

## **MJ CAPITAL UPDATE TO INVESTORS 10/11/2021**

***Please note: if you are seeking information about the MJ Capital / MJ Taxes receivership, the best way to contact the Receiver is by email to [MJCapital@kttlaw.com](mailto:MJCapital@kttlaw.com). While the Receiver and her personnel attempt to answer all phone calls promptly, they cannot always do so.***

On August 12, 2021, the United States District Court for the Southern District of Florida entered an Order in an action filed by the Securities and Exchange Commission appointing Corali Lopez-Castro as the Receiver over MJ Capital Funding, LLC and MJ Taxes and More Inc. The S.E.C.'s Complaint alleges that Johanna M. Garcia has used MJ Capital Funding, LLC and MJ Taxes and More Inc. to perpetrate a Ponzi scheme by which investors have been tricked into thinking they are funding loans to small businesses when in reality their "returns" have been funded with money obtained from new investors. The case is styled *Securities and Exchange Commission v. MJ Capital Funding, LLC, MJ Taxes and More Inc. and Johanna Garcia*, Case No. 21-61644-CIV-SINGHAL.

The Receiver has been directed to take exclusive jurisdiction and possession of all assets of MJ Capital Funding, LLC and MJ Taxes and More Inc. (the "Receivership Defendants"), and to exercise all powers of the officers, directors, managers and general and limited partners of the Receivership Defendants, among other things. Since being appointed the Receiver has been engaged in the process of identifying and securing the Receivership Defendants' assets, and investigating the Receivership Defendants' operations and financial affairs.

Since the Court's appointment of the Receiver on August 12, 2021, the Receiver has diligently executed her duties under the Receiver Order to secure and recover assets of the Receivership Defendants for the benefit of investors. The Receiver and her professionals have:

- (a) secured the Receivership Defendants' business premises in Pompano Beach;
- (b) recovered books, records and assets from the premises, including over sixty-five (65) bankers boxes of investor agreements, obtained documents from third parties, and undertaken an extensive review of those materials with the assistance of her forensic accountants;
- (c) established a dedicated investor webpage at [www.kttlaw.com/mjcapital](http://www.kttlaw.com/mjcapital) to provide information and updates to investors and collect initial investor information;
- (d) conducted hundreds of phone calls with investors;
- (e) conducted meetings with several individuals involved with the Receivership Defendants;
- (f) obtained the surrender of assets from certain individuals involved in the fraud;
- (g) conducted an auction of the Receivership Defendant's personal property located at their Pompano Beach offices; and
- (h) filed a motion to expand the receivership to include two additional entities used to receive transfers of substantial moneys from investors in MJ Capital.

The Receivership Defendants supposedly were in the business of providing “Merchant Cash Advances” to businesses. A “Merchant Cash Advance” is a transaction by which a business is provided a lump sum payment in exchange for an assignment of a percentage of its future receivables collected over a specified period. It was represented to investors in the Receivership Defendants that their moneys would be used to fund Merchant Cash Advance transactions. The Receivership Defendants promised monthly payments and an annual return of 120% - 180%, with the investment term being between a few months to a year, with options to “renew.”

While the Receiver and her professionals are continuing to review and gather information, the current number of investors in MJ Capital exceeds 5,000. The Receiver expects this number to increase. In less than a year, MJ Capital was able to obtain investments from over 5,000 investors using a hierarchy structure with at least ten “Board Members” who each oversaw a group consisting of one to ten “Managers” and four to ninety “Account Representatives.” As a result, the Receiver estimates there were over four hundred individuals recruiting investors.

However, the documents and information obtained by the Receiver reflect no substantial underlying business activity by the Receivership Defendants – that is, the actual funding and collection of Merchant Cash Advances to business customers. The “returns” to investors appear to have been funded almost entirely from funds obtained from new investors, rather than from any underlying business activities of the Receivership Defendants. This is a classic “Ponzi Scheme.”

**MJ Capital and MJ Taxes will not be resuming business operations, and the Receiver is engaged in the process of liquidating their assets and investigating all potential avenues of recovery for the benefit of investors, including from recruiters who received investor funds.**

If anyone is providing investors with contrary information regarding the operations of the Receivership Defendants, please advise the Receiver.

In response to the Order obtained by the S.E.C. to freeze the accounts of the Receivership Defendants, financial institutions froze approximately \$6.7 million of funds in accounts of MJ Capital and MJ Taxes that are now under the control of the Receiver. Since then, through the Receiver’s securing of the Receivership Defendants’ business premises, continued investigation and interviews with various persons, the Receiver has recovered approximately \$2.5 million in additional funds, plus a number of luxury goods acquired with investor funds, including watches, purses, jewelry and other items.

On September 21, 2021, the S.E.C., with the agreement of the Receiver, filed a motion for entry of Consent Judgments against MJ Capital and MJ Taxes, and on October 4, 2021, the Court entered the Consent Judgments (available on the website). The Judgments provide that (1) MJ Capital and MJ Taxes, and all of their officers, agents, servants, employees, and attorneys, and any other persons in active concert or participation with them, are permanently restrained from violating federal securities laws regarding fraudulent or deceptive practices in connection with investment offerings; and (2) in any proceeding on disgorgement of ill-gotten gains or civil penalties, MJ Capital and MJ Taxes will be precluded from arguing that they did not violate federal securities laws or challenging the validity of the Consent Judgments.

On September 28, 2021, the Receiver conducted an auction of the personal property located at the Receivership Defendants' business premises in Pompano Beach, consisting primarily of office furniture and electronics, and on October 4, 2021 the Court entered an Order approving the auction sale (available on the website). Upon collection from all bidders, the auction is expected to result in realization of approximately \$85,000. The Receiver will be closing and vacating the Pompano Beach premises as soon as practicable after all personal property has been removed.

On October 5, 2021, the Receiver filed a motion to expand the receivership to include Pavel Ruiz MJCF, LLC and UDM Remodeling, LLC (available on the website). These entities, which were formed by Pavel Ruiz, a "Board Member" and "Director of Treasurer" of MJ Capital, received transfers of substantial money from individuals and companies for the purpose of investing with MJ Capital, and appear to have no legitimate business purpose and to have engaged in no operations other than the transferring of funds to and from investors, the Receivership Defendants, and for the benefit of Mr. Ruiz personally. Accordingly, the Receiver seeks to expand the receivership to include these entities, so that their assets and any transfers by them may be recovered for the benefit of the Receivership Defendants' investors.

If you have any information about businesses or individuals who received investor funds or assets acquired using investor funds, please advise the Receiver.