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for the Substantively Consolidated SIPA Liquidation
of Bernard L. Madoff Investment Securities LLC
and Bernard L. Madoff*

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

SECURITIES INVESTOR PROTECTION
CORPORATION,

Plaintiff-Applicant,

v.

BERNARD L. MADOFF INVESTMENT
SECURITIES LLC,

Defendant.

In re:

BERNARD L. MADOFF,

Debtor.

Adv. Pro. No. 08-01789 (SMB)

SIPA Liquidation

(Substantively Consolidated)

**MOTION FOR AN ORDER APPROVING FOURTH ALLOCATION OF PROPERTY
TO THE FUND OF CUSTOMER PROPERTY AND AUTHORIZING FOURTH
INTERIM DISTRIBUTION TO CUSTOMERS**

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TO THE HONORABLE STUART M. BERNSTEIN,
UNITED STATES BANKRUPTCY JUDGE:

Irving H. Picard, as trustee (“Trustee”) for the liquidation of the business of Bernard L. Madoff Investment Securities LLC (“BLMIS”) under the Securities Investor Protection Act, 15 U.S.C. §§ 78aaa *et seq.* (“SIPA”),¹ and the substantively consolidated estate of Bernard L. Madoff (“Madoff”) (collectively, “Debtor”), respectfully submits this motion (the “Motion”) pursuant to SIPA §§ 78lll(4), 78fff(a)(1)(B), 78fff-2(b), and 78fff-2(c)(1), and Rule 9013 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) seeking entry of an order (1) approving the fourth allocation of property (“Fourth Allocation”) to the fund of customer property (“Customer Fund”); and (2) authorizing a fourth pro rata interim distribution (“Fourth Interim Distribution”) to customers whose claims for customer protection under SIPA have been allowed for amounts exceeding the SIPA statutory advance limits and which have not already been satisfied by the first, second, and third pro rata interim distributions. This Court has jurisdiction over this Motion pursuant to SIPA §§ 78eee(b)(2), 78eee(b)(4), 28 U.S.C. §§ 157 and 1334, and Bankruptcy Rule 5005. This Motion is based upon the law set forth below as well as the facts set forth in the affidavit of Vineet Sehgal (“Sehgal Aff.”), filed herewith. In support of this Motion, the Trustee alleges and represents as follows:

I. EXECUTIVE SUMMARY

1. In order to protect customers of an insolvent broker-dealer such as BLMIS, Congress established a statutory framework pursuant to which customers of a debtor in a SIPA liquidation are entitled to preferential treatment in the distribution of assets from a debtor’s estate. The mechanism by which customers receive preferred treatment is through the creation of a fund of “customer property” as defined in SIPA § 78lll(4), which is distinct from a debtor’s

¹ For convenience, subsequent references to sections of the Act shall follow the form: “SIPA § ___.”

general estate. Customers holding allowable claims are entitled to share pro rata in the Customer Fund based on each customer's "net equity" as of the filing date, to the exclusion of general creditors. SIPA § 78fff-2(c).

2. In order to make distributions from the Customer Fund, the Trustee must determine or be able to sufficiently estimate: (a) the total value of customer property available for distribution, or the "numerator" (including reserves for disputed recoveries), and (b) the total net equity of all allowed claims, or the "denominator" (including reserves for disputed claims). The Trustee calculates reserve amounts on a "worst-case" basis, such that the ultimate resolution of disputed amounts will not adversely affect any customers' allowed or disputed net equity distributions.

3. In this case, for purposes of determining each customer's "net equity," the Trustee credited the amount of cash deposited by the customer into his BLMIS account, less any amounts already withdrawn from that BLMIS customer account (the "cash in, cash out method" or the "Trustee's Net Investment Method"). Some claimants argued that the Trustee was required to allow customer claims in the amounts shown on the November 30, 2008 customer statements (the "Last Statement Method," creating the "Net Equity Dispute"). Litigation over the Net Equity Dispute has now proceeded through this Court,² the Second Circuit,³ and the Supreme Court of the United States.⁴ The Trustee's Net Investment Method was upheld.

² *Sec. Investor Prot. Corp. v. Bernard L. Madoff Inv. Sec. LLC (In re Bernard L. Madoff Inv. Sec. LLC)*, 424 B.R. 122 (Bankr. S.D.N.Y. 2010).

³ *In re Bernard L. Madoff Inv. Sec. LLC*, 654 F.3d 229 (2d Cir. 2011) (the "Net Equity Decision").

⁴ Two petitions for writ of certiorari were denied by the Supreme Court of the United States on June 25, 2012. *Sec. Investor Prot. Corp. v. Bernard L. Madoff Inv. Sec., LLC (In re Bernard L. Madoff Inv. Sec., LLC)*, 424 B.R. 122 (Bankr. S.D.N.Y. 2010), *aff'd and reh'g and reh'g en banc denied*, 654 F.3d 229 (2d Cir. 2011), *cert. denied sub nom. Ryan v. Picard*, 133 S.Ct. 24 (2012); *Sec. Investor Prot. Corp. v. Bernard L. Madoff Inv. Sec. LLC (In re Bernard L. Madoff Inv. Sec., LLC)*, 424 B.R. 122 (Bankr. S.D.N.Y. 2010), *aff'd and reh'g and reh'g en banc denied*, 654 F.3d 229 (2d Cir. 2011), *cert. denied sub nom. Velvel v. Picard*, 133 S.Ct. 25 (2012). A third petition

4. On May 4, 2011, the Trustee moved for an initial allocation and pro rata interim distribution of the Customer Fund (“First Allocation” and “First Interim Distribution”). (ECF No. 4048). On July 12, 2011, this Court ordered the First Allocation and First Interim Distribution, in which the Trustee allocated approximately \$2.618 billion to the Customer Fund and distributed approximately \$516.190 million on allowed claims relating to 1,308 accounts, or 4.602% of each customer’s allowed claim, unless the claim was fully satisfied. Because the Net Equity Dispute was outstanding at the time of the First Allocation Motion, the Trustee, with the Court’s approval, set a reserve for that issue.

5. On July 26, 2012, the Trustee moved for a second allocation and pro rata interim distribution of the Customer Fund (“Second Allocation” and “Second Interim Distribution”). (ECF No. 4930). On August 22, 2012, this Court ordered the Second Allocation and Second Interim Distribution, in which the Trustee allocated approximately \$5.501 billion to the Customer Fund and distributed approximately \$3.746 billion on allowed claims relating to 1,294 accounts, or 33.556% of each customer’s allowed claim, unless the claim was fully satisfied.

6. At the time of the Second Allocation Motion, a final, nonappealable order had been entered on the Net Equity Dispute, upholding the Trustee’s Net Investment Method. As a result of that ruling, a separate but related question of whether claimants are entitled to an increase of their claims based on the time that elapsed while their monies were deposited with BLMIS (“Time-Based Damages”) was relevant to the Second Allocation Motion. In its order approving the Second Allocation Motion (ECF No. 4997), the Court required the Trustee to maintain a reserve for the Time-Based Damages Dispute at not less than 3% (“the 3% Reserve”).

for writ of certiorari was dismissed. *Sec. Investor Prot. Corp. v. Bernard L. Madoff Inv. Sec., LLC (In re Bernard L. Madoff Inv. Sec., LLC)*, 424 B.R. 122 (Bankr. S.D.N.Y. 2010), *aff’d and reh’g and reh’g en banc denied*, 654 F.3d 229 (2d Cir. 2011), *cert. dismissed sub nom. Sterling Equities Assocs. v. Picard*, 132 S.Ct. 2712 (2012).

On September 10, 2013, Judge Lifland held a hearing on the Time-Based Damages Dispute and granted the Trustee's motion, finding that claimants were not entitled to time-based damages as part of their net equity claims against the fund of customer property. *See Sec. Investor Prot. Corp. v. Bernard L. Madoff Inv. Sec. LLC*, 496 B.R. 744 (Bankr. S.D.N.Y. 2013) (the "Time-Based Damages Decision"). The appeals from the Time-Based Damages Decision were accepted as direct appeals to the Second Circuit on January 22, 2014, where they are currently pending. *See In re Bernard L. Madoff Inv. Sec. LLC*, 14-97(L) (2d Cir.).

7. On February 13, 2013, the Trustee moved for a third allocation and pro rata interim distribution of the Customer Fund ("Third Allocation" and "Third Interim Distribution"). (ECF No. 5230). On March 13, 2013, this Court ordered the Third Allocation and Third Interim Distribution, in which the Trustee allocated approximately \$1.198 billion to the Customer Fund and distributed approximately \$523.024 million on allowed claims relating to 1,112 accounts, or 4.721% of each customer's allowed claim, unless the claim was fully satisfied.

8. On February 5, 2014, this Court approved a \$325 million settlement between the Trustee and JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC, and J.P. Morgan Securities Ltd. (collectively, "JPMorgan"). (Adv. Pro. No. 10-04932, ECF No. 51). Under the settlement, JPMorgan paid \$325 million to the Trustee.

