked, hourly billing rates, and total fees of all Jones Day professionals who have billed time to this matter, including the Receiver, are listed in Exhibit B at B-028 and Exhibit C at C-017. The blended hourly billing rate of the Receiver and each Jones Day attorney working on the matter is \$525. The billing rate of Jones Day timekeepers who are not attorneys is their standard rate.

17. The names, hours worked, hourly billing rates, and total fees of all Kroll professionals who have billed time to this matter are listed in Exhibit D at D-001 and Exhibit E at E.001. Kroll professionals charge a reduced rate for travel time.

18. The total actual fees and expenses incurred for the first thirty days of the application period (January 25, 2018 through February 24, 2018) are summarized as follows:

**Receiver – Fees for First Thirty Days**

<b>Hours</b>	<b>Hourly Rate</b>	<b>Total Fees</b>
84.20	\$525	\$44,205.00

**Receiver’s Counsel, Jones Day – Fees and Expenses for First Thirty Days**

<b>Hours</b>	<b>Hourly Rates</b>	<b>Total Fees</b>	<b>Total Expenses</b>	<b>Fees and Expenses</b>
425.9	See Ex. B at B-027	\$202,997.50	\$5,920.70	\$208,918.20

**Receiver’s Consultant, Kroll – Fees and Expenses for First Thirty Days**

<b>Hours</b>	<b>Hourly Rate</b>	<b>Total Fees</b>	<b>Expenses</b>	<b>Fees and Expenses</b>
386.67	See Ex. D at D-001	\$159,653.10	15,448.28	\$175,101.38

19. The fees and expenses for the first thirty days of the application period are capped at \$125,000 under paragraph 52 of the Receivership Order [ECF No. 12]. The Receiver requests approval to allocate this cap between Jones Day and Kroll as follows: \$75,000 to Jones Day and \$50,000 to Kroll.

20. The total fees and expenses incurred for the rest of the Application Period (February 25, 2018 through March 31, 2018) are summarized as follows:

**Receiver – Fees for the Rest of Application Period**

<b>Hours</b>	<b>Hourly Rate</b>	<b>Total Fees</b>
21.00	\$525	\$11,025.00

**Receiver’s Counsel, Jones Day – Fees and Expenses for the Rest of Application Period**

<b>Hours</b>	<b>Hourly Rates</b>	<b>Total Fees</b>	<b>Total Expenses</b>	<b>Fees and Expenses</b>
204.30	See Ex. C	\$94,625.00	\$4,465.33	\$99,090.33

**Receiver’s Consultant, Kroll – Fees and Expenses for the Rest of Application Period**

<b>Hours</b>	<b>Hourly Rate</b>	<b>Total Fees</b>	<b>Expenses</b>	<b>Total Fees and Expenses</b>
39.60	See Ex. D	\$16,104.25	\$1,249.35	\$17,353.60

21. The Receiver asks the Court to approve payment to Jones Day, on an interim basis, in the amount of \$75,000.00 for the first thirty days and \$110,115.33 for the period of February 25, 2018 through March 31, 2018, for a total of \$185,155.33. The Receiver further asks the Court to approve payment to Kroll, on an interim basis, in the amount of \$50,000 for the first thirty days and \$17,353.60 for the period February 25, 2018 through March 31, 2018, for a total of \$67,353.60.

22. In accordance with the Billing Instructions, the Receiver and his advisors have separately categorized their services by task. The following table summarizes the respective number of hours incurred relative to each task category during the first thirty days:

**Receiver and Receiver's Counsel, Jones Day**

<b>Task Description</b>	<b>Hours Worked</b>	<b>Total Fees</b>
Asset Analysis and Recovery	361.30	\$180,422.50
Asset Disposition	0	0
Business Operations	0	0
Case Administration	148.80	\$66,780.00
Claims Administration	0	0
Employee Benefits/Pensions	0	0

**Receiver's Consultant, Kroll**

<b>Task Description</b>	<b>Hours Worked</b>	<b>Total Fees</b>
Asset Collection and Analysis	386.67	\$159,653.10
Forensic Accounting	0	0
Status Reports	0	0
Case Administration	0	0
Litigation Consulting	0	0

