

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

**STEVE H. KARROUM
a/k/a MUSTAPHA KARROUM, et al.,**

Defendants and Relief Defendant.

Civil No. 17-cv-187 (AJT/IDD)

**PLAINTIFF'S MOTION FOR AN ORDER ESTABLISHING A FAIR FUND,
APPROVING A DISTRIBUTION PLAN, AND APPOINTING A DISTRIBUTION
AGENT, WITH SUPPORTING MEMORANDUM AND ATTACHED PROPOSED PLAN**

Plaintiff Securities and Exchange Commission (the "SEC") respectfully moves this Court for an Order establishing a Fair Fund, approving the proposed distribution plan attached as Exhibit A, and appointing an SEC employee as the distribution agent. Immediately after filing this Motion, the SEC will send Notice of the Plan (the "Plan Notice") in the form attached as Exhibit B, to all identified investors. The Plan Notice will include a copy of this Motion and the Plan, and directions on how to object to the Plan, with an objection submission deadline of April 8, 2019. After April 8, 2019, the SEC will inform the Court of any objections and the SEC's response thereto and, as appropriate, request that the Court enter the accompanying or a revised proposed order.

The undersigned has conferred with counsel for Sahar Karroum, James T. Bacon, who has confirmed that his client will not object to this motion or the relief sought.

MEMORANDUM IN SUPPORT

By the proposed distribution plan attached as Exhibit A (the “Plan”), the SEC seeks to distribute to harmed investors more than \$1.3 million in collections on the Final Default Judgment and Settlement entered by this Court (the “Final Judgment”, Dkt. 62). Immediately after filing this Motion, the SEC will send Notice of the Plan (the “Plan Notice”) in the form attached as Exhibit B to all identified investors, providing them with a copy of these motion papers and the Plan, and directions on how to object to the Plan, with an objection submission deadline of April 8, 2019. After April 8, 2019, the SEC will inform the Court of any objections and its response thereto and, as appropriate, request that the Court enter the accompanying or a revised proposed order.

I. Procedural Background

On February 16, 2017, the SEC filed a Complaint against Steve H. Karroum, a/k/a Mustapha Karroum (“Karroum”) and FX & Beyond Corporation (“FX”) (collectively, the “Defendants”), naming Karroum’s wife, Sahar (“Sahar”), as a relief defendant. The SEC alleged that, from at least December 2007 through May 2014, Karroum and FX solicited approximately \$4 million from at least 18 investors in the U.S. under false pretenses, promising that the funds would be used for forex trading and would be kept safe. Instead, Karroum misappropriated the funds to make Ponzi-like payments to investors, unrelated business expense payments, and for personal use. The SEC charged the Defendants with violations of Sections 5 and 17(a) of the Securities Act of 1933 [15 U.S.C. §§ 77e(a) and 77q(a)], and Section 10(b) of the Securities Exchange Act of 1934 [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder. Dkt. No. 1.

On April 13, 2018, upon notice of Karroum's death and motion of the SEC, the Court substituted Sahar, as successor to Karroum, as a defendant in this action. Dkt. Nos. 29, 40. On September 10, 2018, upon the stipulation of Sahar and the default of FX, this Court entered the Final Judgment finding, in relevant part, FX liable for disgorgement of \$805,960.14, prejudgment interest of \$74,266, and a civil penalty of \$512,430.07, for a total liability of \$1,392,656.21. Dkt. No. 62. The Court further ordered Prudential Insurance Company ("Prudential") to transfer \$1,392,656.21 of proceeds from a life insurance policy insuring the life of Karroum (the "Life Insurance Proceeds") to the SEC in satisfaction of this liability. Pursuant to the Final Judgment, the SEC must hold these funds pending further Order from the Court and may propose to the Court a plan to distribute the funds pursuant to the Fair Fund provisions of Section 308(a) of the Sarbanes Oxley Act of 2002, 15 U.S.C. §7246(a) ("Section 308(a)"). Dkt. No. 62. By the present motion, the SEC requests an Order permitting such distribution.