9. On June 10, 2011, this Court approved a settlement agreement between the Trustee and the Joint Liquidators for Fairfield Sentry Limited, Fairfield Sigma Limited, and Fairfield Lambda Limited (collectively, the "Fairfield Funds"). *Picard v. Fairfield Sentry et al.*, Adv. Pro. No. 09-1239 (Bankr. S.D.N.Y.) (BRL) (ECF No. 95). Under that agreement, the Fairfield Funds are entitled to share in certain avoidance settlement payments received by the Trustee, including JPMorgan Chase. Accordingly, the Trustee paid \$50 million of the \$325

million to the Fairfield Funds. Thus, the Trustee seeks approval to allocate a net amount of \$275 million to the Customer Fund from the JPMorgan settlement.

10. With these and other additional funds, the Trustee now stands ready to make a fourth significant distribution to customers with allowed claims. The practical effect of this determination is to permit a fourth interim distribution to customers whose claims have not been fully satisfied because the net equity of their respective accounts as of the Filing Date⁵ exceeded the statutory SIPA protection limit of \$500,000 and were not satisfied by the First, Second, or Third Interim Distributions.

11. Thus, by way of this Motion, the Trustee seeks to distribute, after maintaining the 3% Reserve, approximately \$348.998 million (with an additional \$196.443 million available for distribution to certain “net loser” accounts in litigation, if the claims relating to their accounts become allowed prior to the time the distribution is made, or reserved, if not allowed).⁶ The Fourth Interim Distribution, when combined with the First, Second, and Third Interim Distributions, will provide all claimants that have an allowed claim 46.036% of the customer’s allowed claim amount, plus the SIPC advance of up to as much as \$500,000. These distributions will be paid on claims relating to 1,080 BLMIS accounts. The average payment amount to those 1,080 BLMIS accounts will be approximately \$323,000. Twenty-five payments will go to claimants who qualified for hardship status under the Trustee’s claims hardship program. If approved, and when combined with the SIPC payment, the amounts from the First Interim

⁵ In this case, the Filing Date is the date on which the Securities and Exchange Commission commenced its suit against BLMIS, December 11, 2008, which resulted in the appointment of a receiver for the firm. *See* SIPA § 78lll(7)(B).

⁶ If all of these “net loser” accounts were allowed prior to the distribution, the total distribution to claimants would be approximately \$544.973 million (\$544,973,327.36), based on the net equity amount for deemed determined accounts.

Distribution, the Second Interim Distribution, and the Third Interim Distribution, claims relating to 1,129 accounts will be fully satisfied.

12. The proposed Fourth Allocation and Fourth Interim Distribution are interim in nature. The Trustee anticipates recovering additional assets through litigation and settlements. Final resolution of certain disputes will permit the Trustee to reduce the reserves he is required to maintain, which will allow him to make additional distributions to customers in the future. The Trustee will seek authorization for these further allocations and distributions upon the recovery of additional funds and the resolution of significant disputes.⁷

II. THE LIQUIDATION PROCEEDING

13. Section 78fff(b) of SIPA provides that a SIPA liquidation proceeding “shall be conducted in accordance with, and as though it were being conducted under chapters 1, 3 and 5 and subchapters I and II of chapter 7 of title 11” to the extent these provisions are consistent with SIPA.

14. SIPA affords special protection to “customers,” as defined in SIPA § 78lll(2), who receive preferential treatment by having their claims satisfied ahead of general creditors. *See In re Adler Coleman Clearing Corp.*, 198 B.R. 70, 71 (Bankr. S.D.N.Y. 1996) (recognizing that a “person whose claim against the debtor qualifies as a ‘customer claim’ is entitled to preferential treatment”); *In re Hanover Square Sec.*, 55 B.R. 235, 237 (Bankr. S.D.N.Y. 1985) (“[a]ffording customer status confers preferential treatment”). The amounts owed to each customer are determined by valuing his or her “net equity,” defined in SIPA § 78lll(11), as of the Filing Date.

⁷ The Trustee seeks permission to include in the Fourth Interim Distribution those claims that are allowed between the time an order is entered on this Motion and the date of the Fourth Interim Distribution.

15. To date, the Trustee has received 16,519 customer claims. (Sehgal Aff. ¶ 4). To date, the Trustee has determined 16,364 of those claims. (*Id.* ¶ 4). The Trustee allowed 2,517 claims and committed to pay approximately \$811.747 million in funds advanced to him by SIPC. (*Id.*). To date, the allowed claims total approximately \$11.402 billion. (*Id.*).

16. Of the remaining determined customer claims, 13,625 were denied, 12 were determined as asserting no claim, and 210 were withdrawn. (*Id.* ¶ 5). One hundred fifty-five claims are currently categorized as “deemed determined,” meaning that the Trustee has instituted litigation against those claimants. (*Id.*). The complaints filed by the Trustee in those litigations set forth the express grounds for disallowance of customer claims under section 502(d) of the Bankruptcy Code. Accordingly, such claims will not be allowed until the avoidance action is resolved by settlement or otherwise and any judgment rendered against the claimant in the avoidance action is satisfied.

17. As of March 25, 2014, the Trustee has received 427 timely and 21 untimely filed secured priority and unsecured non-priority general creditor claims totaling approximately \$1.741 billion. The claimants include vendors, taxing authorities, employees, and customers filing claims on non-customer proof of claim forms. Of these 448 claims, 94 are general creditor claims and 49 are broker-dealer claims, which together total approximately \$264.975 million of the \$1.741 billion.⁸ (*Id.* ¶ 6).

18. 2,290 docketed objections have been filed to the Trustee’s claims determinations relating to approximately 4,187 claims, which will be noticed for hearing as necessary. (*Id.* ¶ 7).

⁸ The 448 secured, priority, and non-priority general claims are explicit “general creditor” claims, such as vendor and service claims. (Sehgal Aff. ¶ 6). They do not include “customer” claims, even though each “customer” claim—both those allowed and denied—has a “general creditor” component. All BLMIS creditors, including customers whose claims were allowed, customers whose claims were denied, and general creditors, may have claims as general creditors against BLMIS for misrepresentation, fraud, and breach of contract (assuming they filed claims). Customers who filed customer claims need not have specifically filed claims as general creditors to protect such rights.

These 2,290 objections relate to approximately 1,149 BLMIS accounts. (*Id.*) The objections raise various issues, including the proper interpretation of “net equity” (now resolved), the right to interest or time value of money (now on appeal), and whether the Trustee’s calculation of allowed claims amounts are correct.

III. ALLOCATION OF PROPERTY & DISTRIBUTION SCHEME UNDER SIPA

A. Allocation of Property

19. SIPA sets forth a bipartite statutory framework that gives customers priority over general creditors of the broker-dealer. Pursuant to SIPA § 78fff-2(c)(1)(B), all customers with allowed claims share ratably in the fund of customer property. Pursuant to SIPA § 78fff-2(c), general creditors and customers, to the extent of their respective unsatisfied net equities, share in any general estate. Estate property not allocable to the fund of customer property is distributed in the order of priority established in section 726 of the Bankruptcy Code. SIPA § 78fff(e). Any property allocated to the fund of customer property that is not necessary to satisfy customer and other priority claims will become part of the general estate. SIPA § 78fff-2(c).

20. According to SIPA § 78lll(4), “customer property” consists of “cash and securities . . . at any time received, acquired, or held by or for the account of a debtor from or for the securities accounts of a customer, and the proceeds of any such property transferred by the debtor, including property unlawfully converted.”

21. Among the assets that comprise “customer property” are “any other property of the debtor which, upon compliance with applicable laws, rules and regulations, would have been set aside or held for the benefit of customers . . .” SIPA § 78lll(4)(D). Under SIPA § 78lll(4)(D), a trustee is permitted to look to the property of the debtor to rectify the actions taken by the debtor that resulted in a shortfall in customer property. *See Ferris, Baker, Watts v. Stephenson (In re MJK Clearing, Inc.)*, 286 B.R. 109, 132 (Bankr. D. Minn. 2002) (“Application

of the plain meaning of 15 U.S.C. § 78lll(4)(D) provides a means to rectify any actions taken by, or with respect to, the debtor, that results in such a shortfall. . . . Thus, if the debtor failed to set aside or hold for the benefit of customers sufficient property, 15 U.S.C. § 78lll(4)(D) would require the trustee to correct the debtor's error.”).

22. Thus, if the trustee determines that there is a shortfall in assets such that customer property is insufficient to satisfy net equity claims, then he may look to other assets of the debtor and allocate property to the fund of customer property.

23. SIPA liquidations generally take a broad and inclusive customer-related approach to the allocation of property. For example, in *In re Park South Securities, LLC*, 99% of the debtor's estate was allocated to customer property. See Order, No. 03-08024A (Bankr. S.D.N.Y. Oct. 30, 2008) (ECF No. 201).⁹ Consistent with prior liquidations, the Trustee expects to allocate the vast majority of the BLMIS estate to the Customer Fund, inasmuch as here, recovered property either belonged to customers or was derived from the misuse of customer property.