23. The following table summarizes the respective number of hours incurred relative to each task category for the period of February 25, 2018 through March 31, 2018:

**Receiver and Receiver's Counsel, Jones Day**

<b>Task Description</b>	<b>Hours Worked</b>	<b>Total Fees</b>
Asset Analysis and Recovery	85.90	\$45,097.50
Asset Disposition	0	0
Business Operations	0	0
Case Administration	139.40	\$60,552.50
Claims Administration	0	0
Employee Benefits/Pensions	0	0

**Receiver's Consultant, Kroll**

<b>Task Description</b>	<b>Hours Worked</b>	<b>Total Fees</b>
Asset Collection and Analysis	37.60	\$15,719.25
Forensic Accounting	.70	\$385.00
Status Reports	0	0
Case Administration	0	0
Litigation Consulting	0	0

24. This interim fee application is the first fee application that the Receiver has made. Accordingly, no prior orders have been entered as to any interim applications, no amounts have been allowed or disallowed, and no payments have been made.

**ARGUMENTS AND AUTHORITIES IN SUPPORT OF REQUEST**

25. This Court may award compensation for services rendered and costs expended in furtherance of the Receivership. *Hensley v. Eckerhart*, 461 U.S. 424 (1983); *Louisiana Power & Light Co. v. Kellstrom*, 50 F.3d 319 (5<sup>th</sup> Cir. 1995). When determining the amount of professional

fees to award, the Court should use the lodestar method, which multiplies the number of hours reasonably expended by the reasonable hourly rate. *Id.*

26. As for the hours expended, the Court must “determine whether the total hours claimed are reasonable [and] also whether particular hours claimed were reasonably expended.” *Kellstrom*, 50 F.3d at 325. As for rate, a reasonable hourly rate is determined by considering the applicant’s regular rates and the prevailing rates in the community. *Id.* at 328. After calculating the lodestar amount, the Court may exercise its discretion to adjust the approved amount up or down. *Johnson v. Georgia Highway Express, Inc.*, 488 F.2d 714 717-719 (5<sup>th</sup> Cir. 1974)

27. In support of this application, the Receiver submits the following exhibits for the Court’s review.

- Exhibits B and C show professional fees (including (i) the date the services were rendered, (ii) the nature of the services rendered, (iii) the time required for the performance of such services, and (iv) the fees charged for each service rendered) and expenses of Jones Day in connection with the administration of the Receivership;
- Exhibits D and E show professional fees (including (i) the date the services were rendered, (ii) the nature of the services rendered, (iii) the time required for the performance of such services, and (iv) the fees charged for each service rendered) and expenses of Kroll in connection with the administration of the Receivership; and
- Certification of Mark W. Rasmussen stating the reasonableness of the rates charged and hours billed by professionals at Jones Day and Kroll.

28. Jones Day and Kroll have charged fees that are at or below the standard billing rates for the professionals working on this matter, and those fees are at or below customary fees charged by like professionals in their respective markets. Further, the Jones Day and Kroll professionals working on this matter limited their fees and expenses to \$125,000 for the first thirty days of the Receivership, a discount of 71% against their combined fees and expenses for that period. Jones Day’s blended rate of \$525 per hour is a significant discount to the normal billing rate for the Receiver and most of the lawyers working on the matter.

29. In addition, Jones Day is not seeking reimbursement for certain expenses, including computerized research charges, photocopying charges, and research fees. Jones Day and Kroll are have billed all other expenses at their actual costs with no mark-up added, and they are not seeking overhead charges. The fees and expenses sought in this application are reasonable and were necessary for the proper administration of the duties of the Receiver.

30. As explained in the Initial Status Report and in the Second Status Report, the Receiver and his advisors have performed tasks that have added value to the Receivership. On January 26, 2018, the Receiver was able to collect and search computer equipment belonging to the Receivership Entities and interview Mr. Rice and three of his associates at a temporary residence in Wills Point, Texas, following the FBI's execution of a search warrant at that location.