II. Additional Relevant Facts

A. The Funds Available for Distribution

Prudential has since transferred the Life Insurance Proceeds to the SEC, and the SEC currently holds \$1,392,656.21 in collected disgorgement, prejudgment interest, and civil penalties, in an interest-bearing account at the United States Treasury (the "Fund"). Of this amount, approximately \$512,000 is collected civil penalty, which may only be included in the distribution pursuant to the Fair Fund provisions of Section 308(a); without the establishment of a Fair Fund pursuant to Section 308(a), only approximately \$880,000 less Administrative Costs¹ will be available for distribution.

B. Harmed Investors

¹ If not otherwise defined herein, capitalized terms are as defined in the Plan.

The SEC has identified twenty investors in FX (the “Investors”), fourteen of whom were harmed by the Defendants in an aggregate amount of, approximately, \$1.78 million (the “Harmed Investors”). Each Investor has been assigned an Investor Number to protect their privacy.

Prior to filing this motion, by Investor Notice dated November 27, 2018, the SEC confirmed with each Investor their “Investment In” and “Recovery” as those terms are defined in the Plan and reflected on Attachment 1 to the Plan (“Attachment 1”). Three Investors objected to the SEC’s calculations. The SEC has resolved two of those objections (Investors 9 and 10), one by adjusting the calculations for good cause shown, and the other by explaining the bases of the calculations.

With respect to the third objection, the SEC does not intend to adjust the Investment In or Recovery amounts for the reasons that follow, despite the Investor’s continuing objection. Investor 3 objected to the “Investment In” number in that it excluded investments in “3S”, another business of defendant Karroum. Investor 3 claims that “3S” was an alter ego of defendant Karroum and that, therefore, the collections in this matter should be used to compensate investors in 3S. Investor 3 further objects to the “Recovery” number in that it includes as Recoveries all payments to Investors, including payments of purported interest, as opposed to simply payments of principal. Investor 3 otherwise agrees with the SEC’s calculations; there is no dispute as to the amount of Investor 3’s investment in FX or the aggregate payments received by Investor 3.

As the SEC staff explained to counsel for Investor 3, the distribution in this matter will be used to partially compensate investors for their losses from investments in FX that are the subject of this action because 3S was not a defendant in this action; its conduct, role in a fraud, or

relationship to the Defendants were not adjudicated in this action; and the monetary relief awarded and collected is insufficient to fully compensate the investors in FX.

On the Recovery issue, because the funds available for distribution are insufficient to compensate investors for losses in principal, and because Recoveries,² whether characterized as interest or otherwise, derived from the principal invested by Investors and not through some income generating activity, the SEC is not crediting investors for purported accrued interest but rather, is counting all payouts as return of principal.

C. The Proposed Distribution

1. The Plan

In the Plan, the SEC proposes using the “Rising Tide” methodology to calculate Distribution Payments because several Harmed Investors Recovered a significant percentage of their Investments In, whereas some Harmed Investors Recovered less than 10% of their Investment In. *See* Attachment 1 to the Plan. Under the Rising Tide methodology, any Recoveries previously obtained by Harmed Investors through withdrawals, interest payments, or otherwise, are considered distributions. Anyone who has previously Recovered a significant percentage of their Investment In will not get a distribution until those who have little or no Recovery recoup the same percentage (the “Recovery Ratio”). In this case, assuming \$1.35 million available for distribution and aggregate net losses of \$1.78 million, the SEC estimates the Recovery Ratio will be, approximately, 87.71%, meaning that all Harmed Investors have Recovered, or will Recover through this distribution, at least 87.71% of their Investment In.³ Only one Harmed Investor, who has already received over 94% of their Investment In, will not

² “Recovery” is defined in the Plan is the aggregate amount of the Investment In recovered by an Investor, whether through repayment by the Defendant, interest or dividend payments, or otherwise.