B. Distributions Under SIPA

24. The SIPA distribution scheme, while complex, can be distilled to a simple equation. Each customer is entitled to his or her pro rata share of customer property. To

⁹ *Accord SIPC v. Lehman Brothers, Inc.*, Adv. Pro. No. 08-01420, Motion for Order Approving Allocation of Property of the Estate at 27-28, n.33 (Bankr. S.D.N.Y. Oct. 5, 2009) (ECF No. 1866) (allocating “most” of debtor's assets to customer property); *In re Vision Inv. Grp., Inc.*, Adv. Pro. No. 97-1035B, Order Approving Third and Final Report and Final Accounting of the Securities Investor Protection Corporation (Bankr. W.D.N.Y. Dec. 13, 2005) (allocating 95% of debtor's estate to customer property); *In re Klein Maus & Shire, Inc.*, Adv. Pro. No. 00-8193A, Order Approving Trustee's Final Report and Account, Approving Allocation of Property and Distribution of Fund of Customer Property, Finding of No Distribution to General Creditors (Bankr. S.D.N.Y. Dec. 15, 2004) (allocating 99% of debtor's estate to customer property); *In re MJK Clearing*, 286 B.R. at 132 (allocating 100% the debtor's assets as customer property); *In re A.R. Baron & Co., Inc.*, Order Approving Final Report and Account and Related Relief, Adv. Pro. No. 96-8831A (Bankr. S.D.N.Y. Feb. 10, 2004) (allocating 99% of the debtor's assets to customer property); *In re Hanover, Sterling & Co.*, Adv. Pro. No. 96-8396A, Order Approving Trustee's Final Report and Account, Approving Allocation of Property and Distribution of the Fund of Customer Property (Bankr. S.D.N.Y. Aug. 21, 2002) (allocating 75% of debtor's estate to customer property).

determine the percentage that each allowed customer will receive from the fund of customer property in an interim distribution, the aggregate amount collected to date by the Trustee and allocated to customer property is divided by the aggregate amount of net equity claims allowed by the Trustee. The percentage result is then to be applied to each net equity claim to determine a customer's pro rata share. The equation is as follows:

$$\frac{\text{Fund of Customer Property ("Numerator")}}{\text{Allowable Customer Net Equity Claims ("Denominator")}} = \text{Customer Pro Rata Share}$$

25. SIPA § 78fff-2(c)(1) establishes the order of distribution of customer property. The second and third priorities of distribution are relevant here. The second priority is to distribute customer property among customers based on their filing date net equities. SIPA § 78fff-2(c)(1)(B). The third priority is to distribute customer property to SIPC as subrogee. SIPA § 78fff-2(c)(1)(C). Thereafter, any customer property remaining becomes part of the general estate.

26. The amount advanced by SIPC to the Trustee in full or partial satisfaction of a customer claim is based on the difference between the customer's net equity and his share of customer property, subject to the \$500,000 limit of SIPA's statutory protection. The SIPC advance does not reduce the customer's net equity or his claim against customer property. If the sum of the amount of a customer's SIPC advance and any subsequent distribution of customer property exceeds the customer's net equity, SIPC has the right to recoup its advance from the excess. In effect, SIPC becomes subrogated to the claims of customers to the extent it has made advances but cannot seek recovery from customer property as to any individual customer until the customer has been fully satisfied. SIPA §§ 78fff-3(a), 78fff-2(c)(1).

C. Allocation Of Assets To The Customer Fund And Related Reserves

27. As this Court previously found in its Net Equity Decision, and as numerous courts in civil and criminal proceedings have also found, Madoff did not engage in securities trading on behalf of BLMIS customers. Madoff used customer funds to support operations and fulfill requests for redemptions to perpetuate a Ponzi scheme. Thus, payment of “profits” to any one customer in fact came from another customer’s deposit of funds. In essence, all of the funds withdrawn by BLMIS customers were simply other people’s money.

28. BLMIS had an obligation to set aside sufficient assets to cover its statutory obligations to customers. *See Securities Exchange Act Rule 15c3-3; 17 C.F.R. § 240.15c3-3.*¹⁰ The assets of BLMIS and Madoff are insufficient to cover those obligations.

29. For these reasons, and because it is not uncommon for almost all property available to a broker-dealer to be deemed “customer property,” the Trustee seeks the Court’s approval to allocate to the Customer Fund virtually all cash and cash equivalents currently in his possession that was not previously allocated -- \$477,503,824.33 -- which includes the JPMorgan funds. (Sehgal Aff. ¶ 8). *See First Fed. Sav. & Loan Assoc. of Lincoln v. Bevill, Bresler & Schulman, Inc. (In re Bevill, Bresler & Schulman, Inc.)*, 59 B.R. 353, 362-66 (D.N.J. 1986) (describing and approving SIPA allocation and distribution scheme similar to that proposed by Trustee).

¹⁰ SIPA’s definitional paragraphs were amended in 1978 to incorporate in the “customer property” definition any other property of the debtor’s estate which, upon compliance with applicable laws, rules, and regulations, would have been set aside or held for the benefit of customers. Thus, to the extent that prior to the Filing Date BLMIS failed to maintain cash and securities in compliance with the Net Capital Rule issued by the SEC (Rule 15c3-1), as affected by the Customer Protection Rule (Rule 15c3-3) (both issued pursuant to the Exchange Act, 15 U.S.C. § 78o(c)(3)(A)), the Trustee is required to allocate property as necessary to remedy such non-compliance. The Customer Protection Rule effectively requires that a broker-dealer maintain control of all property that would have to be delivered to customers in the event of a liquidation: either the securities themselves or their value in the form of cash (or equivalents), and cash sufficient to pay net cash obligations to customers.

30. When combined with the \$2,617,974,430.26 that was allocated to the Customer Fund in connection with the First Allocation, the \$5,501,375,994.66 that was allocated to the Customer Fund in connection with the Second Allocation, and the \$1,198,067,071.04 that was allocated to the Customer Fund in connection with the Third Allocation, the total amount allocated will be \$9,794,921,320.29. Of this amount, \$516,190,213.43 was distributed to customers with allowed claims as part of the First Interim Distribution, \$3,745,822,500.31 was distributed to customers with allowed claims as part of the Second Interim Distribution, and \$523,024,223.30 was distributed to customers with allowed claims as part of the Third Interim Distribution. In connection with the First Interim Distribution, an additional \$286,358,011.92 was reserved for accounts in litigation, and \$8,544,437.00 of SIPC subrogation was deferred. In connection with the Second Interim Distribution, an additional \$2,088,011,614.07 was reserved for accounts in litigation, and \$80,165,922.91 of SIPC subrogation was deferred. In connection with the Third Interim Distribution, an additional \$293,762,749.70 was reserved for accounts in litigation, and \$15,257,752.68 of SIPC subrogation was deferred.¹¹ Therefore, the total amount available for the Fourth Interim Distribution will be \$2,237,783,894.97. Of this amount, \$236,653,320.42 must be held in reserve for the non-preference related settlement payments for accounts with net equity clauses, as well as certain other settlements, leaving a total of \$2,001,130,574.55 available for distribution. Further, the reserve for the Time-Based Damages issue for the First, Second and Third Interim Distributions is \$1,347,657,799.47, resulting in the numerator of \$653,472,775.08.

¹¹ The total SIPC subrogation from the First, Second, and Third Interim Distributions is \$103,968,112.59. On March 29, 2013, a SIPC subrogation payment was made in the amount of \$102,805,012.23. The remaining \$1,163,100.36 is associated with accounts that have not returned the necessary paperwork required to receive their SIPC advance and accounts where the SIPC advance was provided after the payment to SIPC. The \$1,163,100.36 is currently held in reserve.

31. Of the \$653,472,775.08 numerator, \$348,998,302.42 will be distributed as part of the Fourth Interim Distribution to allowed accounts, and SIPC subrogation for allowed accounts in the amount of \$10,896,564.76¹² will be released to SIPC. For deemed determined accounts, \$196,443,338.49 will be reserved. In addition to the deemed determined reserve, the Trustee will also reserve \$97,072,605.77 for Time-Based Damages related to the Fourth Interim Distribution, bringing the total Time-Based Damages reserve through the Fourth Interim Distribution to \$1,444,730,405.24.

i. Assets In Trustee's Possession As Of February 28, 2014

32. The Form SIPC 17 completed by the Trustee each month lists all of the recoveries and assets in the Trustee's possession. In the Trustee's Form SIPC 17 for the period ending on February 28, 2014 ("February 28 SIPC 17 Form"), attached hereto as Exhibit A, the Trustee reports that he has recovered approximately \$9.795 billion.¹³ These funds were primarily derived from the following sources: (a) the transfer of BLMIS bank accounts to the BLMIS estate; (b) pre-litigation and litigation settlements; (c) customer preference recoveries; (d) the sale of assets; (e) refunds; and (f) earnings on the Trustee's investment and money market accounts.

33. To the extent additional settlements are reached and/or become final prior to the entry of an order on this Motion, the Trustee will allocate and distribute those recoveries in accordance with the formula set forth herein.

¹² An additional \$61,963.64 of SIPC subrogation associated with the Fourth Interim Distribution for accounts that have not returned the necessary paperwork required to receive their SIPC advance will be held in reserve.