31. Through that search and those interviews, the Receiver identified and took control of certain cryptocurrency assets. In addition, the Receiver collected other assets at the Wills Point site and from an office site in downtown Dallas, Texas that had been leased on behalf of AriseBank.

32. Additional actions the Receiver and his advisors have taken include, but are not limited to, the following:

- a. Establishing a Receiver website (arisebankreceiver.com), email address (mail@arisebankreceiver.com), and phone numbers (214-969-2950; 1-833-472-0789) so that contributors to the ICO can receive information pertaining to the receivership;
- b. Communicating with contributors by phone and email;
- c. Identifying AriseBank cryptocurrency wallets and/or accounts containing the cryptocurrencies Bitcoin, Ether, Litecoin, Dogecoin, Bitshares, BitUSD, and PIVX, and transferring the cryptocurrency to wallets controlled by the Receiver;

- d. Taking control of an AriseBank Bank of America account and requesting a transfer of the entire account balance to be sent to the Receiver;
- e. Securing the cooperation Mr. Rice's lawyers to take possession of certain receivership assets that had been transferred to those lawyers;
- f. Engaging Kroll to inventory and image computers and phones collected from the temporary residence of Mr. Rice;
- g. Locating and taking control of computer servers located in the United States, France, the Netherlands, and Germany;
- h. Shutting down the website for AriseBank;
- i. Analyzing the contents of select servers related to Defendants' ICO;
- j. Obtaining an expedited order to compel Mr. Rice to appear and show cause why he should not be held in contempt for failing to comply with the Receivership Order;
- k. Attending a hearing on the order to show cause issued by Court to Mr. Rice and negotiating an agreement with him and his counsel beforehand to secure his assistance in identifying additional assets of the Receivership Entities;
- l. Securing personal property owned by AriseBank at a commercial address that had been leased on behalf of AriseBank;
- m. Changing the locks on a commercial address that had been leased on behalf of Defendant AriseBank;
- n. Negotiating with a commercial landlord to secure the return of a security deposit and rent payment;
- o. Serving subpoenas on cryptocurrency exchanges and other third parties to locate additional assets;
- p. Deposing Mr. Rice regarding the existence and location of assets of the Receivership;
- q. Analyze documents and emails recovered from AriseBank and third parties;
- r. Validating that the Receiver has possession of the private keys and confirming the amount of cryptocurrency held in each wallet established on behalf of the receivership;

- s. Depositing two individuals who had recently received significant cryptocurrency from AriseBank and inquiring about assets of the Receivership Entities;
- t. Drafting a complaint against two individuals who received assets of the Receivership; and
- u. Sending notices of the Receivership Order to multiple third parties.

33. Each of these tasks was reasonably necessary to secure assets of the Receivership and to evaluate potential sources of other assets. Further, each task was performed efficiently by the Receiver or his advisors at Jones Day and Kroll.

### CONCLUSION

34. For the reasons stated, the Receiver respectfully requests that this Court enter an order approving and authorizing, on an interim basis, the payment of fees and expenses totaling \$185,115.23 to Jones Day and \$67,353.60 to Kroll.

Dated: May 15, 2018

Respectfully submitted,

*/s/ James Cox*

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James A. Cox  
Texas Bar No. 04946560  
jacox@jonesday.com  
Richard J. Johnson  
Texas Bar No. 24088799  
rjohnson@jonesday.com  
JONES DAY  
2727 North Harwood Street  
Dallas, TX 75201  
Telephone: (214) 220-3939  
Facsimile: (214) 969-5100

COUNSEL TO RECEIVER

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that on May 15, 2018, the foregoing document was submitted to the clerk of the Court for the U.S. District Court, Northern District of Texas, and served on counsel for the SEC and Jared Rice through the electronic service system. In addition, a copy was served by email on Stanley Ford and counsel for the SEC and Jared Rice.

*/s/ James Cox*

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James A. Cox



include only the amount billed to Jones Day by the third-party vendor and paid by Jones Day to such vendor.

Dated: May 15, 2018

*s/Mark Rasmussen*  
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Mark W. Rasmussen, Receiver