³ The Recovery Ratio used in this example is estimated based on a conservative Administrative Cost reserve. The amount available for distribution, the Recovery Ratio, and Distribution Payments will change upon the Tax Administrator’s calculation of a final reserve.

receive a distribution under this methodology. Based on the current calculations, all others will receive distributions ranging from (approximately) \$2,800 to \$268,000.

As an example of the application of the Rising Tide methodology, compare Investor 3 on Attachment 1 to the Plan, who Recovered 81% of their Investment In, with Investor 13, who Recovered 7.86% of their investment In. As demonstrated in the chart below, under the Rising Tide methodology, after distribution, both Investor 3 and Investor 13 will have recovered 87.71% of their Investment In – Investor 3 through a Distribution Payment of \$40,260, and Investor 13 through a Distribution Payment of \$244,240.24.

(Line)	Investor 3		Investor 13	
1	Investment In	\$600,000.00	Investment In	\$305,890.14
2	Recovery Ratio	87.71%	Recovery Ratio	87.71%
3	Amount Necessary for 87.71% Recovery (Line 1*Line 2)	\$526,260.00	Amount Necessary for 87.71% Recovery (Line 1*Line 2)	\$268,296.24
4	Recovery	\$486,000.00	Recovery	\$24,056.00
5	Percent Recovered (Line 4/ Line 1)	81.00%	Percent Recovered (Line 4/ Line 1)	7.86%
6	Distribution Payment (Line 3-Line 4)	\$40,260.00	Distribution Payment (Line 3-Line 4)	\$244,240.24
7	Final Percent Recovered with Distribution Payment	87.71%	Final Percent Recovered with Distribution Payment	87.71%

The SEC alternatively considered a methodology commonly referred to as the Net Loss methodology, which first offsets an Investor's Investment In by the Investor's Recovery to get their Net Loss, and then divides the Net Fair Fund *pro rata* among all Harmed Investors with a Net Loss. Based on the assumed distributable amount of \$1.35 million, and aggregate Net Losses of \$1.78 million, the Pro Rata Percentage ($1,350,000/1,780,000$) would be 75.84%. Again using Investor 3 and Investor 13 for example, use of this methodology would result in

Investor 3 recouping over 95% of their Investment In, and Investor 13 recouping only (approximately) 78%. The SEC rejects this approach as inequitable, disfavoring those Harmed Investors with lower Recoveries .

(Line)	Investor 3		Investor 13	
1	Investment In	\$600,000.00	Investment In	\$305,890.14
2	Recovery	\$486,000.00	Recovery	\$24,056.00
3	Net Loss (Line 1- Line 2)	\$114,000.00	Net Loss (Line 1- Line 2)	\$281,834.14
4	Pro Rata Percentage (distributable amount/ aggregate Net Losses)	75.84%	Pro Rata Percentage (distributable amount/ aggregate Net Losses)	75.84%
5	Distribution Payment (Line 3 * Line 4)	\$ 86,460.67	Distribution Payment (Line 3 * Line 4)	\$ 213,750.61
6	Total Recovery with Distribution Payment	\$ 572,460.67	Total Recovery with Distribution Payment (Line 2 + Line 6)	\$ 237,806.61
7	Final Percent Recovered with Distribution Payment	95.41%	Final Percent Recovered with Distribution Payment	77.74%

2. The Distribution Agent and Administrative Costs

The SEC proposes that Catherine E. Pappas, Senior Adviser in the SEC's Division of Enforcement, act as Distribution Agent for the Fund. In the absence of distribution agent costs, the SEC expects Administrative Costs will include only taxes, tax administration fees and costs, and investment costs.