¹³ In addition, the Trustee has in his possession a *de minimis* amount of unliquidated assets.

ii. JPMorgan Funds

34. On February 5, 2014, this Court approved a \$325 million settlement between the Trustee and JPMorgan. Under the settlement, JPMorgan paid \$325 million to the Trustee in settlement of the Trustee's avoidance claims against JPMorgan.

35. On June 10, 2011, this Court approved a settlement agreement between the Trustee and the Joint Liquidators for Fairfield Sentry Limited, Fairfield Sigma Limited, and Fairfield Lambda Limited (collectively, the "Fairfield Funds"). *Picard v. Fairfield Sentry et al.*, Adv. Pro. No. 09-1239 (Bankr. S.D.N.Y.) (BRL) (ECF No. 95). Under that agreement, the Fairfield Funds are entitled to share in certain avoidance settlement payments received by the Trustee, including JPMorgan Chase. Upon approval by this Court of the Trustee's Motion to approve the JPMorgan settlement, which indicated that approximately \$50 million was due and owing to the Fairfield Funds from the JPMorgan settlement monies, the Trustee paid \$50 million of the \$325 million to the Fairfield Funds. *See* Trustee's Motion for Entry of Order Pursuant to Section 105(a) of the Bankruptcy Code and Rules 2002 and 9019 of the Federal Rules of Bankruptcy Procedure Approving Settlement of Avoidance Claims By and Between the Trustee and JPMorgan, *Picard v. JPMorgan Chase Bank & Co.*, Adv. Pro. No. 10-04932, ECF No. 29; Order, ECF No. 51. Thus, the Trustee seeks approval to allocate a net amount of \$275 million to the Customer Fund.

iii. Levy Funds

36. One of the more significant pre-litigation settlements approved by this Court was entered into by the Trustee and the estate of Norman F. Levy. Order Pursuant to Section 105(a) of the Bankruptcy Code and Rules 2002 and 9019 of the Federal Rules of Bankruptcy Procedure Approving an Agreement By and Among the Trustee and Jeanne Levy-Church and Francis N.

Levy (ECF No. 1964). This settlement resulted in the return of \$220 million to the BLMIS estate. (Sehgal Aff. ¶ 12).

37. Certain claimants moved to vacate this settlement (“Levy Appeal”). This Court denied the motion to vacate, and on appeal, the District Court affirmed. (ECF No. 3984; *Sec. Inv. Prot. Corp. v. Bernard L. Madoff Inv. Sec. LLC*, No. 11 Civ. 03313, 2012 U.S. Dist. LEXIS 21740 (S.D.N.Y. Feb. 16, 2012) (DAB)). The Second Circuit issued a summary order affirming the judgment of the District Court. *See Peshkin v. Levy-Church, et al.*, No. 12-816-cv, 2012 U.S. App. LEXIS 26101 (2d Cir. Dec. 21, 2012) (ECF No. 98). The time period to further challenge these rulings in the Supreme Court of the United States expired on March 21, 2013.

38. The \$220 million previously was allocated to the Customer Fund on July 12, 2011 in connection with the First Allocation, and the Trustee held \$220 million in reserve. The \$220 million of funds is now available for distribution by the Trustee

iv. IRS Settlement Funds

39. On December 21, 2011, this Court approved a \$326 million settlement between the Trustee and the United States of America, on behalf of the Internal Revenue Service (“IRS”). (ECF No. 4602). In the settlement, the Trustee agreed to set aside almost \$103 million as a reserve to satisfy any judgments, settlements, or administrative decisions against the IRS, the United States, or the Trustee that might have been entered with respect to certain payments. The settlement authorized the Trustee to release the reserve two years and sixty days after the order approving the settlement agreement became final, which date has occurred.

40. The \$326 million previously was allocated to the Customer Fund on August 22, 2012 in connection with the Second Allocation, and the Trustee held \$103 million in reserve until March 4, 2014. The \$103 million of funds is now available for distribution by the Trustee.

v. **Other Recoveries To The BLMIS Estate Since The Third Allocation and Third Interim Distribution**

41. In the Motion on the Third Allocation and Third Interim Distribution submitted to the Court on February 13, 2013, the Trustee reported total recoveries of \$1,198,067,071.04 that were not previously allocated. When combined with recoveries of \$5,501,375,994.66 reported in the Second Allocation and Second Interim Distribution submitted on August 22, 2012, and recoveries of \$2,617,974,430.26 reported in the First Allocation and First Interim Distribution submitted on July 12, 2011, the total recoveries as of the Third Allocation and Third Interim Distribution were \$9,317,417,495.96. The Trustee has recovered additional funds for the estate from multiple parties and sources since that time.

42. The Trustee has recovered approximately \$477,503,824.33 since the Third Allocation and Third Interim Distribution as a result of preference settlements, litigation and pre-litigation settlements, interest income, and other miscellaneous recoveries. (Sehgal Aff. ¶ 14). Therefore, the Trustee seeks approval to allocate the full amount of these recoveries to the Customer Fund.

vi. **Disputed Recoveries**

43. As of February 28, 2014, the Trustee had recovered approximately \$9.794 billion as a result of preference settlements, litigation and pre-litigation settlements, interest income, and other miscellaneous recoveries. Of the total amount recovered, \$236,653,320.42 must be held in reserve for the non-preference related settlement payments for accounts with net equity clauses, as well as certain other settlements. Part of the funds held in reserve remain subject to a final ruling as to how net equity claims are to be determined. Although the Second Circuit's Net Equity Decision on the Net Investment Method is now final, the Objecting Claimants argue that any time-based damages should be part of their net equity claims. Thus, the Trustee will hold

such funds in reserve pending the outcome of the appeal of the Time-Based Damages Motion to the Second Circuit (the “Time-Based Damages Motion”). Therefore, the Trustee seeks approval to allocate the full amount of these preference settlements, litigation and pre-litigation settlements, interest income, and other miscellaneous recoveries that were not previously allocated to the Customer Fund; however, \$236,653,320.42 will not be available for distribution at this time. (Sehgal Aff. ¶ 17).

vii. Summary Of Requested Allocation

44. The Trustee, in this Motion, seeks to allocate an additional \$477,503,824.33 to the Customer Fund. When combined with the \$2,617,974,430.26 that was allocated to the Customer Fund in connection with the First Allocation, the \$5,501,375,994.66 that was allocated to the Customer Fund in connection with the Second Allocation, and the \$1,198,067,071.04 that was allocated to the Customer Fund in connection with the Third Allocation, the total amount allocated will be \$9,794,921,320.29. Of this amount, \$516,190,213.43 was distributed to customers with allowed claims as part of the First Interim Distribution, \$3,745,822,500.31 was distributed to customers with allowed claims as part of the Second Interim Distribution, and \$523,024,223.30 was distributed to customers with allowed claims as part of the Third Interim Distribution. In connection with the First Interim Distribution, an additional \$286,358,011.92 was reserved for accounts in litigation, and \$8,544,437.00 of SIPC subrogation was deferred. In connection with the Second Interim Distribution, an additional \$2,088,011,614.07 was reserved for accounts in litigation, and \$80,165,922.91 of SIPC subrogation was deferred. In connection with the Third Interim Distribution, an additional \$293,762,749.70 was reserved for accounts in litigation, and \$15,257,752.68 of SIPC subrogation was deferred.¹⁴ Therefore, the total amount

¹⁴ The total SIPC subrogation from the First, Second, and Third Interim Distributions is \$103,968,112.59. On March 29, 2013, a SIPC subrogation payment was made in the amount of \$102,805,012.23. The remaining

available for the Fourth Interim Distribution will be \$2,237,783,894.97. Of this amount, \$236,653,320.42 must be held in reserve for non-preference related settlement payments for accounts with net equity clauses, as well as certain other settlements, leaving a total of \$2,001,130,574.55 available for distribution. Further, the reserve for the Time-Based Damages issue for the First, Second, and Third Interim Distributions is \$1,347,657,799.47, resulting in the numerator of \$653,472,775.08.

45. Of the \$653,472,775.08 numerator, \$348,998,302.42 will be distributed as part of the Fourth Interim Distribution to allowed accounts and SIPC subrogation for allowed accounts in the amount of \$10,896,564.76¹⁵ will be released to SIPC. For deemed determined accounts, \$196,443,338.49 will be reserved. In addition to the deemed determined reserve, the Trustee will also reserve \$97,072,605.77 for Time-Based Damages related to the Fourth Interim Distribution, bringing the total Time-Based Damages reserve through the Fourth Interim Distribution to \$1,444,730,405.24.

46. The Trustee does not seek to allocate any funds to the General Estate at this time.

D. Determination Of Allowable Net Equity Claims & Related Reserves

47. For distribution purposes, the Customer Fund numerator is only one half of the equation. In order to calculate each customer's pro rata share of customer property, the Trustee also needs to establish the denominator, or the amount of allowable net equity claims.