III. This Court Should Grant the Requested Relief

A district court has broad discretion in approving an SEC plan of distribution, and that determination is reviewed for abuse of discretion. *See SEC v. Quan*, 870 F.3d 754, 762 (8th Cir. 2017); *SEC v. Malek*, 397 Fed. Appx. 711, 715 (2d Cir. 2010), *citing SEC v. Loewenson*, 290

F.3d 80, 87 (2d Cir. 2002); *WorldCom, Inc. v. SEC*, 467 F.3d 73, 84 (2d Cir. 2006). *Cf. CFTC v. Mason*, Civ. Act. No. 3:13-cv-196-GCM, 2014 U.S. Dist. LEXIS 147770, *3 (W.D.N.C. Oct. 14, 2014) (district courts have wide latitude and discretion in approving a distribution plan of receivership funds); *In re Receiver*, Civ. Act. No. 3:10-3141-MBS, 2011 U.S. Dist. LEXIS 71961, *6 (D.S.C. Jul. 1, 2011) (the court has broad authority to approve a plan of distribution proposed by a federal receiver); *SEC v. Parish*, Civ. Act. No. 2:07-cv-00919-DCN, 2010 U.S. Dist. LEXIS 11757,*16 (D.S.C. Feb. 10, 2010) (courts have broad authority to approve a plan of distribution proposed by a receiver). The job of the district court is to ensure that the proposed plan of distribution is fair and reasonable. *Parish*, 2010 U.S. Dist. LEXIS 11757,*17 (the court has the power to approve any plan as long as it is “fair and reasonable”). *See also Quan*, 870 F.3d at 762; *WorldCom*, 467 F.3d at 83-85 (because the SEC is fulfilling a statutory role in determining how to distribute recovered funds to investors, it is entitled to the deference of a “fair and reasonable” standard—that the plan fairly and reasonably distributes limited funds among the potential claimants); *SEC v. J. P. Morgan Sec. LLC*, 266 F. Supp. 3d 225, 227, 230 (D.D.C. Jul. 20, 2017); *SEC v. CR Intrinsic Investors, LLC*, 164 F. Supp. 3d 433, 435 (S.D.N.Y. 2016).

In this case, the SEC proposes using the Rising Tide methodology to ensure that those Harmed Investors who have Recovered a substantial percentage of their Investments In do not get additional funds through this distribution until those who have Recovered little or none of their Investment In receive some of that investment back. No Harmed Investor who Recovered more than the Recovery Ratio will receive compensation until all Harmed Investors have recovered at least that percent of their Investment In. The SEC believes this methodology to be the most fair and reasonable approach to distribution under the circumstances here—limited

funds and Harmed Investors with varying Recoveries. *See Mason*, 2014 U.S. Dist. LEXIS 147770, *7-8 (describing alternative calculations and finding the “rising tide” methodology most equitable where funds insufficient to make investors whole, distinguishing a case in which the Rising Tide methodology would exclude 55% of the harmed investors); *Receiver*, 2011 U.S. Dist. LEXIS 71961, *7-8, *11 (describing the rising tide methodology and finding it equitable); *Parish*, 2010 U.S. Dist. LEXIS 11757,*19, *24 (a number of courts faced with disparity in recoveries in a Ponzi type fraud have determined the Rising Tide approach more appropriate than the [net investment] approach so that certain investors do not receive back more than their proportionate share of investments). *See also SEC v. Huber*, 702 F.3d 903, 906 (7th Cir. 2012), and the cases cited therein (finding the Rising Tide methodology most commonly used and judicially approved for apportioning receivership assets).

The SEC further moves this Court to establish a Fair Fund so that all funds paid, and not simply the approximately \$900,000 in disgorgement and prejudgment interest, can be used to benefit the Eligible Harmed Investors. *See* 15 U.S.C. §7246(a); *see also* the Final Judgment, Dkt. No. 62. Section 308(a) of the Sarbanes-Oxley Act of 2002 provides, in relevant part:

If in any judicial or administrative action brought by the [SEC] under the securities laws, the [SEC] obtains a civil penalty against any person for a violation of such laws, or such person agrees, in settlement of any such action, to such civil penalty, the amount of such civil penalty shall, on the motion or at the direction of the [SEC], be added to and become part of a disgorgement fund or other fund established for the benefit of the victims of such violation.

15 U.S.C. § 7246(a). The SEC brought this action under the federal securities laws and this Court has ordered payment of a civil penalty of \$512,430.07 in addition to disgorgement and prejudgment interest. Section 308(a)’s requirements have thus been satisfied and this Court should establish a Fair Fund comprised of all monetary relief collected in this case, plus any accrued interest.

Finally, the SEC moves this Court to appoint Catherine E. Pappas, an SEC employee, admitted *pro hac vice* in this case, as Distribution Agent to perform such functions as are necessary to implement and administer the Plan, including coordination with the Tax Administrator to ensure compliance with applicable tax laws. As set forth in the Plan, the Distribution Agent, an SEC employee, shall receive no compensation other than her regular salary for her services in administering the Fund. The appointment of an SEC employee will expedite the distribution process and avoid the costs and expenses that would ordinarily be incurred by the appointment of a third-party administrator, thus increasing the return to Eligible Harmed Investors.

IV. Conclusion

For the reasons set forth above, the SEC respectfully requests that the Court grant the requested relief.

Dated: March 7, 2019

Respectfully submitted,

/s/ Timothy Halloran

Timothy Halloran

VA Bar # 48352

Attorney for Plaintiff

SECURITIES AND EXCHANGE COMMISSION

100 F Street N.E.

Washington, D.C. 20549

Tel: (202) 551-4414

Fax: (202) 772-9228

Email: hallorant@sec.gov

Of Counsel:

Catherine E. Pappas (*pro hac vice* application granted)

Exhibits:

A (Plan)

B (Plan Notice)

CERTIFICATE OF SERVICE

I hereby certify that on March 7, 2019, I served the foregoing and all supporting papers electronically using the CM/ECF system on:

James T. Bacon
11350 Random Hills Road
Suite 700
Fairfax, VA 22030
Counsel for Sahar Karroum

I further certify that on March 7, 2019, as permitted by the Court's May 31, 2017 Order (Dkt. No. 7), the foregoing and all supporting papers were served by email on Defendant FX & Beyond Corporation at karroums@kartech-inc.com and by UPS to:

John Forest
StahlZelloe, P.C.
11350 Random Hills Road
Suite 700
Fairfax VA 22030

/s/ Timothy Halloran
Timothy Halloran
VA Bar # 48352
Attorney for Plaintiff
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EXHIBIT A

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

**STEVE H. KARROUM
a/k/a MUSTAPHA KARROUM, et al.,**

Defendants and Relief Defendant.

Civil No. 17-cv-187 (AJT/IDD)

(Proposed) Distribution Plan

Introduction and Background

1. The Securities and Exchange Commission (the “SEC”) submits this Distribution Plan (the “Plan”) to fairly and reasonably distribute the Fair Fund established in this matter (the “Fair Fund”) to investors harmed by the actions described in the Complaint.

2. The SEC incorporates by reference the background and history of this matter as set forth in the accompanying Memorandum in Support of its Motion For an Order Establishing a Fair Fund, Approving a Distribution Plan, and Appointing a Distribution Agent.

The Distribution Agent

3. Catherine E. Pappas, an SEC employee, will serve as Distribution Agent in connection with the Plan.

4. The Distribution Agent:

(a) shall receive no compensation for the services performed in administering the Fair Fund, other than her regular salary as an employee of the SEC;

(b) shall perform such functions as are necessary to implement and administer the Plan. In performing this function, the Distribution Agent shall be deemed to be acting within the scope of her employment with the SEC. In carrying out her duties, the Distribution Agent may be assisted by other SEC staff acting under her supervision;

(c) shall coordinate with the Tax Administrator to ensure that the Fair Fund, a Qualified Settlement Fund (“QSF”) under Section 468B(g) of the Internal Revenue Code, and related regulations pertaining to QSFs, 26 C.F.R. §§ 1.468B-1 through 1.468B-5, complies with all related legal and regulatory requirements, including without limitation, satisfying any reporting or withholding requirements imposed on distributions from the Fair Fund; and

(d) with her designees, agents and assistants, shall not be required to post a bond, and shall not be liable to any person for their actions hereunder, except on a finding of willful disregard of duty.