48. If the Trustee had determined all customer claims and his determinations were final either through the passage of time or judicial determination, the denominator would simply

\$1,163,100.36 is associated with accounts that have not returned the necessary paperwork required to receive their SIPC advance and accounts where the SIPC advance was provided after the payment to SIPC. The \$1,163,100.36 is currently held in reserve.

¹⁵ An additional \$61,963.64 of SIPC subrogation associated with the Fourth Interim Distribution for accounts that have not returned the necessary paperwork required to receive their SIPC advance will be held in reserve.

equal the amount of allowed claims. Because the Trustee seeks to make a Fourth Interim Distribution prior to a final determination of all customer claims and certain disputes are pending, the Trustee cannot use as the denominator the amount of allowed claims as of this date. Doing so could result in an uneven distribution to customers, in violation of SIPA and the Bankruptcy Code, because there could be insufficient funds to distribute to claimants whose claims are allowed in the future. Instead, the Trustee must project as to the amount of all allowable net equity claims and establish sufficient reserves to ensure that all possibly-eligible claimants receive a pro rata distribution, should their claims be allowed. In order to do so, he must maintain sufficient reserves.

49. As discussed above, Time-Based Damages is a contingency for which the Trustee must reserve. Per the Court's order (ECF No. 4997), the Trustee has calculated this reserve by applying a 3% interest rate to positive account balances. Thus, for purposes of this Motion, the Trustee seeks to set the denominator at \$20,698,518,012.19¹⁶ (the "3% Time-Based Damages Reserve Denominator"). (Sehgal Aff. ¶ 24).

50. Certain accountholders decided against filing a claim in this proceeding, even though they may have had allowable net equity claims. The statutory bar date to file claims was July 2, 2009. SIPA § 78fff-2(a)(3). Thus, a failure to file a claim by that date means that there is no distribution that can be made to these accounts. No reserves are maintained for these accounts.

51. Further, certain accountholders have entered into final settlements not contingent on the Net Equity Dispute. No reserves are maintained for these accounts.

¹⁶ The 3% Time-Based Damages Reserve Denominator has increased from \$20,683,128,614.97 to \$20,698,518,012.19 since the Third Allocation due to settlements that occurred after the Third Allocation.

52. There are no additional reserves required for any future avoidance recoveries by the Trustee because such recoveries will be added to both the numerator and the denominator by operation of section 502(h) of the Bankruptcy Code. Any subsequent recovery coupled with a corresponding claim for the same amount cannot adversely affect the distribution because the addition of any amount to both the numerator and denominator can only result in an increase, not a decrease, of the pro rata distribution to any customer.

IV. CALCULATION OF PRO RATA SHARE OF CUSTOMER FUND FOR FOURTH ALLOCATION AND FOURTH INTERIM DISTRIBUTION

53. SIPA § 78fff-2(c)(1) establishes, in pertinent part, that a customer is to receive his ratable share from the fund of customer property. To the extent the customer's share has been fully satisfied through an advance of funds by SIPC, SIPC steps into the shoes of the customer as subrogee and receives that customer's share of customer property. In that manner, a customer does not receive a double recovery on his claim that was already fully satisfied by the SIPC advance.

54. As set forth above and in the Sehgal Affidavit, the Trustee proposes to allocate \$477,503,824.33 to the Customer Fund at this time. When combined with the \$2,617,974,430.26 that was allocated to the Customer Fund in connection with the First Allocation, the \$5,501,375,994.66 that was allocated to the Customer Fund in connection with the Second Allocation, and the \$1,198,067,071.04 that was allocated to the Customer Fund in connection with the Third Allocation, the total amount allocated will be \$9,794,921,320.29. Of this amount, \$516,190,213.43 was distributed to customers with allowed claims as part of the First Interim Distribution, \$3,745,822,500.31 was distributed to customers with allowed claims as part of the Second Interim Distribution, and \$523,024,223.30 was distributed to customers with allowed claims as part of the Third Interim Distribution. In connection with the First Interim

Distribution, an additional \$286,358,011.92 was reserved for accounts in litigation, and \$8,544,437.00 of SIPC subrogation was deferred. In connection with the Second Interim Distribution, an additional \$2,088,011,614.07 was reserved for accounts in litigation, and \$80,165,922.91 of SIPC subrogation was deferred. In connection with the Third Interim Distribution, an additional \$293,762,749.70 was reserved for accounts in litigation, and \$15,257,752.68 of SIPC subrogation was deferred.¹⁷ Therefore, the total amount available for the Fourth Interim Distribution will be \$2,237,783,894.97. (Sehgal Aff. ¶ 23). Of that amount, \$653,472,775.08 is available for distribution (the “Net Customer Fund”). (*Id.*). The difference between those amounts—\$1,584,311,119.89—represents the reserve relating to certain other settlements, and the outcome of the Time-Based Damages Motion. (*Id.*).

55. Of the \$653,472,775.08 numerator, \$348,998,302.42 will be distributed as part of the Fourth Interim Distribution to allowed accounts and SIPC subrogation for allowed accounts in the amount of \$10,896,564.76¹⁸ will be released to SIPC. For deemed determined accounts, \$196,443,338.49 will be reserved. In addition to the deemed determined reserve, the Trustee will also reserve \$97,072,605.77 for Time-Based Damages related to the Fourth Interim Distribution, bringing the total Time-Based Damages reserve through the Fourth Interim Distribution to \$1,444,730,405.24.

56. The 3% Time-Based Damages Reserve Denominator is \$20,698,518,012.19 (*Id.* ¶ 24). To determine the percentage of each allowed customer net equity claim that can be satisfied

¹⁷ The total SIPC subrogation from the First, Second, and Third Interim Distributions is \$103,968,112.59. On March 29, 2013, a SIPC subrogation payment was made in the amount of \$102,805,012.23. The remaining \$1,163,100.36 is associated with accounts that have not returned the necessary paperwork required to receive their SIPC advance and accounts where the SIPC advance was provided after the payment to SIPC. The \$1,163,100.36 is currently held in reserve.

¹⁸ An additional \$61,963.64 of SIPC subrogation associated with the Fourth Interim Distribution for accounts that have not returned the necessary paperwork required to receive their SIPC advance will be held in reserve.

from the Customer Fund, the Net Customer Fund is divided by the 3% Time-Based Damages Reserve Denominator, resulting in the following percentage (the “3% Scenario”):

$$\frac{\$653,472,775.08 \text{ (Net Customer Fund)}}{\$20,698,518,012.19 \text{ (3\% Time-Based Damages Reserve Denominator)}} = 3.157\%$$

57. Under this scenario, a total of 1,080 accounts will receive a distribution of approximately 3.157% of their net equity claims. (Sehgal Aff. ¶ 25). Of these 1,080 accounts, 20 will become fully satisfied, bringing the total of fully satisfied account holders to 1,129 (1,060 accounts will remain partially satisfied and will be entitled to participate in future distributions). (*Id.*).

58. An additional 108 accounts that are currently “deemed determined” could receive a distribution if and when the status of their claims moves from “deemed determined” to allowed. (*Id.* ¶ 26). Forty-one of the 108 accounts would be fully satisfied by the SIPC advance. The remaining 67 accounts would receive both a SIPC advance and a distribution in accordance with the Trustee’s Motion and his Fourth Allocation and Fourth Interim Distribution. (*Id.*). Ten of the remaining 67 accounts would be fully satisfied by the First, Second, Third, and Fourth Interim Distributions. (*Id.*).

59. SIPC is entitled to receive repayment as to any given customer to the extent the customer’s claim was fully repaid by a combination of the SIPC advance and the Trustee’s distributions. *See In re Bell & Beckwith*, 104 B.R. 842, 852-55 (Bankr. N. D. Ohio 1989), *aff’d*, 937 F.2d 1104 (6th Cir. 1991). SIPC, as subrogee, is entitled to receive partial repayment of its cash advances to the Trustee pursuant to SIPA § 78fff-3(a)(1). If all of the “net loser” accounts were allowed prior to the distribution, the total SIPC subrogation would be \$119,891,043.49. A SIPC subrogation payment was made on April 1, 2013 in the amount of \$102,805,012.33,

leaving a total SIPC subrogation claim through this Fourth Allocation of approximately \$17.086 million (\$17,086,031.26). Based on the “net loser” accounts that have been allowed and have returned a signed Partial Assignment and Release (PAR) through this Fourth Interim Distribution, SIPC’s subrogation claim is approximately \$11.218 million (\$11,218,062.63). The \$11.218 million is comprised of \$10.897 million of SIPC subrogation from the Fourth Interim Distribution and \$321,000.00 of SIPC subrogation associated with the First, Second, and Third Interim Distributions. This amount will be released to SIPC.

60. As noted above, the Trustee is making an interim distribution of the undisputed property allocated to the Customer Fund. The numbers contained herein are based on recoveries and claims allowed as of February 28, 2014. To the extent additional claims are allowed or additional recoveries are made, the Trustee will distribute funds consistent with the formulas set forth in this Motion.