Definitions

5. The following definitions apply to the terms as used in the Plan:

(a) The **Fair Fund** is comprised of collections in the captioned matter plus accrued interest.

(b) **Distribution Payment** is the payment made to an Eligible Harmed Investor in accordance with this Plan. No Distribution Payment shall be made under the Plan for less than \$20.00 (“*De Minimis* Amount”).

(c) **Eligible Harmed Investor** is any Harmed Investor who is not an Excluded Party, whose Distribution Payment equals or exceeds the *De Minimis* Amount,

and who is determined eligible for a Distribution Payment under the methodology described in ¶ 7, below.

(d) **Excluded Parties** are ineligible to receive a distribution under the Plan and include: (i) Unresponsive Investors, (ii) the defendants or relief defendant in the captioned matter (collectively, the “Defendant(s)”), and (iii) any entity controlled by one or more of the Defendant(s).

(e) **Harmed Investor** is an Investor whose Recovery is less than their Investment In.

(f) **Investment In** refers to the aggregate out-of-pocket investment made by an Investor in FX & Beyond Corporation (“FX”). It does not include any interest, dividend, or paper profit. Each Investor’s confirmed Investment In is set forth on the chart attached as Attachment 1 (“Attachment 1”).

(g) **Investor** refers to persons or entities who/which invested in FX;

(h) **Net Fair Fund** is the Fair Fund less costs of administration (“Administrative Costs”), including taxes, tax administration fees and expenses, and investment costs. All Administrative Costs shall be paid out of the Fair Fund.

(i) **Plan Notice** is the notice that the SEC will send to the last known address of each Investor after filing a motion with the Court to approve this Plan.

(j) **Percent Recovered** is the percent of their Investment In that a particular Investor recovered, calculated as the quotient of the Recovery and the Investment in, multiplied by 100. Each Investor’s Percent Recovered is set forth on Attachment 1.

(k) **Recovery** is the aggregate amount of the Investment In recovered by an Investor, whether through repayment by the Defendant, interest or dividend payments, or otherwise. Each Investor's confirmed Recovery is set forth on Attachment 1.

(l) **Recovery Ratio** is a calculation of Total Recovery as a fraction of the Investor's Investment In. Interim calculations of the Recovery Ratio will change until the Distribution Agent has identified all Eligible Harmed Investors and their Investment In and Recoveries.

(m) **Tentative Distribution** is an interim calculated distribution amount under ¶ 7 of this Plan.

(n) **Total Recovery** is an Investor's Recovery plus any Distribution Payment.

(o) **Unresponsive Investor** is any Harmed Investor from whom information has been or is being sought by the staff of the SEC, the Tax Administrator, and/or the Distribution Agent, including tax compliance related information, and who does not timely provide that information; and any Harmed Investor who the SEC cannot locate through reasonable efforts. Investors who relocate after being contacted by the Distribution Agent must promptly provide to the Distribution Agent new contact information in order to not be classified as an Unresponsive Investor. For purposes of this Plan, locating Harmed Investors through the use of commercial databases regularly available to the Division of Enforcement of the SEC, review of the SEC investigative file, and/or obtained through the Investor Notice previously sent to Investors constitutes "reasonable efforts."

**Methodology for Identifying Eligible Harmed Investors
and Determining Distribution Payments.**

6. The objective of the methodology described below is to distribute the Net Fair Fund so that each Harmed Investor's Recovery Ratio is the same for all Eligible Harmed Investors.

7. The Distribution Agent will identify Eligible Harmed Investors, and the amount to be distributed to each Eligible Harmed Investor, in the following manner:

(a) The Distribution Agent will create a list of Harmed Investors who are not (i) Unresponsive Investors, (ii) the Defendants, or (iii) an entity controlled by the Defendants (the "Preliminary List");

(b) Using the Preliminary List, the Distribution Agent will calculate the Recovery Ratio;

(c) For each Harmed Investor on the Preliminary List, the Distribution Agent will calculate the Harmed Investor's Tentative Distribution by multiplying the Recovery Ratio by the Harmed Investor's Investment In, and subtract from that product the Harmed Investor's Recoveries;

(d) If for any Harmed Investor, the Tentative Distribution is less than the *De Minimis* Amount, the Harmed Investor will be removed from the Preliminary List, and steps (b) through (d) will be repeated until each remaining Harmed Investor's Tentative Distribution is equal to or greater than the *De Minimis* Amount. Such amount will be the Harmed Investor's Distribution Payment and each remaining Harmed Investor on the Preliminary List will be deemed an Eligible Harmed Investor.