A. No Interim Distribution Of General Estate

61. Under SIPA § 78fff(e), funds from the general estate satisfy the administrative costs and expenses of a Debtor’s estate and a liquidation proceeding. To the extent the general estate is insufficient, SIPC makes advances to the Trustee for the payment of such costs and expenses. SIPA § 78fff-3(b)(2). All administrative advances made by SIPC are recoverable from the general estate under section 507(a)(2) of the Bankruptcy Code. SIPA §§ 78eee(b)(5)(E), 78fff(e). The general estate is distributed in accordance with section 726 of the Bankruptcy Code, with section 507(a)(2) expenses receiving second priority.¹⁹ SIPA § 78fff(e).

¹⁹ There are no § 507(a)(1) expenses in this liquidation proceeding.

62. As noted previously, the Trustee has received 427 timely and 21 untimely filed secured priority and unsecured non-priority general creditor claims totaling approximately \$1.741 billion. The claimants include vendors, taxing authorities, employees, and customers filing claims on non-customer proof of claim forms. Of these 448, 94 are general creditor claims and 49 are broker-dealer claims which together total approximately \$264.975 million of the \$1.741 billion. Inasmuch as the Trustee proposes to allocate no assets to the General Estate, there are no funds in the General Estate from which to make a distribution to general creditors at this time. Accordingly, “[no] purpose would be served” by the examination of or the institution of actions seeking to disallow such claims. See 11 U.S.C. § 704(5).

V. MISCELLANEOUS

A. Notice

63. Pursuant to Bankruptcy Rules 2002(a)(6), 2002(f)(8), and 2002(h), the Trustee has given notice of the hearing on the Trustee’s Motion by first class mail, postage prepaid, to all claimants that filed a claim. Pursuant to the Order Establishing Notice Procedures (ECF No. 4650), the Trustee has given notice of the hearing on the Trustee’s Motion via email and/or U.S. Mail to (i) SIPC; (ii) the SEC; (iii) the Internal Revenue Service; (iv) the United States Attorney for the Southern District of New York; and (v) all persons who have filed notices of appearance in the BLMIS proceeding. The Trustee believes that no further notice need be given of this or any further matter in the proceeding.

B. Record Date

64. The Fourth Interim Distribution will be made to all record holders as of April 17, 2014.

VI. CONCLUSION

65. This Motion and the relief requested by the Trustee are consistent with the policy and purposes underlying SIPA and are in the best interests of the customers of BLMIS, the Estate, and its creditors.

66. No prior application for the relief sought herein has been made to this or any other Court.

WHEREFORE, the Trustee respectfully requests that this Court enter an order (a) approving: (i) the proposed Fourth Allocation of Property to the Customer Fund and to the General Estate; (ii) the proposed Fourth Interim Distribution of the Customer Fund; and (b) granting such other and further relief as may be deemed just and proper.

Dated: March 25, 2014

Respectfully submitted,

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Liquidation of Bernard L. Madoff Investment
Securities LLC and Bernard L. Madoff*

EXHIBIT A

SECURITIES INVESTOR PROTECTION CORPORATION

Irving H. Picard, Trustee for the Liquidation of Bernard L. Madoff Investment Securities, LLC

Report No. 63

Period Ended February 28, 2014
CASH RECEIPTS

General Cash Receipts	Net Change for Period		Prior Period Cumulative		Total Received		Cumulative Deficit		Code
	\$30,781,684.59						Customer Fund	General Estate	
Beginning Cash Balance			289,841,908.00		289,841,908.00		289,841,908.00		4011
Transfer from Debtor's Estate - Securities			336,660,934.06		336,660,934.06		336,660,934.06		4014
Transfers from Debtor's Estate - BNY Account			235,156,309.36		235,156,309.36		235,156,309.36		4016
Transfers from Debtor's Estate - Chase Account			4,036,145.08		4,036,145.08		4,036,145.08		4018
Interest and Dividends			1,843,166.84		1,843,166.84		1,843,166.84		4040
Closeout Proceeds - Broker Dealers			37,316,297.78		37,316,297.78		37,316,297.78		4030
Closeout Proceeds - NSCC			21,783,082.40		21,783,082.40		21,783,082.40		4031
Closeout Proceeds - DTCC			18,001,787.96		18,001,787.96		18,001,787.96		4032
Sale of Debtor's Assets			47.26		47.26		47.26		4070
- Sports Tickets			91,037.20		91,037.20		91,037.20		4071
- Bank Debt Participations			7,871,653.96		7,871,653.96		7,871,653.96		4072
- DTCC Shares			204,170.51		204,170.51		204,170.51		4073
- Market Making Business			1,416,279.52		1,416,279.52		1,416,279.52		4075
- Abtech			795,000.00		795,000.00		795,000.00		4076
- NSX Shares			100,734.60		100,734.60		100,734.60		4077
- BLM Air Charter			6,494,631.95		6,494,631.95		6,494,631.95		4074
- Auction Sales			529,080.00		529,080.00		529,080.00		4078
Administrative Subtenant Rent Revenue			531,078.49		531,078.49		531,078.49		4111
Adjusting Administrative Subtenant Rent Revenue			(531,078.49)		(531,078.49)		(531,078.49)		4111a
Refunds - Deposits			9,841.45		9,841.45		9,841.45		4091
- Dues/Subscriptions			177,247.15		177,247.15		177,247.15		4092
- Car Registrations			157.00		157.00		157.00		4093
- Vendors			62,450.65		62,450.65		62,450.65		4094
- Transit Cards			833.61		833.61		833.61		4095
- Insurance/Workers Comp			402,859.56		402,859.56		402,859.56		4096
- Ref. - Political Contributions			144,500.00		144,500.00		144,500.00		4097
- Refunds Other			50.84		50.84		50.84		4099
Recoveries - Litigation Related			0.00		0.00		0.00		4101
- Customer Avoidances			117,298,582.68		117,298,582.68		117,298,582.68		4020
- Pre-Litigation Settlements			1,905,143,597.98		1,905,143,597.98		1,905,143,597.98		4021
- Litigation Settlements *See Note (1) Below			6,304,784,217.11		6,780,187,550.44		6,780,187,550.44		4022
- Donation Settlements			875,000.00		875,000.00		875,000.00		4023
- Vendor Preferences			809,850.39		809,850.39		809,850.39		4024
- Employees			10,674.74		10,674.74		10,674.74		4102
- Taxing Authorities			12,777.56		12,777.56		12,777.56		4103
- Class Actions			789,425.95		1,338,640.32		1,338,640.32		4104
- NASDAQ			308,948.49		308,948.49		308,948.49		4105
- NYSE			183,683.79		183,683.79		183,683.79		4106
- Transaction Fees			96,816.23		96,816.23		96,816.23		4107
- Other			296,298.73		296,298.73		296,298.73		4109
Miscellaneous			0.36		0.36		0.36		4110
Earnings on Trustee's Investments			23,992,348.98		24,177,121.33		24,177,121.33		4120
Interest on Trustee's Savings Accounts			1,215,169.36		1,239,133.01		1,239,133.01		4140
Sub-total General Cash Receipts			\$9,518,757,599.09		\$9,794,921,320.29		\$9,794,921,320.29		
Advances from SIPC									
Administration - Advances			1,196,863.59		914,679,401.41		914,679,401.41		2901
Securities - Paid Bank Loans			0.00		0.00		0.00		2921
- Cash in Lien			0.00		808,173,978.44		808,173,978.44		2922
Sub-total SIPC Advances			\$1,196,863.59		\$1,722,853,379.85		\$1,722,853,379.85		
Funds Transferred from Investment Accounts *See Note (3) on Page 3			44,662.70		5,759,811,154.23		5,759,811,154.23		1901
Total Cash Receipts			\$277,403,247.49		\$17,000,180,606.88		\$9,794,921,320.29	\$0.00	

*Note (1) On February 5, 2014, the Bankruptcy Court entered an Order approving the Trustee's Motion for settlement of Avoidance Claims brought by the Trustee against JP Morgan Chase. Under the settlement agreement, JP Morgan Chase has paid \$325 million to the Trustee in full and final settlement of the Trustee's Avoidance Claims. The settlement was a practical and fair compromise of complex litigation and increased the fund of customer property, thus benefitting BLMIS customers holding allowed claims. Previously, on June 10, 2011, the Bankruptcy Court approved a settlement agreement by and among the Trustee and Kenneth Krays, the Foreign Representative and Liquidator of Fairfield Sentry Limited, Fairfield Sigma Limited, and Fairfield Lambda (the "Fairfield Sentry Funds"). Under that agreement, the Fairfield Sentry Funds are entitled to share in certain avoidance settlement payments received by the Trustee, including JP Morgan Chase. Accordingly, the Trustee paid \$50 million to the Fairfield Sentry Funds. Under the circumstances, the settlement agreement with JP Morgan Chase enabled the Trustee to increase the fund of customer property by a net amount of \$275 million. That is the amount recorded for the JP Morgan Chase settlement under Recoveries-Litigation Settlements.