Distribution of the Fair Fund

8. Prior to distributing any funds to Eligible Harmed Investors, the Distribution Agent will reserve funds for, or pay, as appropriate, any unpaid Administrative Costs.

9. The Net Fair Fund will be distributed to Eligible Harmed Investors pursuant to the methodology described in ¶ 7, above. The Distribution Agent will make a payment to each Eligible Harmed Investor through the United States Department of the Treasury's Bureau of the Fiscal Service ("BFS") by electronically transferring funds through the Automated Clearing House or mailing a check to the payee. The Distribution Agent will compile the information, prepare a payment file, and verify the payment file's completeness and accuracy for submission to SEC staff who, without further Court Order, will make the disbursements through BFS. The payment will be preceded by a communication from the SEC that includes, if and as appropriate: (a) a statement characterizing the distribution; (b) a description of the tax information reporting and other related tax matters; (c) specification of the date on which the checks will be void (non-negotiable) (the "Stale Date"); and (d) the name of a person to contact with questions concerning the distribution. The communication will clearly indicate that the money is being distributed from a Fair Fund established in the captioned case.

10. Checks that are not negotiated prior to the Stale Date shall be voided, and the distribution amount returned to the Fair Fund for disposition in accordance with this Plan. Electronic payments will be made only to cash equivalent accounts (e.g., checking or savings accounts).

11. If funds remain in the Net Fair Fund after an initial distribution, the Distribution Agent in her sole discretion, and without further Order of the Court, will make an assessment as to whether it is feasible and justifiable to attempt to distribute the remaining funds ("Additional

Distribution”). Any Additional Distribution will be made pursuant to the Plan only to Eligible Harmed Investors who negotiated or received prior Distribution Payment(s).

Final Accounting and Termination

12. Upon completion of all distributions under this Plan and the payment of all Administrative Costs, the Distribution Agent will file a final accounting with the Court and seek, as appropriate, an Order terminating the Fair Fund, directing the SEC to remit any residual funds to the U.S. Treasury, and discharging the Distribution Agent.

13. All proceedings with respect to the administration, processing, and determination of claims and the determination of all related controversies, shall be subject to the exclusive jurisdiction of this Court.

14. The Court reserves the right to amend the Plan from time to time, and retains jurisdiction over this matter for this purpose and for any and all other matters that may arise under or relate to the Plan.

Attachment 1

SEC v. Karroum, 17-cv-187-GBL-IDD (E.D. Va.)

Investor Number	Investment In	Recovery	Percent Recovered
1	\$ 50,000.00	\$ 50,000.00	100.00%
2	\$ 400,000.00	\$ 215,542.00	53.89%
3	\$ 600,000.00	\$ 486,000.00	81.00%
4	\$ 500,000.00	\$ 170,916.00	34.18%
5	\$ 170,000.00	\$ 161,000.00	94.71%
6	\$ 200,000.00	\$ 226,500.00	113.25%
7	\$ 50,000.00	\$ 8,500.00	17.00%
8	\$ 159,000.00	\$ 20,000.00	12.58%
9	\$ 460,000.00	\$ 380,500.00	82.72%
10	\$ 420,000.00	\$ 105,166.00	25.04%
11	\$ 100,000.00	\$ 84,894.00	84.89%
12	\$ 25,000.00	\$ 35,500.00	142.00%
13	\$ 305,890.14	\$ 24,056.00	7.86%
14	\$ 113,000.00	\$ 7,000.00	6.19%
15	\$ 100,000.00	\$ 107,500.00	107.50%
16	\$ 100,000.00	\$ 185,000.00	185.00%
17	\$ 100,000.00	\$ 65,500.00	65.50%
18	\$ 100,000.00	\$ 17,000.00	17.00%
19	\$ 150,000.00	\$ 98,000.00	65.33%
20	\$ 208,530.00	\$ 634,550.00	304.30%

EXHIBIT B

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

STEVE H. KARROUM
a/k/a MUSTAPHA KARROUM, et al.,

Defendants and Relief Defendant.