Period Ended February 28, 2014

Report No. 63

CASH DISBURSEMENTS:

Administrative Disbursements

General Administrative Disbursements

	Net Change for Period	Prior Period Cumulative	Cumulative Total Paid	Code
Computer - Rental	0.00	11,121.59	11,121.59	5011
- Software Support	0.00	55,159.20	55,159.20	5012
- Equipment Leases	0.00	204,159.01	204,159.01	5013
Employee Related - Salaries-Net	0.00	4,361,844.80	4,361,844.80	5020
- FICA-Employer	0.00	318,550.60	318,550.60	5021
- Fed. & St. Unemploy.	0.00	4,296.08	4,296.08	5023
- Temporary Help	0.00	29,612.50	29,612.50	5024
- Employee Medical Plan	0.00	830,103.99	830,103.99	5025
- Employee LTD	0.00	6,887.03	6,887.03	5026
- Employee Expense Reimbursement	0.00	1,125.87	1,125.87	5027
- Employee Life/AD&D	0.00	9,006.83	9,006.83	5028
- Other	0.00	1,622.90	1,622.90	5029
Insurance - Trustee Bond	0.00	3,000.00	3,000.00	5030
Insurance - Surety & Fidelity Bonds	0.00	37,400.00	37,400.00	5031
Insurance Workers Comp	0.00	12,578.00	12,578.00	5032
- Other	0.00	21,099.00	21,099.00	5039
Fees - Payroll Processing	0.00	8,195.96	8,195.96	5045
Fees - Escrow	0.00	1,218,198.85	1,218,198.85	5046
- Other	0.00	12,337.22	12,337.22	5047
Expenses for Asset Sales	0.00	19,205.73	19,205.73	5048
Rent - Office	0.00	3,987,347.17	3,987,347.17	5050
- Adjustment for Administrative Subtenant Rent Revenue	0.00	(531,078.49)	(531,078.49)	5050a
- Equipment	0.00	1,695.89	1,695.89	5051
- Warehouse	12,728.74	742,962.34	755,691.08	5052
- Bulova	0.00	310,130.75	310,130.75	5053
- Other	936.00	62,249.27	63,185.27	5059
Costs - Vacating 885 Third Avenue	0.00	20,179.46	20,179.46	5111
Telephone and Telegraph	0.00	360,456.68	360,456.68	5060
Communication Fees	0.00	644,177.76	644,177.76	5061
Utilities - Electricity	96.25	20,833.75	20,930.00	5070
Office Supplies & Expense - Maint. & Repairs	0.00	79,338.86	79,338.86	5080
- Moving & Storage	2,290.83	264,128.02	266,418.85	5081
- Postage/Handling/Preparation	0.00	40,961.12	40,961.12	5082
- Reproduction	0.00	183,889.65	183,889.65	5083
- Locksmith	0.00	5,811.39	5,811.39	5084
- Security	0.00	249,897.70	249,897.70	5085
- Supplies	0.00	3,342.03	3,342.03	5086
- Temporary Help	0.00	4,588,642.69	4,588,642.69	5087
- Process Server - Complaint	2,575.00	241,451.52	244,026.52	5088
- Other	2,400.00	33,818.62	36,218.62	5089
Taxes	0.00	555.51	555.51	5090
NYC Commercial Rent Tax	0.00	154,269.47	154,269.47	5091
Claims Related Costs - Mailing Costs	0.00	23,053.28	23,053.28	5101
- Publication	0.00	163,961.13	163,961.13	5102
- Supplies	0.00	16,244.58	16,244.58	5103
- Printing	0.00	2,207.42	2,207.42	5104
Court Related Noticing - Postage/Handling/Preparation *See Note (1) Below	0.00	0.00	0.00	5106
- Reproduction	0.00	0.00	0.00	5107
- Supplies	0.00	0.00	0.00	5108
Scanning - Investigation	0.00	5,159,289.06	5,159,289.06	5110
Foreign Research	0.00	38,975.00	38,975.00	5112
Miscellaneous	0.00	666.91	666.91	5115
Hosting Expense	746,409.45	18,737,272.13	19,483,681.58	5244
Sub-total General Admin. Disbursements	\$767,436.27	\$42,772,235.83	\$43,539,672.10	
Professional Fees and Expenses				
Trustee Fees	0.00	4,377,662.10	4,377,662.10	5200
Trustee Expenses	0.00	2,549.25	2,549.25	5201
Trustee Counsel Fees (Baker)	7,154,244.16	508,288,985.60	515,443,229.76	5210
Trustee Counsel Expenses (Baker)	109,493.62	11,864,348.39	11,973,842.01	5211
Trustee Counsel Fees (Windels)	0.00	25,007,523.53	25,007,523.53	5212
Trustee Counsel Expenses (Windels)	0.00	324,653.96	324,653.96	5213
Special Counsel Fees	0.00	34,488,108.35	34,488,108.35	5220
Special Counsel Expenses	0.00	10,779,357.84	10,779,357.84	5221
Consultant Fees	3,762,135.69	288,458,006.10	292,220,141.79	5240
Consultant Expenses *See Note (2) Below	254,670.07	13,246,747.72	13,501,417.79	5241
Investment Banker Fees	0.00	1,050,000.00	1,050,000.00	5242
Sales Tax	4,211.75	1,274,705.84	1,278,917.59	5243
Mediator Fees	26,556.75	1,088,700.32	1,115,257.07	5245
Mediator Expenses	0.00	9,620.79	9,620.79	5246
Receiver Counsel Fees	0.00	300,000.00	300,000.00	5260
Receiver Counsel Expenses	0.00	6,449.08	6,449.08	5261
Receiver's Consultants Fees	0.00	316,000.00	316,000.00	5262
Receiver's Consultants Expenses	0.00	15,000.00	15,000.00	5263
Sub-total Professional Fees and Expenses	\$11,311,312.04	\$900,898,418.87	\$912,209,730.91	
Total Administrative Disbursements	\$12,078,748.31	\$943,670,654.70	\$955,749,403.01	

* Note (2) See Supporting Schedule on Page 6

Report No. 63

Period Ended February 28, 2014

CASH DISBURSEMENTS:	Net Change for Period	Prior Period Cumulative	Total Paid	Cumulative Totals		Code
				Customer Fund	General Estate	
Claim Related Disbursements						
Customer - Paid Bank Loan	0.00	\$ 5,585,037,226.33	\$ 5,585,037,226.33	\$ 4,776,863,247.89	\$ 808,173,978.44	6021
- Securities - Cash in Lieu						6022
- Securities - Purchases						6023
- Indemnification						6031
- Cash Balance						6041
Customer -						6050
Customer -						6060
Customer - Trustee Journal Entry per Allocation						6000
Other - Contractual Commitments						6111
- Po. Bank Loan						6121
- Indemnification						6131
Other -						6140
Other -						6150
Other -						6160
Other - Trustee Journal Entry per Allocation						6100
General Creditor						6200
Sub-total Claim Disbursements	\$0.00	\$5,585,037,226.33	\$5,585,037,226.33	\$4,776,863,247.89	\$808,173,978.44	
Other Disbursements (except investments)						
SIPC - Refunds - Recoupment						6301
- Indemnification						6310
- Contr. Commitments						6311
- Paid Bank Loan	0.00	102,805,012.23	102,805,012.23	102,805,012.23		6321
- Subrogation						6322
Other -						6400
Other -						6401
Other -						6402
Other -						6403
Other -						6404
Sub-total Other Disbursements	\$0.00	\$102,805,012.23	\$102,805,012.23	\$102,805,012.23	\$0.00	
Investments by Trustee - Purchases *See Note (3) Below	\$275,208,736.00	\$10,337,886,029.03	\$10,613,094,765.03			1900
Sub-total Administrative Disb. - page 2	\$12,078,748.31	\$943,670,654.70	\$955,749,403.01	\$0.00	\$955,749,403.01	
Total Disbursements	\$287,287,484.31	\$16,969,398,922.29	\$17,256,686,406.60	\$4,879,668,260.12	\$1,763,923,381.45	
Total Receipts less Disbursements	(\$9,882,236.82)	\$30,781,684.59	\$20,899,447.77	\$4,915,253,060.17	\$0.00	
Ending Cash Balance *See Note (4) Below	\$20,899,447.77				(\$41,070,001.60)	

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* Note (3) Two preferred custody accounts and an insured money market account have been established at Citibank for investment purposes and an additional investment account is maintained at JP Morgan Chase. A Broker's account, which was previously established at Morgan Joseph, was closed in January 2012. Since January 20, 2009, \$10,613,094,765.03 of recovered funds have been transferred into these investment accounts and \$5,759,811,154.23 of these funds have subsequently been used for interim distributions to customers with allowed claims and for operations. (See Page 5 for more details).

* Note (4) The ending cash balance includes a \$19,834,007.26 balance in the Citibank Business Checking Account and \$1,065,440.51 in the Citibank Distribution Account.

Period Ended February 28, 2014

Report No. 63

SUMMARY INFORMATION ON STATUS OF LIQUIDATION

	Customer Claimants	Broker/Dealer Claimants	General Estate Claimants
Claims received	16,519	49	94
Claims satisfied by distribution of cash and/or securities:			
a. As part of the transfer in bulk			
b. On an account by account basis-Fully Satisfied	1,248		
c. On an account by account basis-Partially Satisfied	1,255		
	<u>2,503</u>	<u>-</u>	<u>-</u>
Claims Determined - no claims	12		
Claims Deemed Determined - pending litigation	155		
Claims Determined - withdrawn	209		
Claims Determined but not yet satisfied	14		
Claims under review	-	49	94
Claims Denied:			
a. No Claims			
c. Assets at Another Broker			
c. Other Denials for which no objections were filed	9,536		
d. Denials for which objections were filed:			
- Hearing not yet set	3,446		
- Set for Hearing	644		
- Adjudicated			
	<u>14,016</u>	<u>49</u>	<u>94</u>
Accounts with cash and/or securities which were transferred in bulk			
Filing Date Value			
Customer name securities distributed			
Customer fund securities distributed			
	<u>\$</u>		



(Trustee's Signature)

3-12-2014
(Date)



(Accountant's Signature)

3-11-2014
(Date)

Report No. 63

IRVING H. PICARD, TRUSTEE FOR THE LIQUIDATION OF BLMIS LLC
Investment Accounts

	Citibank Preferred Custody Account-Original Account		US Treasury Notes	US Treasury Bills	Accrued Interest	Account Balance	Citibank Preferred Custody Account-#2 Assets/Mutual Funds	Citibusiness IMMA Account Account Balance	Total Citibank
	Cash Assets/Mutual Funds	U.S. Treasury Bills							
Balance January 31, 2014	3,029,559	748,099,227	-	-	51	751,128,837	763,973,350	156,215,169	1,671,317,356
Maturity of U.S. Treasury Bills	394,442,723	(394,442,723)	-	-	-	-	-	-	-
Purchase of Securities	(669,442,665)	669,442,665	-	-	-	-	-	-	-
Unrealized Gain or (Loss)		(23,558)				(23,558)			(23,558)
Transfers from/(to) the Citibank Operating Account						275,000,000		(44,663)	274,955,337
Interest and Dividends Earned									
Interest	1,330				(5)	1,325	70,327	23,964	95,616
Dividends	1					1			1
Balance February 28, 2014	3,030,948	1,023,075,611	-	-	46	1,026,106,605	764,043,677	156,194,470	1,946,344,752

	JP Morgan Chase		Account Balance
	Cash	U.S. Treasury Bills	
Balance January 31, 2014	525,979	2,906,639,866	2,907,165,845
Maturity of U.S. Treasury Bills			
Purchase of U.S. Treasury Bills			
Unrealized Gain or (Loss)		(31,857)	(31,857)
Interest and Dividends Earned			
Interest			
Dividends			
Balance February 28, 2014	525,979	2,906,608,009	2,907,133,988

Period Ended February 28, 2014

Report No. 63

IRVING H. PICARD, TRUSTEE FOR THE LIQUIDATION OF BLMIS LLC
Consultant Expenses for Court Related Noticing

	Net Change for Period	Prior Period Cumulative	Cumulative Total Paid
Postage / Handling / Preparation	0.00	490,385.30	490,385.30
Printing	0.00	44,945.40	44,945.40
Reproduction Costs	0.00	682,797.70	682,797.70
Supplies	0.00	91,503.64	91,503.64
Total *See Note Below	<u><u>\$0.00</u></u>	<u><u>\$1,309,632.04</u></u>	<u><u>\$1,309,632.04</u></u>

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*Note: All of the expenses above were incurred by consultants in connection with court related noticing procedures, and are included in the Consultant Expenses line (Account #5241) on Page 2 of the SIPC Form 17.

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Hearing Date: April 17, 2014
Hearing Time: 10:30 a.m. (EST)
Objection Deadline: April 10, 2014

*Attorneys for Irving H. Picard, Trustee
for the Substantively Consolidated SIPA Liquidation
of Bernard L. Madoff Investment Securities LLC
and Bernard L. Madoff*

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

SECURITIES INVESTOR PROTECTION
CORPORATION,

Plaintiff-Applicant,

v.

BERNARD L. MADOFF INVESTMENT
SECURITIES LLC,

Defendant.

In re:

BERNARD L. MADOFF,

Debtor.

Adv. Pro. No. 08-01789 (SMB)

SIPA Liquidation

(Substantively Consolidated)

**NOTICE OF MOTION FOR AN ORDER APPROVING FOURTH ALLOCATION OF
PROPERTY TO THE FUND OF CUSTOMER PROPERTY AND AUTHORIZING
FOURTH INTERIM DISTRIBUTION TO CUSTOMERS**

PLEASE TAKE NOTICE that Irving H. Picard, as trustee (“Trustee”) for the liquidation of the business of Bernard L. Madoff Investment Securities LLC (“BLMIS”) under the Securities Investor Protection Act, 15 U.S.C. §§ 78aaa *et seq.* (“SIPA”), and the substantively

consolidated estate of Bernard L. Madoff (“Madoff”) (collectively, “Debtor”), will move (the “Motion”) before the Honorable Stuart M. Bernstein, United States Bankruptcy Judge, at the United States Bankruptcy Court, the Alexander Hamilton Customs House, One Bowling Green, New York, New York 10004, on **April 17, 2014 at 10:30 a.m.**, or as soon thereafter as counsel may be heard, seeking entry of an order (1) approving the fourth allocation of property (“Fourth Allocation”) to the fund of customer property (“Customer Fund”); and (2) authorizing a fourth pro rata interim distribution (“Fourth Interim Distribution”) to customers whose claims for customer protection under SIPA have been allowed for amounts exceeding the SIPC statutory advance limits and not already satisfied by the interim pro rata interim distributions to date.

PLEASE TAKE FURTHER NOTICE that written objections to the Motion must be filed with the Clerk of the United States Bankruptcy Court, One Bowling Green, New York, New York 10004 by no later than **4:00 p.m. on April 10, 2014** (with a courtesy copy delivered to the Chambers of the Honorable Stuart M. Bernstein) and must be served upon (a) Baker & Hostetler LLP, counsel for the Trustee, 45 Rockefeller Plaza, New York, New York 10111, Attn: David J. Sheehan, Esq., and (b) the Securities Investor Protection Corporation, 805 Fifteenth Street, NW, Suite 800, Washington, DC 20005, Attn: Kevin H. Bell, Esq. Any objections must specifically state the interest that the objecting party has in these proceedings and the specific basis of any objection to the Motion.

PLEASE TAKE FURTHER NOTICE that replies to objections, if any, must be filed with the Clerk of the United States Bankruptcy Court, One Bowling Green, New York, New York 10004 by no later than **4:00 p.m. on April 15, 2014** (with a courtesy copy delivered to the Chambers of the Honorable Stuart M. Bernstein).

Dated: March 25, 2014

Respectfully submitted,

/s/ David J. Sheehan

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*Attorneys for Irving H. Picard, Trustee
for the Substantively Consolidated SIPA
Liquidation of Bernard L. Madoff Investment
Securities LLC and Bernard L. Madoff*

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

SECURITIES INVESTOR PROTECTION
CORPORATION,

Plaintiff-Applicant,

v.

BERNARD L. MADOFF INVESTMENT
SECURITIES LLC,

Defendant.

In re:

BERNARD L. MADOFF,

Debtor.

Adv. Pro. No. 08-01789 (SMB)

SIPA Liquidation

(Substantively Consolidated)

**[PROPOSED] ORDER APPROVING A FOURTH ALLOCATION OF PROPERTY TO
THE FUND OF CUSTOMER PROPERTY AND AUTHORIZING FOURTH INTERIM
DISTRIBUTION TO CUSTOMERS**

Upon consideration of the motion (the “Motion”)¹, dated March 25, 2014, filed by Irving H. Picard, as trustee (“Trustee”) for the liquidation of the business of Bernard L. Madoff Investment Securities LLC (“BLMIS”) under the Securities Investor Protection Act, 15 U.S.C. § 78aaa *et seq.* (“SIPA”), and the substantively consolidated estate of Bernard L. Madoff (“Madoff”) (collectively, “Debtor”), for an Order Approving the Trustee’s Fourth Allocation of Property to the Fund of Customer Property and Authorizing Fourth Interim Distribution to Customers, and the Affidavit of Vineet Sehgal, executed March 25, 2014, and it appearing that due and proper notice of the Motion and the relief requested therein have been given, and no other or further notice needing to be given; and a hearing having been held on the Motion; and the Court having reviewed the Motion, responsive pleadings, the arguments of counsel and the

¹ All capitalized terms not defined herein shall have the meaning ascribed in the Motion.

record in this case; and the Court, as set forth in the transcript of the hearing on the Motion, having determined that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein, and after due deliberation and sufficient cause appearing therefor, **IT IS HEREBY:**

ORDERED, that the relief requested in the Motion is hereby granted; and it is further

ORDERED, that any objections to the Motion are hereby overruled; and it is further

ORDERED, that all holders of current and future allowed claims are eligible to receive a distribution consistent with the relief granted herein; and it is further

ORDERED, that the Trustee is required to maintain a reserve for the Time-Based Damages Issue at not less than the 3% Reserve.

Dated: New York, New York
April __, 2014

HONORABLE STUART M. BERNSTEIN
UNITED STATES BANKRUPTCY JUDGE