Civil No. 17-cv-187 (AJT/IDD)

PLAN NOTICE

TO: «Investor_First_Name» «Investor_Last_Name»
«Address_A»
«Address_B»
«City_D», «State_E» «Zip_Code_F»

INVESTOR NUMBER: «INVESTOR_NO_»

PLEASE TAKE NOTICE that the Securities and Exchange Commission (“SEC”) filed a Motion For an Order Establishing a Fair Fund, Approving a Distribution Plan, and Appointing a Distribution Agent (the “Motion”). A copy of the Motion with accompanying papers is enclosed with this notice; the proposed Distribution Plan (the “Plan”) is attached as Exhibit A to the Motion. In order to preserve investor privacy, the SEC continues to use the investor number previously assigned to you; that number is set forth in the subject line above.

Under the Plan, and assuming approximately \$1.35 million available for distribution,¹ those investors whose Percent Recovered, as set forth on Attachment 1 to the Plan, is ***less than*** 87.71% (the “Recovery Ratio”) have been *preliminarily* determined *eligible* to receive a distribution that will increase their Percent Recovered up to 87.71%. Conversely, those investors whose Percent Recovery *equals or exceeds* 87.71% have been preliminarily determined to be *ineligible* to receive a distribution under the Plan. **Please note that the Recovery Ratio, and consequently, the preliminary eligibility determination, may change based on, among other**

¹ The amount available for distribution as reflected in this Plan Notice has been estimated based on a conservative administrative cost reserve. The final amount available for distribution and the Recovery Ratio will change upon the Tax Administrator’s calculation of a final reserve.

things, an increase or decrease in the amount available for distribution due to an increased or decreased reserve for administrative costs.

If you object to the Plan, the procedures for objecting are set forth below.² **Failure to comply with the directions below, including the April 8, 2019 deadline, will result in a waiver of objection(s).** If you have any questions, please feel free to contact the undersigned at (215) 597-0657.

Procedure for Objection(s)

If you object to the Plan, you must submit that objection in writing to the address set forth below. Your objection must be received at that address no later than April 8, 2019. All objections must set forth the case name and number captioned above (*SEC v. Karroum*, 17-cv-187-GBL-IDD, E.D. Va.), clearly state the objection to the Plan, and include all documentation necessary to support the objection. If you are making any assertions of fact in connection with your objection, you should submit the same with the following (if true) above the signature line:

“I declare under penalty of perjury that the foregoing is true and correct.
Executed on _____, 2019”.

Failure to submit objection(s) in accordance with these directions for receipt by April 8, 2019 will result in waiver of all objections.

Objections should be sent to:

Russell Davis
United States Securities and Exchange Commission
Office of Distributions
100 F. Street, NE, Stop 5628
Washington, DC 20549

You may submit your objection to Mr. Davis by electronic mail at davisru@sec.gov **but, for your protection, you should attach it to the electronic mail as an encrypted file with the password sent by separate electronic mail.**

² You may no longer object to the SEC’s calculation of your Investment In and Recovery as set forth on Attachment 1 to the Plan; the opportunity to object to those calculations expired at the time indicated in the Investor Notice previously sent to you.

After April 8, 2019, the SEC will notify the Court of any objections and its response(s) to those objections, with a copy of the filing sent to all persons objecting; and, as appropriate, seek entry of the proposed Order included with the Motion, or a modified Order.

Dated: _____, 2019

Catherine E. Pappas
Senior Adviser
Securities and Exchange Commission

Encls. (Motion Package)